

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2024

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-22345



SHORE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or Other Jurisdiction of Incorporation or Organization)

52-1974638

(I.R.S. Employer Identification No.)

18 E. Dover Street, Easton, Maryland

(Address of Principal Executive Offices)

21601

(Zip Code)

(410) 763-7800

Registrant's Telephone Number, Including Area Code

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                             | Trading Symbol(s) | Name of each exchange on which registered |
|-------------------------------------------------|-------------------|-------------------------------------------|
| <b>Common stock, \$0.01 par value per share</b> | <b>SHBI</b>       | <b>Nasdaq Global Select Market</b>        |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|                         |                          |                           |                                     |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
|                         |                          | Emerging growth company   | <input type="checkbox"/>            |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock as of November 1, 2024 was 33,326,772.

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# PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

### SHORE BANCSHARES, INC. CONSOLIDATED BALANCE SHEETS

(\$ in thousands, except per share data)

|                                                                                                                                                   | September 30, 2024  | December 31, 2023   |
|---------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
|                                                                                                                                                   | (Unaudited)         |                     |
| <b>ASSETS</b>                                                                                                                                     |                     |                     |
| Cash and due from banks                                                                                                                           | \$ 52,363           | \$ 63,172           |
| Interest-bearing deposits with other banks                                                                                                        | 131,258             | 309,241             |
| Cash and cash equivalents                                                                                                                         | 183,621             | 372,413             |
| Investment securities:                                                                                                                            |                     |                     |
| Available-for-sale, at fair value (amortized cost of \$140,941 (2024) and \$120,832 (2023))                                                       | 133,339             | 110,521             |
| Held to maturity, net of allowance for credit losses of \$101 (2024) and \$94 (2023) (fair value of \$440,296 (2024) and \$457,830 (2023))        | 484,583             | 513,188             |
| Equity securities, at fair value                                                                                                                  | 5,950               | 5,703               |
| Restricted securities, at cost                                                                                                                    | 20,253              | 17,900              |
| Loans held for sale, at fair value                                                                                                                | 26,877              | 8,782               |
| Loans held for investment (\$10,023 (2024) and \$9,944 (2023), at fair value)                                                                     | 4,733,909           | 4,641,010           |
| Less: allowance for credit losses                                                                                                                 | (58,669)            | (57,351)            |
| Loans, net                                                                                                                                        | 4,675,240           | 4,583,659           |
| Premises and equipment, net                                                                                                                       | 81,663              | 82,386              |
| Goodwill                                                                                                                                          | 63,266              | 63,266              |
| Other intangible assets, net                                                                                                                      | 40,609              | 48,090              |
| Other real estate owned, net                                                                                                                      | 179                 | 179                 |
| Reposessed assets                                                                                                                                 | 306                 | —                   |
| Assets held for sale                                                                                                                              | 1,387               | —                   |
| Mortgage servicing rights, at fair value                                                                                                          | 5,309               | 5,926               |
| Right-of-use assets                                                                                                                               | 11,384              | 12,487              |
| Cash surrender value on life insurance                                                                                                            | 103,729             | 101,704             |
| Accrued interest receivable                                                                                                                       | 19,992              | 19,217              |
| Deferred income taxes                                                                                                                             | 32,191              | 40,707              |
| Other assets                                                                                                                                      | 27,826              | 24,790              |
| <b>TOTAL ASSETS</b>                                                                                                                               | <b>\$ 5,917,704</b> | <b>\$ 6,010,918</b> |
| <b>LIABILITIES</b>                                                                                                                                |                     |                     |
| Deposits:                                                                                                                                         |                     |                     |
| Noninterest-bearing                                                                                                                               | \$ 1,571,393        | \$ 1,258,037        |
| Interest-bearing                                                                                                                                  | 3,654,330           | 4,128,083           |
| Total deposits                                                                                                                                    | 5,225,723           | 5,386,120           |
| Advances from FHLB - long-term                                                                                                                    | 50,000              | —                   |
| Guaranteed preferred beneficial interest in junior subordinated debentures (“TRUPS”), net                                                         | 29,768              | 29,530              |
| Subordinated debt, net                                                                                                                            | 43,688              | 43,139              |
| Total borrowings                                                                                                                                  | 123,456             | 72,669              |
| Lease liabilities                                                                                                                                 | 11,816              | 12,857              |
| Other liabilities                                                                                                                                 | 23,438              | 28,137              |
| <b>TOTAL LIABILITIES</b>                                                                                                                          | <b>5,384,433</b>    | <b>5,499,783</b>    |
| <b>STOCKHOLDERS' EQUITY</b>                                                                                                                       |                     |                     |
| Common stock, par value \$0.01 per share; shares authorized - 50,000,000; shares issued and outstanding - 33,326,772 (2024) and 33,161,532 (2023) | 333                 | 332                 |
| Additional paid in capital                                                                                                                        | 357,580             | 356,007             |
| Retained earnings                                                                                                                                 | 180,884             | 162,290             |
| Accumulated other comprehensive loss                                                                                                              | (5,526)             | (7,494)             |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>                                                                                                                 | <b>533,271</b>      | <b>511,135</b>      |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                 | <b>\$ 5,917,704</b> | <b>\$ 6,010,918</b> |

See accompanying notes to unaudited Consolidated Financial Statements.

**SHORE BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

| (\$ in thousands, except per share data)                     | For Three Months Ended September 30, |            | For Nine Months Ended September 30, |            |
|--------------------------------------------------------------|--------------------------------------|------------|-------------------------------------|------------|
|                                                              | 2024                                 | 2023       | 2024                                | 2023       |
| <b>INTEREST INCOME</b>                                       |                                      |            |                                     |            |
| Interest and fees on loans                                   | \$ 69,157                            | \$ 64,869  | \$ 202,203                          | \$ 128,424 |
| Interest and dividends on taxable investment securities      | 4,962                                | 5,047      | 14,611                              | 12,840     |
| Interest and dividends on tax-exempt investment securities   | 6                                    | 27         | 18                                  | 41         |
| Interest on federal funds sold                               | —                                    | 92         | —                                   | 92         |
| Interest on deposits with other banks                        | 564                                  | 1,213      | 2,102                               | 1,546      |
| Total interest income                                        | 74,689                               | 71,248     | 218,934                             | 142,943    |
| <b>INTEREST EXPENSE</b>                                      |                                      |            |                                     |            |
| Interest on deposits                                         | 28,856                               | 23,473     | 84,938                              | 40,668     |
| Interest on short-term borrowings                            | 491                                  | 692        | 2,131                               | 5,501      |
| Interest on long-term borrowings                             | 2,079                                | 1,461      | 5,327                               | 2,992      |
| Total interest expense                                       | 31,426                               | 25,626     | 92,396                              | 49,161     |
| <b>NET INTEREST INCOME</b>                                   | 43,263                               | 45,622     | 126,538                             | 93,782     |
| Provision for credit losses                                  | 1,470                                | 28,176     | 3,958                               | 30,056     |
| <b>NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES</b> | 41,793                               | 17,446     | 122,580                             | 63,726     |
| <b>NONINTEREST INCOME</b>                                    |                                      |            |                                     |            |
| Service charges on deposit accounts                          | 1,543                                | 1,505      | 4,543                               | 3,981      |
| Trust and investment fee income                              | 880                                  | 1,933      | 2,510                               | 2,764      |
| Loss on sales and calls of investment securities             | —                                    | (2,166)    | —                                   | (2,166)    |
| Interchange credits                                          | 1,711                                | 1,557      | 5,015                               | 4,081      |
| Mortgage-banking revenue                                     | 1,177                                | 1,377      | 3,961                               | 3,408      |
| Title Company revenue                                        | 100                                  | 89         | 344                                 | 412        |
| Bargain purchase gain                                        | —                                    | 8,816      | —                                   | 8,816      |
| Other noninterest income                                     | 1,876                                | 1,873      | 5,921                               | 4,317      |
| Total noninterest income                                     | 7,287                                | 14,984     | 22,294                              | 25,613     |
| <b>NONINTEREST EXPENSE</b>                                   |                                      |            |                                     |            |
| Salaries and wages                                           | 13,197                               | 14,183     | 38,355                              | 31,822     |
| Employee benefits                                            | 3,326                                | 3,607      | 11,015                              | 8,968      |
| Occupancy expense                                            | 2,384                                | 2,245      | 7,232                               | 5,463      |
| Furniture and equipment expense                              | 876                                  | 750        | 2,681                               | 1,761      |
| Data processing                                              | 3,081                                | 2,485      | 8,925                               | 6,022      |
| Directors' fees                                              | 443                                  | 295        | 1,097                               | 730        |
| Amortization of other intangible assets                      | 2,336                                | 2,634      | 7,482                               | 3,510      |
| FDIC insurance premium expense                               | 1,160                                | 618        | 3,400                               | 1,747      |
| Legal and professional fees                                  | 1,362                                | 1,217      | 4,315                               | 2,926      |
| Fraud losses <sup>(1)</sup>                                  | 673                                  | 262        | 5,237                               | 376        |
| Merger-related expenses                                      | —                                    | 14,866     | —                                   | 16,754     |
| Other noninterest expenses                                   | 5,276                                | 3,996      | 14,572                              | 9,582      |
| Total noninterest expense                                    | 34,114                               | 47,158     | 104,311                             | 89,661     |
| Income (loss) before income taxes                            | 14,966                               | (14,728)   | 40,563                              | (322)      |
| Income tax expense (benefit)                                 | 3,777                                | (4,991)    | 9,956                               | (1,060)    |
| <b>NET INCOME (LOSS)</b>                                     | \$ 11,189                            | \$ (9,737) | \$ 30,607                           | \$ 738     |
| <b>Basic net income (loss) per common share</b>              |                                      |            |                                     |            |
| Basic net income (loss) per common share                     | \$ 0.34                              | \$ (0.29)  | \$ 0.92                             | \$ 0.03    |
| <b>Diluted net income (loss) per common share</b>            |                                      |            |                                     |            |
| Diluted net income (loss) per common share                   | \$ 0.34                              | \$ (0.29)  | \$ 0.92                             | \$ 0.03    |
| <b>Dividends paid per common share</b>                       |                                      |            |                                     |            |
| Dividends paid per common share                              | \$ 0.12                              | \$ 0.12    | \$ 0.36                             | \$ 0.36    |

(1) Fraud losses includes \$337 thousand and \$4.7 million of credit card fraud losses for the three and nine months ended September 30, 2024, respectively.

See accompanying notes to unaudited Consolidated Financial Statements.

**SHORE BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

| (\$ in thousands)                                                  | For Three Months Ended September 30, |             | For Nine Months Ended September 30, |          |
|--------------------------------------------------------------------|--------------------------------------|-------------|-------------------------------------|----------|
|                                                                    | 2024                                 | 2023        | 2024                                | 2023     |
| Net income (loss)                                                  | \$ 11,189                            | \$ (9,737)  | \$ 30,607                           | \$ 738   |
| Other comprehensive income (loss):                                 |                                      |             |                                     |          |
| Investment securities:                                             |                                      |             |                                     |          |
| Unrealized holding gains (losses) on available-for-sale-securities | 3,762                                | (2,132)     | 2,708                               | (1,498)  |
| Tax effect                                                         | (1,028)                              | 584         | (740)                               | 410      |
| Total other comprehensive income (loss)                            | 2,734                                | (1,548)     | 1,968                               | (1,088)  |
| Comprehensive income (loss)                                        | \$ 13,923                            | \$ (11,285) | \$ 32,575                           | \$ (350) |

See accompanying notes to unaudited Consolidated Financial Statements.

**SHORE BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)**

**For the Three and Nine Months Ended September 30, 2024 and 2023**

| <i>(\$ in thousands)</i>                              | <b>Common<br/>Stock</b> | <b>Additional<br/>Paid in Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated Other<br/>Comprehensive Loss</b> | <b>Total<br/>Stockholders'<br/>Equity</b> |
|-------------------------------------------------------|-------------------------|---------------------------------------|------------------------------|-------------------------------------------------|-------------------------------------------|
| <b>Balances, January 1, 2024</b>                      | <b>\$ 332</b>           | <b>\$ 356,007</b>                     | <b>\$ 162,290</b>            | <b>\$ (7,494)</b>                               | <b>\$ 511,135</b>                         |
| Net income                                            | —                       | —                                     | 8,184                        | —                                               | 8,184                                     |
| Other comprehensive loss                              | —                       | —                                     | —                            | (564)                                           | (564)                                     |
| Common shares issued for employee stock purchase plan | —                       | 103                                   | —                            | —                                               | 103                                       |
| Stock-based compensation                              | —                       | 354                                   | —                            | —                                               | 354                                       |
| Cash dividends declared                               | —                       | —                                     | (3,984)                      | —                                               | (3,984)                                   |
| <b>Balances, March 31, 2024</b>                       | <b>332</b>              | <b>356,464</b>                        | <b>166,490</b>               | <b>(8,058)</b>                                  | <b>515,228</b>                            |
| Net income                                            | —                       | —                                     | 11,234                       | —                                               | 11,234                                    |
| Other comprehensive loss                              | —                       | —                                     | —                            | (202)                                           | (202)                                     |
| Common shares issued for employee stock purchase plan | 1                       | 120                                   | —                            | —                                               | 121                                       |
| Stock-based compensation                              | —                       | 410                                   | —                            | —                                               | 410                                       |
| Cash dividends declared                               | —                       | —                                     | (4,008)                      | —                                               | (4,008)                                   |
| <b>Balances, June 30, 2024</b>                        | <b>333</b>              | <b>356,994</b>                        | <b>173,716</b>               | <b>(8,260)</b>                                  | <b>522,783</b>                            |
| Net income                                            | —                       | —                                     | 11,189                       | —                                               | 11,189                                    |
| Other comprehensive income                            | —                       | —                                     | —                            | 2,734                                           | 2,734                                     |
| Common shares issued for employee stock purchase plan | —                       | 98                                    | —                            | —                                               | 98                                        |
| Stock-based compensation                              | —                       | 488                                   | —                            | —                                               | 488                                       |
| Cash dividends declared                               | —                       | —                                     | (4,021)                      | —                                               | (4,021)                                   |
| <b>Balances, September 30, 2024</b>                   | <b>\$ 333</b>           | <b>\$ 357,580</b>                     | <b>\$ 180,884</b>            | <b>\$ (5,526)</b>                               | <b>\$ 533,271</b>                         |

**SHORE BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited) - Continued**

| <i>(\$ in thousands)</i>                                                | <b>Common<br/>Stock</b> | <b>Additional<br/>Paid in Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated Other<br/>Comprehensive Loss</b> | <b>Total<br/>Stockholders'<br/>Equity</b> |
|-------------------------------------------------------------------------|-------------------------|---------------------------------------|------------------------------|-------------------------------------------------|-------------------------------------------|
| <b>Balances, January 1, 2023</b>                                        | \$ 199                  | \$ 201,494                            | \$ 171,613                   | \$ (9,021)                                      | \$ 364,285                                |
| Cumulative effect adjustment due to the adoption of ASC 326, net of tax | —                       | —                                     | (7,818)                      | —                                               | (7,818)                                   |
| Net income                                                              | —                       | —                                     | 6,457                        | —                                               | 6,457                                     |
| Other comprehensive income                                              | —                       | —                                     | —                            | 860                                             | 860                                       |
| Common shares issued for employee stock purchase plan                   | —                       | 87                                    | —                            | —                                               | 87                                        |
| Stock-based compensation                                                | —                       | 155                                   | —                            | —                                               | 155                                       |
| Cash dividends declared                                                 | —                       | —                                     | (2,388)                      | —                                               | (2,388)                                   |
| <b>Balances, March 31, 2023</b>                                         | <u>199</u>              | <u>\$ 201,736</u>                     | <u>167,864</u>               | <u>(8,161)</u>                                  | <u>361,638</u>                            |
| Net income                                                              | —                       | —                                     | 4,018                        | —                                               | 4,018                                     |
| Other comprehensive loss                                                | —                       | —                                     | —                            | (400)                                           | (400)                                     |
| Common shares issued for employee stock purchase plan                   | —                       | 102                                   | —                            | —                                               | 102                                       |
| Stock-based compensation                                                | —                       | 170                                   | —                            | —                                               | 170                                       |
| Cash dividends declared                                                 | —                       | —                                     | (2,388)                      | —                                               | (2,388)                                   |
| <b>Balances, June 30, 2023</b>                                          | <u>199</u>              | <u>202,008</u>                        | <u>169,494</u>               | <u>(8,561)</u>                                  | <u>363,140</u>                            |
| Net loss                                                                | —                       | —                                     | (9,737)                      | —                                               | (9,737)                                   |
| Other comprehensive loss                                                | —                       | —                                     | —                            | (1,548)                                         | (1,548)                                   |
| TCFC acquisition                                                        | 132                     | 152,955                               | —                            | —                                               | 153,087                                   |
| Common shares issued for employee stock purchase plan                   | —                       | 83                                    | —                            | —                                               | 83                                        |
| Stock-based compensation                                                | —                       | 529                                   | —                            | —                                               | 529                                       |
| Cash dividends declared                                                 | —                       | —                                     | (3,976)                      | —                                               | (3,976)                                   |
| <b>Balances, September 30, 2023</b>                                     | <u>\$ 331</u>           | <u>\$ 355,575</u>                     | <u>\$ 155,781</u>            | <u>\$ (10,109)</u>                              | <u>\$ 501,578</u>                         |

See accompanying notes to unaudited Consolidated Financial Statements.

**SHORE BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

| (\$ in thousands)                                                                           | For Nine Months Ended September 30, |            |
|---------------------------------------------------------------------------------------------|-------------------------------------|------------|
|                                                                                             | 2024                                | 2023       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                |                                     |            |
| Net Income                                                                                  | \$ 30,607                           | \$ 738     |
| Adjustments to reconcile net income to net cash provided by operating activities:           |                                     |            |
| Net accretion of acquisition accounting estimates                                           | (11,528)                            | (6,672)    |
| Provision for credit losses                                                                 | 3,958                               | 30,056     |
| Depreciation and amortization                                                               | 12,040                              | 6,847      |
| Net amortization of securities                                                              | (622)                               | 724        |
| Amortization of debt issuance costs                                                         | 91                                  | 92         |
| Bargain purchase gain                                                                       | —                                   | (8,816)    |
| Gain on mortgage banking activities                                                         | (2,897)                             | (2,602)    |
| Proceeds from sale of mortgage loans held for sale                                          | 117,230                             | 80,846     |
| Originations of loans held for sale                                                         | (131,851)                           | (89,485)   |
| Stock-based compensation expense                                                            | 1,252                               | 853        |
| Deferred income tax expense (benefit)                                                       | 7,776                               | (934)      |
| Losses on sales and calls of securities                                                     | —                                   | 2,166      |
| Loss on sales of repossessed assets                                                         | 375                                 | —          |
| (Gain) loss on valuation adjustments on mortgage servicing rights                           | (253)                               | 5          |
| Loss on disposal of fixed assets                                                            | 10                                  | —          |
| Valuation adjustments on premises transferred to held for sale                              | 2                                   | 271        |
| Gain on sales and valuation adjustments on other real estate owned                          | —                                   | (3)        |
| Fair value adjustments on loans held for investments, at fair value                         | (246)                               | 492        |
| Fair value adjustment on equity securities                                                  | (124)                               | 177        |
| Bank owned life insurance income                                                            | (2,037)                             | (1,305)    |
| Net changes in:                                                                             |                                     |            |
| Accrued interest receivable                                                                 | (775)                               | 2,810      |
| Other assets                                                                                | (3,021)                             | (10,145)   |
| Accrued interest payable                                                                    | (1,084)                             | 1,192      |
| Other liabilities                                                                           | (4,435)                             | (20,662)   |
| Net cash provided by (used in) operating activities                                         | 14,468                              | (13,355)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                |                                     |            |
| Proceeds from maturities and principal payments of investment securities available for sale | 64,896                              | 12,304     |
| Proceeds from the sale of acquired AFS securities                                           | —                                   | 434,215    |
| Proceeds from maturities and principal payments of investment securities held to maturity   | 39,653                              | 35,023     |
| Proceeds from life insurance death benefits                                                 | 150                                 | —          |
| Purchases of investment securities available for sale                                       | (83,990)                            | —          |
| Purchases of investment securities held to maturity                                         | (11,449)                            | —          |
| Proceeds from the sale of loans held for investment                                         | —                                   | 8,611      |
| Purchases of equity securities                                                              | (123)                               | (41)       |
| Purchase of restricted securities                                                           | (35,682)                            | (26,076)   |
| Net change in loans                                                                         | (84,580)                            | (297,999)  |
| Purchases of premises and equipment                                                         | (3,969)                             | (3,654)    |
| Proceeds from sales of other real estate owned                                              | —                                   | 21         |
| Proceeds from sales of repossessed assets                                                   | 1,807                               | —          |
| Redemption of restricted securities                                                         | 33,329                              | 28,224     |
| Purchases of bank owned life insurance                                                      | (138)                               | (187)      |
| Proceeds from disposal of premises held for sale                                            | —                                   | 721        |
| Cash acquired in the acquisition of TCFC, net of cash paid                                  | —                                   | 25,372     |
| Net cash (used in) provided by investing activities                                         | \$ (80,096)                         | \$ 216,534 |

**SHORE BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) - Continued**

| (\$ in thousands)                                                                 | For Nine Months Ended September 30, |              |
|-----------------------------------------------------------------------------------|-------------------------------------|--------------|
|                                                                                   | 2024                                | 2023         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                     |              |
| <b>Net changes in:</b>                                                            |                                     |              |
| Noninterest-bearing deposits                                                      | \$ 313,356                          | \$ (239,293) |
| Interest-bearing deposits                                                         | (474,828)                           | 206,804      |
| Short-term borrowings                                                             | —                                   | (109,000)    |
| Long-term borrowings                                                              | 50,000                              | —            |
| Common stock dividends paid                                                       | (12,013)                            | (8,752)      |
| Issuance of common stock                                                          | 321                                 | 272          |
| Net cash used in financing activities                                             | (123,164)                           | (149,969)    |
| Net (decrease) increase in cash and cash equivalents                              | (188,792)                           | 53,210       |
| Cash and cash equivalents at beginning of period                                  | 372,413                             | 55,499       |
| Cash and cash equivalents at end of period                                        | \$ 183,621                          | \$ 108,709   |
| <b>Supplemental cash flows information:</b>                                       |                                     |              |
| Interest paid                                                                     | \$ 91,619                           | \$ 47,243    |
| Income taxes paid                                                                 | \$ —                                | \$ 7,894     |
| Recognition (remeasurement) of lease liabilities arising from right-of-use assets | \$ 25                               | \$ 45        |
| Transfers from loans to repossessed assets                                        | \$ 2,488                            | \$ —         |
| Unrealized gains (losses) on available for sale securities                        | \$ 2,708                            | \$ (1,498)   |
| Transfer of premises to held for sale (included in other assets)                  | \$ 1,387                            | \$ 750       |

See accompanying notes to unaudited Consolidated Financial Statements.

**Shore Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

For the Three and Nine Months Ended September 30, 2024 and 2023

**(Unaudited)**

**Note 1 – Basis of Presentation**

The consolidated financial statements include the accounts of Shore Bancshares, Inc. and its subsidiaries with all significant intercompany transactions eliminated. The consolidated financial statements conform to accounting principles generally accepted in the United States of America (“GAAP”) and to prevailing practices within the banking industry. The accompanying interim financial statements are unaudited; however, in the opinion of management all adjustments necessary to present fairly the consolidated financial position at September 30, 2024, the consolidated results of income and comprehensive income for the three and nine months ended September 30, 2024 and 2023, changes in stockholders’ equity for the three and nine months ended September 30, 2024 and 2023 and cash flows for the nine months ended September 30, 2024 and 2023, have been included. All such adjustments were of a normal recurring nature. The amounts as of December 31, 2023 were derived from the 2023 audited financial statements. The results of operations for the three and nine months ended September 30, 2024 are not necessarily indicative of the results to be expected for any other interim period or for the full year. This Quarterly Report on Form 10-Q should be read in conjunction with the Annual Report of Shore Bancshares, Inc. on Form 10-K for the year ended December 31, 2023 (the “2023 Annual Report”). For purposes of comparability, certain immaterial reclassifications have been made to amounts previously reported to conform with the current period presentation.

When used in these notes, the term “the Company” refers to Shore Bancshares, Inc. and, unless the context requires otherwise, its consolidated subsidiaries, Shore United Bank, N.A. (the “Bank”) and Mid-Maryland Title Company, Inc. (the “Title Company”).

**Recent Accounting Pronouncements**

ASU Update 2023-09 – In December 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures.” The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity’s applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Company does not expect the adoption of ASU 2023-09 to have a material impact on its consolidated financial statements.

ASU Update 2023-07 – In November 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-07, “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures.” The amendments in this ASU are intended to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. This ASU requires disclosure of significant segment expenses that are regularly provided to the chief operating decision maker (CODM), an amount for other segment items by reportable segment and a description of its composition, all annual disclosures required by FASB ASU Topic 280 in interim periods as well, and the title and position of the CODM and how the CODM uses the reported measures. Additionally, this ASU requires that at least one of the reported segment profit and loss measures should be the measure that is most consistent with the measurement principles used in an entity’s consolidated financial statements. Lastly, this ASU requires public business entities with a single reportable segment to provide all disclosures required by these amendments in this ASU and all existing segment disclosures in Topic 280. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoptions permitted. The amendments should be applied retrospectively. The Company does not expect the adoption of ASU 2023-07 to have a material impact on its consolidated financial statements.

## **Note 2 – Business Combinations**

The Company accounts for business combinations utilizing the acquisition method of accounting, which necessitates that purchased assets and assumed liabilities be recorded at their respective fair values. In numerous instances, the fair values of acquired assets and assumed liabilities are ascertained by estimating the anticipated cash flows from those assets and liabilities and discounting them at appropriate market rates. The Company determines the fair values of loans, core deposit intangibles, and deposits with the assistance of a third-party vendor.

Loans acquired in business combinations are recorded in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 805, “Business Combinations.” Accordingly, acquired loans are segregated between purchase credit impaired (“PCI”) loans (ASC 310-30) and Non-PCI loans (ASC-310-20) and are recorded at fair value without the carryover of the related allowance for loan losses. The excess of expected cash flows above the fair value of the majority of loans will be accreted to interest income over the remaining lives of the loans in accordance with FASB ASC 310-20.

The estimated fair values are subject to refinement as additional information regarding the closing date fair values becomes available through the measurement period. Although significant changes to the closing date fair values are not anticipated, any information pertinent to changes in these fair values will be evaluated to determine if such changes are attributable to events and circumstances that existed as of the acquisition date. During the measurement period, any such changes will be recorded as part of the closing date fair value.

The Company completed the acquisition of The Community Financial Corporation (“TCFC”), a Maryland corporation, on July 1, 2023 (the “Acquisition Date”). This followed the definitive agreement signed on December 14, 2022, by both the Company and TCFC. The merger was motivated by several primary reasons: extending the branch network and securing dominant market share positions in attractive Maryland markets, along with expanding in Virginia and Delaware; benefiting from a favorable low-cost funding base; ensuring strong cultural alignment and a deep commitment to stockholders, customers, employees, and communities served by both organizations; generating substantial value for shareholders; and improving trading liquidity for both companies while boosting dividends for TCFC shareholders. Following the merger’s completion, TCFC’s former shareholders were granted 2.3287 shares of the Company’s common stock. The total transaction consideration amounted to approximately \$153.6 million. It included the issuance of 13,201,693 shares of the Company’s common stock, each valued at \$11.56, based on the closing price on June 30, 2023, the final trading day before the acquisition’s finalization. The total consideration also comprised cash for any fractional shares, converted share-based payment awards, and TCFC’s debt, which was effectively settled at closing.

The Company’s 2023 Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission (“SEC”) and accessible on the SEC’s website (<http://www.sec.gov>), discusses the acquisition of TCFC. This acquisition was treated as a business combination under the acquisition method of accounting, with assets acquired, liabilities assumed, and consideration paid all recorded at their estimated fair values on the Acquisition Date.

### Note 3 – Investment Securities

The following tables provide information on the amortized cost and estimated fair values of debt securities.

| <i>(\$ in thousands)</i>              | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---------------------------------------|-------------------|------------------------|-------------------------|----------------------|
| <b>Available-for-sale securities:</b> |                   |                        |                         |                      |
| <b>September 30, 2024</b>             |                   |                        |                         |                      |
| U.S. Treasury and government agencies | \$ 23,047         | \$ 6                   | \$ 2,363                | \$ 20,690            |
| Mortgage-backed-residential           | 111,748           | 234                    | 5,761                   | 106,221              |
| Other debt securities                 | 6,146             | 328                    | 46                      | 6,428                |
| Total                                 | <u>\$ 140,941</u> | <u>\$ 568</u>          | <u>\$ 8,170</u>         | <u>\$ 133,339</u>    |
| <b>December 31, 2023</b>              |                   |                        |                         |                      |
| U.S. Treasury and government agencies | \$ 23,472         | \$ 5                   | \$ 3,002                | \$ 20,475            |
| Mortgage-backed-residential           | 91,280            | 5                      | 7,258                   | 84,027               |
| Other debt securities                 | 6,080             | 59                     | 120                     | 6,019                |
| Total                                 | <u>\$ 120,832</u> | <u>\$ 69</u>           | <u>\$ 10,380</u>        | <u>\$ 110,521</u>    |

No AFS securities were sold during the three and nine months ended September 30, 2024 and 2023.

| <i>(\$ in thousands)</i>              | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | Allowance for Credit Losses |
|---------------------------------------|-------------------|------------------------|-------------------------|----------------------|-----------------------------|
| <b>Held-to-maturity securities:</b>   |                   |                        |                         |                      |                             |
| <b>September 30, 2024</b>             |                   |                        |                         |                      |                             |
| U.S. Treasury and government agencies | \$ 132,870        | \$ 3                   | \$ 7,375                | \$ 125,498           | \$ —                        |
| Mortgage-backed-residential           | 339,848           | 51                     | 36,293                  | 303,606              | —                           |
| States and political subdivisions     | 1,466             | 42                     | 9                       | 1,499                | —                           |
| Other debt securities                 | 10,500            | —                      | 807                     | 9,693                | 101                         |
| Total                                 | <u>\$ 484,684</u> | <u>\$ 96</u>           | <u>\$ 44,484</u>        | <u>\$ 440,296</u>    | <u>\$ 101</u>               |
| <b>December 31, 2023</b>              |                   |                        |                         |                      |                             |
| U.S. Treasury and government agencies | \$ 143,442        | \$ —                   | \$ 10,377               | \$ 133,065           | \$ —                        |
| Mortgage-backed-residential           | 357,870           | —                      | 43,864                  | 314,006              | —                           |
| States and political subdivisions     | 1,470             | 57                     | 19                      | 1,508                | —                           |
| Other debt securities                 | 10,500            | —                      | 1,249                   | 9,251                | 94                          |
| Total                                 | <u>\$ 513,282</u> | <u>\$ 57</u>           | <u>\$ 55,509</u>        | <u>\$ 457,830</u>    | <u>\$ 94</u>                |

Equity securities with an aggregate fair value of \$6.0 million at September 30, 2024 and \$5.7 million at December 31, 2023 are presented separately on the balance sheet. The fair value adjustment recorded through earnings totaled a gain of \$79 thousand for the three months ended September 30, 2024 and a gain of \$151 thousand for the three months ended September 30, 2023. The fair value adjustment recorded through earnings totaled a gain of \$38 thousand for the nine months ended September 30, 2024 and a gain of \$300 thousand for the nine months ended September 30, 2023.

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On January 1, 2023, the Company adopted ASC 326, which made changes to accounting for AFS debt securities whereby credit losses are presented as an allowance, rather than as a write-down when management does not intend to sell and does not believe that it is more likely than not they will be required to sell prior to maturity. In addition, ASC 326 requires an ACL to be recorded on HTM debt securities measured at amortized cost.

The following table summarizes the activity in the ACL on HTM securities as of the three and nine months ended September 30, 2024 and September 30, 2023.

| (\$ in thousands)                                                | Three Months Ended<br>September 30, 2024 | Three Months Ended<br>September 30, 2023 | Nine Months Ended<br>September 30, 2024 | Nine Months Ended<br>September 30, 2023 |
|------------------------------------------------------------------|------------------------------------------|------------------------------------------|-----------------------------------------|-----------------------------------------|
| Balance, beginning of period                                     | \$ 108                                   | \$ 163                                   | \$ 94                                   | \$ —                                    |
| Other debt securities, (reversal of) provision for credit losses | (7)                                      | (37)                                     | 7                                       | 126                                     |
| Balance, end of period                                           | \$ 101                                   | \$ 126                                   | \$ 101                                  | \$ 126                                  |

The following tables provide information about gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at September 30, 2024 and December 31, 2023.

| (\$ in thousands)                     | Less than 12 Months |                   | More than 12 Months |                   | Total      |                   |
|---------------------------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|                                       | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| <b>September 30, 2024</b>             |                     |                   |                     |                   |            |                   |
| <b>Available-for-sale securities:</b> |                     |                   |                     |                   |            |                   |
| U.S. Treasury and government agencies | \$ —                | \$ —              | \$ 17,951           | \$ 2,363          | \$ 17,951  | \$ 2,363          |
| Mortgage-backed-residential           | 20,768              | 53                | 45,536              | 5,708             | 66,304     | 5,761             |
| Other debt securities                 | —                   | —                 | 1,958               | 46                | 1,958      | 46                |
| Total                                 | \$ 20,768           | \$ 53             | \$ 65,445           | \$ 8,117          | \$ 86,213  | \$ 8,170          |

| (\$ in thousands)                     | Less than 12 Months |                   | More than 12 Months |                   | Total      |                   |
|---------------------------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|                                       | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| <b>December 31, 2023</b>              |                     |                   |                     |                   |            |                   |
| <b>Available-for-sale securities:</b> |                     |                   |                     |                   |            |                   |
| U.S. Treasury and government agencies | \$ 74               | \$ —              | \$ 17,750           | \$ 3,002          | \$ 17,824  | \$ 3,002          |
| Mortgage-backed-residential           | 24,405              | 150               | 52,864              | 7,108             | 77,269     | 7,258             |
| Other debt securities                 | —                   | —                 | 1,890               | 120               | 1,890      | 120               |
| Total                                 | \$ 24,479           | \$ 150            | \$ 72,504           | \$ 10,230         | \$ 96,983  | \$ 10,380         |

There were 101 AFS debt securities with a fair value below the amortized cost basis, totaling \$8.2 million of aggregate fair value as of September 30, 2024. The Company concluded that a credit loss does not exist in its AFS securities portfolio as of September 30, 2024, and no impairment loss has been recognized based on the fact that (1) changes in fair value were caused primarily by fluctuations in interest rates, (2) securities with unrealized losses had generally high credit quality, (3) the Company intends to hold these investments in debt securities to maturity and it is more-likely-than-not the Company will not be required to sell these investments before a recovery of its investment, and (4) issuers have continued to make timely payments of principal and interest. Additionally, the Company's mortgage-back securities are issued by either U.S. government agencies or U.S. government sponsored enterprises. Collectively, these entities provide a guarantee, which is either explicitly or implicitly supported by the full faith and credit of the U.S. government, that investors in such mortgage-backed securities will receive timely principal and interest payments.

All HTM and AFS securities were current with no securities past due or on nonaccrual as of September 30, 2024.

The Company has securities which have been pledged as collateral for obligations to federal, state, and local government agencies, and other purpose as required or permitted by law, or sold under agreements to repurchase. At September 30, 2024, the carrying value of pledged AFS securities was \$54.1 million and \$191.4 million of pledged HTM securities. The comparable amounts for December 31, 2023 were \$54.5 million and \$185.9 million, respectively.

There were no obligations of states or political subdivisions with carrying values, as to any issuer, exceeding 10% of stockholders' equity at September 30, 2024 or December 31, 2023.

The following table provides information on the amortized cost and estimated fair values of investment securities by maturity date at September 30, 2024.

| (\$ in thousands)                      | Available for sale |            | Held to maturity |            |
|----------------------------------------|--------------------|------------|------------------|------------|
|                                        | Amortized Cost     | Fair Value | Amortized Cost   | Fair Value |
| Due in one year or less                | \$ 2,495           | \$ 2,498   | \$ 7,057         | \$ 7,016   |
| Due after one year through five years  | 14,064             | 13,368     | 118,995          | 113,847    |
| Due after five years through ten years | 29,194             | 27,403     | 36,270           | 33,973     |
| Due after ten years                    | 95,188             | 90,070     | 322,362          | 285,460    |
| Total                                  | \$ 140,941         | \$ 133,339 | \$ 484,684       | \$ 440,296 |

The maturity dates for debt securities are determined using contractual maturity dates.

#### Note 4 – Loans and Allowance for Credit Losses

On January 1, 2023, the Company adopted ASC 326. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. For further discussion on the most significant accounting policies that the Company follows see Note 1 – Summary of Significant Accounting Policies of the Company’s 2023 Annual Report.

The following table provides information about the principal classes of the loan portfolio at September 30, 2024 and December 31, 2023.

| (\$ in thousands)                    | September 30, 2024 | % of Total Loans | December 31, 2023 | % of Total Loans |
|--------------------------------------|--------------------|------------------|-------------------|------------------|
| Construction                         | \$ 337,113         | 7.12 %           | \$ 299,000        | 6.40 %           |
| Residential real estate              | 1,570,998          | 33.19 %          | 1,490,438         | 32.10 %          |
| Commercial real estate               | 2,276,381          | 48.09 %          | 2,286,154         | 49.30 %          |
| Commercial                           | 225,083            | 4.75 %           | 229,939           | 5.00 %           |
| Consumer                             | 317,149            | 6.70 %           | 328,896           | 7.10 %           |
| Credit cards                         | 7,185              | 0.15 %           | 6,583             | 0.10 %           |
| Total loans                          | 4,733,909          | 100.00 %         | 4,641,010         | 100.00 %         |
| Allowance for credit losses on loans | (58,669)           |                  | (57,351)          |                  |
| Total loans, net                     | \$ 4,675,240       |                  | \$ 4,583,659      |                  |

Loans are stated at their principal amount outstanding including any purchase premiums/discounts, deferred fees and costs. Included in loans were deferred costs, net of fees, of \$3.4 million and \$2.2 million at September 30, 2024 and December 31, 2023. At September 30, 2024 and December 31, 2023 included in total loans were \$1.52 billion and \$1.64 billion in loans acquired as part of the acquisition of TCFC, effective July 1, 2023. These balances were presented net of the related discount which totaled \$92.3 million and \$108.4 million at September 30, 2024 and December 31, 2023, respectively. At September 30, 2024 and December 31, 2023, included in total loans were \$263.4 million and \$297.9 million in loans, acquired as part of the acquisition of Severn Bancorp, Inc. (“Severn”), effective October 31, 2021. These balances were presented net of the related discount which totaled \$3.6 million and \$4.7 million at September 30, 2024 and December 31, 2023, respectively.

At September 30, 2024, the Bank was servicing \$368.0 million in loans for the Federal National Mortgage Association and \$118.5 million in loans for Freddie Mac.

The following table provides information on nonaccrual loans by loan class as of September 30, 2024 and December 31, 2023.

| (\$ in thousands)         | Non-Accrual with no allowance for credit loss | Non-Accrual with an allowance for credit loss | Total Non-Accrual Loans |
|---------------------------|-----------------------------------------------|-----------------------------------------------|-------------------------|
| <b>September 30, 2024</b> |                                               |                                               |                         |
| Nonaccrual loans:         |                                               |                                               |                         |
| Construction              | \$ 207                                        | \$ —                                          | \$ 207                  |
| Residential real estate   | 6,500                                         | 438                                           | 6,938                   |
| Commercial real estate    | 3,447                                         | 2,239                                         | 5,686                   |
| Commercial                | 490                                           | 586                                           | 1,076                   |
| Consumer                  | 295                                           | 463                                           | 758                     |
| Credit cards              | —                                             | 179                                           | 179                     |
| Total                     | \$ 10,939                                     | \$ 3,905                                      | \$ 14,844               |
| Interest income           | \$ 174                                        | \$ 57                                         | \$ 231                  |

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| (\$ in thousands)       | Non-Accrual with no allowance for<br>credit loss | Non-Accrual with an allowance for<br>credit loss | Total Non-Accrual Loans |
|-------------------------|--------------------------------------------------|--------------------------------------------------|-------------------------|
| December 31, 2023       |                                                  |                                                  |                         |
| Nonaccrual loans:       |                                                  |                                                  |                         |
| Construction            | \$ 626                                           | \$ —                                             | \$ 626                  |
| Residential real estate | 5,865                                            | 480                                              | 6,345                   |
| Commercial real estate  | 4,364                                            | —                                                | 4,364                   |
| Commercial              | 176                                              | 368                                              | 544                     |
| Consumer                | 216                                              | 689                                              | 905                     |
| Total                   | \$ 11,247                                        | \$ 1,537                                         | \$ 12,784               |
| Interest income         | \$ 399                                           | \$ 53                                            | \$ 452                  |

| (\$ in thousands)       | Non-Accrual Delinquent Loans | Non-Accrual Current Loans | Total Non-Accrual Loans |
|-------------------------|------------------------------|---------------------------|-------------------------|
| September 30, 2024      |                              |                           |                         |
| Nonaccrual loans:       |                              |                           |                         |
| Construction            | \$ 207                       | \$ —                      | \$ 207                  |
| Residential real estate | 4,516                        | 2,422                     | 6,938                   |
| Commercial real estate  | 2,810                        | 2,876                     | 5,686                   |
| Commercial              | 58                           | 1,018                     | 1,076                   |
| Consumer                | 707                          | 51                        | 758                     |
| Credit cards            | 156                          | 23                        | 179                     |
| Total                   | \$ 8,454                     | \$ 6,390                  | \$ 14,844               |

| (\$ in thousands)       | Non-Accrual Delinquent Loans | Non-Accrual Current Loans | Total Non-Accrual Loans |
|-------------------------|------------------------------|---------------------------|-------------------------|
| December 31, 2023       |                              |                           |                         |
| Nonaccrual loans:       |                              |                           |                         |
| Construction            | \$ 221                       | \$ 405                    | \$ 626                  |
| Residential real estate | 4,137                        | 2,208                     | 6,345                   |
| Commercial real estate  | 1,215                        | 3,149                     | 4,364                   |
| Commercial              | 28                           | 516                       | 544                     |
| Consumer                | 903                          | 2                         | 905                     |
| Total                   | \$ 6,504                     | \$ 6,280                  | \$ 12,784               |

The overall quality of the Bank's loan portfolio is primarily assessed using the Bank's risk-grading scale. This review process is assisted by frequent internal reporting of loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans. Credit quality indicators are adjusted based on management's judgment during the quarterly review process.

Consumer credit cards are monitored based on a borrower payment history. Credit card loans are classified as performing and are typically charged off no later than 180 days past due when, or in the opinion of management, the collection of principal or interest is considered doubtful. As of September 30, 2024, there were 7 credit cards that were evaluated based on economic conditions specific to the loans or borrowers, and were downgraded to substandard and non-performing.

Loans subject to risk ratings are graded on a scale of one to ten.

Ratings 1 thru 6 – Pass - Ratings 1 thru 6 have asset risks ranging from excellent-low to adequate. The specific rating assigned considers customer history of earnings, cash flows, liquidity, leverage, capitalization, consistency of debt service coverage, the nature and extent of customer relationship and other relevant specific business factors such as the stability of the industry or market area, changes to management, litigation or unexpected events that could have an impact on risks.

Rating 7 – Special Mention - These credits have potential weaknesses due to economic conditions, less than adequate earnings performance or other factors which require the lending officer to direct more than normal attention to the credit. Financing alternatives may be limited and/or command higher risk interest rates. Special mention loan relationships are reviewed at least quarterly.

Rating 8 – Substandard - Substandard assets are assets that are inadequately protected by the sound worth or paying capacity of the borrower or of the collateral pledged. Substandard loans are the first adversely classified loans on the Bank's watchlist. These assets have a

well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. The loans may have a delinquent history or combination of weak collateral, weak guarantor or operating losses. When a loan is assigned to this category the Bank may estimate a specific reserve in the credit loss allowance analysis and/or place the loan on nonaccrual. These assets listed may include assets with histories of repossessions or some that are non-performing bankruptcies. These relationships will be reviewed at least quarterly.

Rating 9 – Doubtful - Doubtful assets have many of the same characteristics of substandard with the exception that the Bank has determined that loss is not only possible but is probable. The amount of loss is not discernible due to factors such as merger, acquisition, or liquidation; a capital injection; a pledge of additional collateral; the sale of assets; or alternative refinancing plans. Credits receiving a doubtful classification are required to be on nonaccrual. These relationships will be reviewed at least quarterly.

Rating 10 – Loss – Loss assets are uncollectible or of little value.

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The following tables provides information on loan risk ratings as of September 30, 2024 and gross write-offs during the nine months ended September 30, 2024.

| (\$ in thousands)            | Term Loans by Origination Year |            |            |              |            |            | Revolving<br>Loans | Revolving<br>Converted to<br>Term Loans | Total        |
|------------------------------|--------------------------------|------------|------------|--------------|------------|------------|--------------------|-----------------------------------------|--------------|
|                              | Prior                          | 2020       | 2021       | 2022         | 2023       | 2024       |                    |                                         |              |
| September 30, 2024           |                                |            |            |              |            |            |                    |                                         |              |
| Construction                 |                                |            |            |              |            |            |                    |                                         |              |
| Pass                         | \$ 33,471                      | \$ 10,572  | \$ 24,666  | \$ 79,428    | \$ 90,132  | \$ 76,594  | \$ 20,283          | \$ 1,760                                | \$ 336,906   |
| Substandard                  | 60                             | —          | —          | 147          | —          | —          | —                  | —                                       | 207          |
| Total                        | \$ 33,531                      | \$ 10,572  | \$ 24,666  | \$ 79,575    | \$ 90,132  | \$ 76,594  | \$ 20,283          | \$ 1,760                                | \$ 337,113   |
| Gross Charge-offs            | \$ —                           | \$ —       | \$ (12)    | \$ —         | \$ —       | \$ —       | \$ —               | \$ —                                    | \$ (12)      |
| Residential real estate      |                                |            |            |              |            |            |                    |                                         |              |
| Pass                         | \$ 343,013                     | \$ 101,078 | \$ 242,689 | \$ 402,062   | \$ 255,274 | \$ 82,959  | \$ 120,721         | \$ 14,124                               | \$ 1,561,920 |
| Special Mention              | 395                            | 530        | —          | —            | —          | —          | 163                | —                                       | 1,088        |
| Substandard                  | 5,511                          | —          | 1,353      | 295          | 355        | —          | 476                | —                                       | 7,990        |
| Total                        | \$ 348,919                     | \$ 101,608 | \$ 244,042 | \$ 402,357   | \$ 255,629 | \$ 82,959  | \$ 121,360         | \$ 14,124                               | \$ 1,570,998 |
| Gross Charge-offs            | \$ (1)                         | \$ —       | \$ —       | \$ —         | \$ —       | \$ —       | \$ —               | \$ —                                    | \$ (1)       |
| Commercial real estate       |                                |            |            |              |            |            |                    |                                         |              |
| Pass                         | \$ 800,556                     | \$ 282,792 | \$ 407,056 | \$ 432,621   | \$ 213,652 | \$ 82,252  | \$ 34,021          | \$ —                                    | \$ 2,252,950 |
| Special Mention              | 7,162                          | —          | 5,428      | —            | —          | —          | 531                | —                                       | 13,121       |
| Substandard                  | 7,227                          | —          | 3,055      | —            | —          | —          | 28                 | —                                       | 10,310       |
| Total                        | \$ 814,945                     | \$ 282,792 | \$ 415,539 | \$ 432,621   | \$ 213,652 | \$ 82,252  | \$ 34,580          | \$ —                                    | \$ 2,276,381 |
| Gross Charge-offs            | \$ —                           | \$ —       | \$ —       | \$ —         | \$ —       | \$ —       | \$ —               | \$ —                                    | \$ —         |
| Commercial                   |                                |            |            |              |            |            |                    |                                         |              |
| Pass                         | \$ 27,330                      | \$ 11,866  | \$ 43,586  | \$ 31,181    | \$ 30,278  | \$ 28,198  | \$ 48,252          | \$ 849                                  | \$ 221,540   |
| Special Mention              | 120                            | —          | —          | —            | —          | —          | —                  | 69                                      | 189          |
| Substandard                  | 593                            | —          | 9          | 1,324        | 524        | —          | 553                | 351                                     | 3,354        |
| Total                        | \$ 28,043                      | \$ 11,866  | \$ 43,595  | \$ 32,505    | \$ 30,802  | \$ 28,198  | \$ 48,805          | \$ 1,269                                | \$ 225,083   |
| Gross Charge-offs            | \$ (45)                        | \$ (11)    | \$ —       | \$ (56)      | \$ (65)    | \$ —       | \$ —               | \$ —                                    | \$ (177)     |
| Consumer                     |                                |            |            |              |            |            |                    |                                         |              |
| Pass                         | \$ 889                         | \$ 11,679  | \$ 64,634  | \$ 122,668   | \$ 68,778  | \$ 47,032  | \$ 711             | \$ —                                    | \$ 316,391   |
| Special Mention              | —                              | —          | —          | —            | —          | —          | —                  | —                                       | —            |
| Substandard                  | 2                              | 3          | 97         | 555          | 101        | —          | —                  | —                                       | 758          |
| Total                        | \$ 891                         | \$ 11,682  | \$ 64,731  | \$ 123,223   | \$ 68,879  | \$ 47,032  | \$ 711             | \$ —                                    | \$ 317,149   |
| Gross Charge-offs            | \$ (545)                       | \$ (9)     | \$ (217)   | \$ (1,578)   | \$ (35)    | \$ —       | \$ (17)            | \$ —                                    | \$ (2,401)   |
| Total                        |                                |            |            |              |            |            |                    |                                         |              |
| Pass                         | \$ 1,205,259                   | \$ 417,987 | \$ 782,631 | \$ 1,067,960 | \$ 658,114 | \$ 317,035 | \$ 223,988         | \$ 16,733                               | \$ 4,689,707 |
| Special Mention              | 7,677                          | 530        | 5,428      | —            | —          | —          | 694                | 69                                      | 14,398       |
| Substandard                  | 13,393                         | 3          | 4,514      | 2,321        | 980        | —          | 1,057              | 351                                     | 22,619       |
| Total loans by risk category | \$ 1,226,329                   | \$ 418,520 | \$ 792,573 | \$ 1,070,281 | \$ 659,094 | \$ 317,035 | \$ 225,739         | \$ 17,153                               | \$ 4,726,724 |
| Total gross charge-offs      | \$ (591)                       | \$ (20)    | \$ (229)   | \$ (1,634)   | \$ (100)   | \$ —       | \$ (17)            | \$ —                                    | \$ (2,591)   |

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| (\$ in thousands)                          | Term Loans by Origination Year |            |            |              |            |            | Revolving<br>Loans | Revolving<br>Converted to<br>Term Loans | Total        |  |
|--------------------------------------------|--------------------------------|------------|------------|--------------|------------|------------|--------------------|-----------------------------------------|--------------|--|
|                                            | Prior                          | 2020       | 2021       | 2022         | 2023       | 2024       |                    |                                         |              |  |
| September 30, 2024                         |                                |            |            |              |            |            |                    |                                         |              |  |
| Credit Cards                               |                                |            |            |              |            |            |                    |                                         |              |  |
| Performing                                 | \$ —                           | \$ —       | \$ —       | \$ —         | \$ —       | \$ —       | \$ 7,006           | \$ —                                    | \$ 7,006     |  |
| Non-Performing                             | —                              | —          | —          | —            | —          | —          | 179                | —                                       | 179          |  |
| Total                                      | \$ —                           | \$ —       | \$ —       | \$ —         | \$ —       | \$ —       | \$ 7,185           | \$ —                                    | \$ 7,185     |  |
| Gross Charge-offs                          | \$ —                           | \$ —       | \$ —       | \$ —         | \$ —       | \$ —       | \$ (405)           | \$ —                                    | \$ (405)     |  |
| Total loans evaluated by performing status | \$ —                           | \$ —       | \$ —       | \$ —         | \$ —       | \$ —       | \$ 7,185           | \$ —                                    | \$ 7,185     |  |
| Total gross charge-offs                    | \$ —                           | \$ —       | \$ —       | \$ —         | \$ —       | \$ —       | \$ (405)           | \$ —                                    | \$ (405)     |  |
| Total Recorded Investment                  | \$ 1,226,329                   | \$ 418,520 | \$ 792,573 | \$ 1,070,281 | \$ 659,094 | \$ 317,035 | \$ 232,924         | \$ 17,153                               | \$ 4,733,909 |  |

The following tables provides information on loan risk ratings as of December 31, 2023 and gross write-offs during twelve months ended December 31, 2023.

| (\$ in thousands)       | Term Loans by Origination Year |            |            |            |            |            | Revolving<br>loans | Revolving<br>converted to<br>term loans | Total        |  |
|-------------------------|--------------------------------|------------|------------|------------|------------|------------|--------------------|-----------------------------------------|--------------|--|
|                         | Prior                          | 2019       | 2020       | 2021       | 2022       | 2023       |                    |                                         |              |  |
| December 31, 2023       |                                |            |            |            |            |            |                    |                                         |              |  |
| Construction            |                                |            |            |            |            |            |                    |                                         |              |  |
| Pass                    | \$ 23,450                      | \$ 15,721  | \$ 14,773  | \$ 34,325  | \$ 101,426 | \$ 100,620 | \$ 8,056           | \$ —                                    | \$ 298,371   |  |
| Substandard             | 199                            | —          | —          | 12         | 418        | —          | —                  | —                                       | 629          |  |
| Total                   | \$ 23,649                      | \$ 15,721  | \$ 14,773  | \$ 34,337  | \$ 101,844 | \$ 100,620 | \$ 8,056           | \$ —                                    | \$ 299,000   |  |
| Gross Charge-offs       | \$ —                           | \$ —       | \$ —       | \$ —       | \$ —       | \$ —       | \$ —               | \$ —                                    | \$ —         |  |
| Residential real estate |                                |            |            |            |            |            |                    |                                         |              |  |
| Pass                    | \$ 317,528                     | \$ 54,387  | \$ 105,269 | \$ 251,269 | \$ 392,378 | \$ 239,914 | \$ 119,777         | \$ 874                                  | \$ 1,481,396 |  |
| Special Mention         | 154                            | 256        | 564        | 503        | —          | —          | 192                | —                                       | 1,669        |  |
| Substandard             | 6,000                          | —          | —          | —          | —          | —          | 1,373              | —                                       | 7,373        |  |
| Total                   | \$ 323,682                     | \$ 54,643  | \$ 105,833 | \$ 251,772 | \$ 392,378 | \$ 239,914 | \$ 121,342         | \$ 874                                  | \$ 1,490,438 |  |
| Gross Charge-offs       | \$ —                           | \$ —       | \$ —       | \$ —       | \$ —       | \$ —       | \$ (119)           | \$ —                                    | \$ (119)     |  |
| Commercial real estate  |                                |            |            |            |            |            |                    |                                         |              |  |
| Pass                    | \$ 670,042                     | \$ 190,753 | \$ 311,980 | \$ 426,750 | \$ 428,240 | \$ 210,915 | \$ 14,873          | \$ 2,138                                | \$ 2,255,691 |  |
| Special Mention         | 14,986                         | 331        | —          | 5,501      | 4,446      | —          | 100                | 409                                     | 25,773       |  |
| Substandard             | 2,119                          | 2,029      | —          | 542        | —          | —          | —                  | —                                       | 4,690        |  |
| Total                   | \$ 687,147                     | \$ 193,113 | \$ 311,980 | \$ 432,793 | \$ 432,686 | \$ 210,915 | \$ 14,973          | \$ 2,547                                | \$ 2,286,154 |  |
| Gross Charge-offs       | \$ (512)                       | \$ —       | \$ (814)   | \$ —       | \$ —       | \$ —       | \$ —               | \$ —                                    | \$ (1,326)   |  |
| Commercial              |                                |            |            |            |            |            |                    |                                         |              |  |
| Pass                    | \$ 23,771                      | \$ 12,946  | \$ 14,464  | \$ 41,621  | \$ 35,897  | \$ 27,901  | \$ 49,160          | \$ 22,284                               | \$ 228,044   |  |
| Special Mention         | 143                            | —          | —          | 425        | —          | —          | 251                | —                                       | 819          |  |
| Substandard             | 160                            | 69         | —          | —          | 487        | —          | 314                | 46                                      | 1,076        |  |
| Total                   | \$ 24,074                      | \$ 13,015  | \$ 14,464  | \$ 42,046  | \$ 36,384  | \$ 27,901  | \$ 49,725          | \$ 22,330                               | \$ 229,939   |  |
| Gross Charge-offs       | \$ (1)                         | \$ —       | —          | \$ —       | \$ —       | \$ —       | \$ —               | \$ (242)                                | \$ (243)     |  |
| Consumer                |                                |            |            |            |            |            |                    |                                         |              |  |
| Pass                    | \$ 621                         | \$ 961     | \$ 14,158  | \$ 76,629  | \$ 143,507 | \$ 91,415  | \$ 699             | \$ —                                    | \$ 327,990   |  |
| Special Mention         | —                              | —          | —          | —          | —          | —          | 2                  | —                                       | 2            |  |
| Substandard             | —                              | 38         | 5          | 80         | 780        | —          | 1                  | —                                       | 904          |  |
| Total                   | \$ 621                         | \$ 999     | \$ 14,163  | \$ 76,709  | \$ 144,287 | \$ 91,415  | \$ 702             | \$ —                                    | \$ 328,896   |  |
| Gross Charge-offs       | \$ (522)                       | \$ —       | \$ (16)    | \$ (17)    | \$ (8)     | \$ (4)     | \$ (7)             | \$ —                                    | \$ (574)     |  |

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|                                            |              |            |            |            |              |            |            |           |              |  |
|--------------------------------------------|--------------|------------|------------|------------|--------------|------------|------------|-----------|--------------|--|
| Total                                      |              |            |            |            |              |            |            |           |              |  |
| Pass                                       | \$ 1,035,412 | \$ 274,768 | \$ 460,644 | \$ 830,594 | \$ 1,101,448 | \$ 670,765 | \$ 192,565 | \$ 25,296 | \$ 4,591,492 |  |
| Special Mention                            | 15,283       | 587        | 564        | 6,429      | 4,446        | —          | 545        | 409       | 28,263       |  |
| Substandard                                | 8,478        | 2,136      | 5          | 634        | 1,685        | —          | 1,688      | 46        | 14,672       |  |
| Total loans by risk category               | \$ 1,059,173 | \$ 277,491 | \$ 461,213 | \$ 837,657 | \$ 1,107,579 | \$ 670,765 | \$ 194,798 | \$ 25,751 | \$ 4,634,427 |  |
|                                            |              |            |            |            |              |            |            |           |              |  |
| Total gross charge-offs                    | \$ (1,035)   | \$ —       | \$ (830)   | \$ (17)    | \$ (8)       | \$ (4)     | \$ (126)   | \$ (242)  | \$ (2,262)   |  |
|                                            |              |            |            |            |              |            |            |           |              |  |
| Credit Cards                               |              |            |            |            |              |            |            |           |              |  |
| Performing                                 | \$ —         | \$ —       | \$ —       | \$ —       | \$ —         | \$ —       | \$ 6,583   | \$ —      | \$ 6,583     |  |
| Non-Performing                             | —            | —          | —          | —          | —            | —          | —          | —         | —            |  |
| Total                                      | \$ —         | \$ —       | \$ —       | \$ —       | \$ —         | \$ —       | \$ 6,583   | \$ —      | \$ 6,583     |  |
| Gross Charge-offs                          | \$ —         | \$ —       | \$ —       | \$ —       | \$ —         | \$ —       | \$ (111)   | \$ —      | \$ (111)     |  |
|                                            |              |            |            |            |              |            |            |           |              |  |
| Total loans evaluated by performing status | \$ —         | \$ —       | \$ —       | \$ —       | \$ —         | \$ —       | \$ 6,583   | \$ —      | \$ 6,583     |  |
|                                            |              |            |            |            |              |            |            |           |              |  |
| Total gross charge-offs                    | \$ —         | \$ —       | \$ —       | \$ —       | \$ —         | \$ —       | \$ (111)   | \$ —      | \$ (111)     |  |
|                                            |              |            |            |            |              |            |            |           |              |  |
| Total Recorded Investment                  | \$ 1,059,173 | \$ 277,491 | \$ 461,213 | \$ 837,657 | \$ 1,107,579 | \$ 670,765 | \$ 201,381 | \$ 25,751 | \$ 4,641,010 |  |

The following tables provide information on the aging of the loan portfolio as of September 30, 2024 and December 31, 2023.

| (\$ in thousands)         | Accruing            |                     |                                     |                                      |                                   | Total past due | Current Accrual Loans <sup>(1)</sup> | Current Non-Accrual Loans | Total        |
|---------------------------|---------------------|---------------------|-------------------------------------|--------------------------------------|-----------------------------------|----------------|--------------------------------------|---------------------------|--------------|
|                           | 30-59 days past due | 60-89 days past due | 90 days past due and still accruing | 30-89 days past due and not accruing | 90 days past due and not accruing |                |                                      |                           |              |
| <b>September 30, 2024</b> |                     |                     |                                     |                                      |                                   |                |                                      |                           |              |
| Construction              | \$ 410              | \$ —                | \$ —                                | \$ —                                 | \$ 207                            | \$ 617         | \$ 336,496                           | \$ —                      | \$ 337,113   |
| Residential real estate   | 956                 | 389                 | 205                                 | 2,377                                | 2,139                             | 6,066          | 1,562,510                            | 2,422                     | 1,570,998    |
| Commercial real estate    | 95                  | 4,443               | —                                   | 2,239                                | 571                               | 7,348          | 2,266,157                            | 2,876                     | 2,276,381    |
| Commercial                | 56                  | 1                   | 6                                   | —                                    | 58                                | 121            | 223,944                              | 1,018                     | 225,083      |
| Consumer                  | 1,558               | 896                 | 9                                   | 439                                  | 268                               | 3,170          | 313,928                              | 51                        | 317,149      |
| Credit Cards              | 61                  | 98                  | 234                                 | 30                                   | 126                               | 549            | 6,613                                | 23                        | 7,185        |
| Total                     | \$ 3,136            | \$ 5,827            | \$ 454                              | \$ 5,085                             | \$ 3,369                          | \$ 17,871      | \$ 4,709,648                         | \$ 6,390                  | \$ 4,733,909 |
| Percent of total loans    | 0.07 %              | 0.12 %              | 0.01 %                              | 0.11 %                               | 0.07 %                            | 0.38 %         | 99.49 %                              | 0.13 %                    | 100.0 %      |

(1) Includes loans measured at fair value of \$10.0 million at September 30, 2024.

| (\$ in thousands)        | Accruing            |                     |                                     |                                      |                                   | Total past due | Current Accrual Loans <sup>(1)</sup> | Current Non-Accrual Loans | Total        |
|--------------------------|---------------------|---------------------|-------------------------------------|--------------------------------------|-----------------------------------|----------------|--------------------------------------|---------------------------|--------------|
|                          | 30-59 days past due | 60-89 days past due | 90 days past due and still accruing | 30-89 days past due and not accruing | 90 days past due and not accruing |                |                                      |                           |              |
| <b>December 31, 2023</b> |                     |                     |                                     |                                      |                                   |                |                                      |                           |              |
| Construction             | \$ 1,919            | \$ —                | \$ —                                | \$ —                                 | \$ 221                            | \$ 2,140       | \$ 296,455                           | \$ 405                    | \$ 299,000   |
| Residential real estate  | 2,420               | 271                 | 108                                 | 1,469                                | 2,668                             | 6,936          | 1,481,294                            | 2,208                     | 1,490,438    |
| Commercial real estate   | 16                  | —                   | —                                   | —                                    | 1,215                             | 1,231          | 2,281,774                            | 3,149                     | 2,286,154    |
| Commercial               | 48                  | —                   | 488                                 | —                                    | 28                                | 564            | 228,859                              | 516                       | 229,939      |
| Consumer                 | 3,224               | 1,391               | —                                   | 24                                   | 879                               | 5,518          | 323,376                              | 2                         | 328,896      |
| Credit cards             | 35                  | 36                  | 142                                 | —                                    | —                                 | 213            | 6,370                                | —                         | 6,583        |
| Total                    | \$ 7,662            | \$ 1,698            | \$ 738                              | \$ 1,493                             | \$ 5,011                          | \$ 16,602      | \$ 4,618,128                         | \$ 6,280                  | \$ 4,641,010 |
| Percent of total loans   | 0.17 %              | 0.04 %              | 0.02 %                              | 0.03 %                               | 0.11 %                            | 0.36 %         | 99.50 %                              | 0.14 %                    | 100.00 %     |

(1) Includes loans measured at fair value of \$9.9 million at December 31, 2023.

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The following tables provide a summary of the activity in the ACL allocated by loan class for the three and nine months ended September 30, 2024 and September 30, 2023. Allocation of a portion of the allowance to one loan class does not preclude its availability to absorb losses in other loan classes.

| (\$ in thousands)                                | Beginning<br>Balance | Charge-offs       | Recoveries   | Net (charge-offs)<br>recoveries | Provisions      | Ending<br>Balance |
|--------------------------------------------------|----------------------|-------------------|--------------|---------------------------------|-----------------|-------------------|
| <b>For three months ended September 30, 2024</b> |                      |                   |              |                                 |                 |                   |
| Construction                                     | \$ 3,471             | \$ —              | \$ 1         | \$ 1                            | \$ (578)        | \$ 2,894          |
| Residential real estate                          | 22,060               | —                 | 1            | 1                               | 1,468           | 23,529            |
| Commercial real estate                           | 21,424               | —                 | —            | —                               | (147)           | 21,277            |
| Commercial                                       | 2,866                | (154)             | 1            | (153)                           | 512             | 3,225             |
| Consumer <sup>(1)</sup>                          | 8,145                | (1,015)           | 88           | (927)                           | 36              | 7,254             |
| Credit Card                                      | 512                  | (210)             | —            | (210)                           | 188             | 490               |
| <b>Total</b>                                     | <b>\$ 58,478</b>     | <b>\$ (1,379)</b> | <b>\$ 91</b> | <b>\$ (1,288)</b>               | <b>\$ 1,479</b> | <b>\$ 58,669</b>  |

(1) Gross charge-offs of consumer loans for the three months ended September 30, 2024 included \$156 thousand of demand deposit overdrafts.

| (\$ in thousands)                                | Beginning<br>Balance | Merger<br>Adjustments <sup>(2)</sup> | Charge-offs       | Recoveries   | Net (charge-offs)<br>recoveries | Provisions       | Ending<br>Balance |
|--------------------------------------------------|----------------------|--------------------------------------|-------------------|--------------|---------------------------------|------------------|-------------------|
| <b>For Three Months Ended September 30, 2023</b> |                      |                                      |                   |              |                                 |                  |                   |
| Construction                                     | \$ 2,386             | \$ 3                                 | \$ —              | \$ 3         | \$ 3                            | \$ 1,439         | \$ 3,831          |
| Residential real estate                          | 9,151                | 215                                  | —                 | 3            | 3                               | 9,806            | 19,175            |
| Commercial real estate                           | 10,267               | 985                                  | (1,327)           | —            | (1,327)                         | 12,875           | 22,800            |
| Commercial                                       | 1,956                | 278                                  | —                 | 2            | 2                               | 2,101            | 4,337             |
| Consumer <sup>(1)</sup>                          | 5,254                | 14                                   | (115)             | 45           | (70)                            | 1,658            | 6,856             |
| Credit Card                                      | —                    | 18                                   | (60)              | —            | (60)                            | 94               | 52                |
| <b>Total</b>                                     | <b>\$ 29,014</b>     | <b>\$ 1,513</b>                      | <b>\$ (1,502)</b> | <b>\$ 53</b> | <b>\$ (1,449)</b>               | <b>\$ 27,973</b> | <b>\$ 57,051</b>  |

(1) Gross charge-offs of consumer loans for the three months ended September 30, 2023 included \$1.5 million of demand deposit overdrafts.

(2) Merger adjustments consist of gross-up for acquired PCD loans in the TCFC merger.

| (\$ in thousands)                               | Beginning<br>Balance | Charge-<br>offs   | Recoveries    | Net (charge-offs)<br>recoveries | Provisions      | Ending<br>Balance |
|-------------------------------------------------|----------------------|-------------------|---------------|---------------------------------|-----------------|-------------------|
| <b>For Nine Months Ended September 30, 2024</b> |                      |                   |               |                                 |                 |                   |
| Construction                                    | \$ 3,935             | \$ (12)           | \$ 7          | \$ (5)                          | \$ (1,036)      | \$ 2,894          |
| Residential real estate                         | 21,949               | (1)               | 5             | 4                               | 1,576           | 23,529            |
| Commercial real estate                          | 20,975               | —                 | —             | —                               | 302             | 21,277            |
| Commercial                                      | 2,671                | (177)             | 4             | (173)                           | 727             | 3,225             |
| Consumer <sup>(1)</sup>                         | 7,601                | (2,401)           | 232           | (2,169)                         | 1,822           | 7,254             |
| Credit Card                                     | 220                  | (405)             | 9             | (396)                           | 666             | 490               |
| <b>Total</b>                                    | <b>\$ 57,351</b>     | <b>\$ (2,996)</b> | <b>\$ 257</b> | <b>\$ (2,739)</b>               | <b>\$ 4,057</b> | <b>\$ 58,669</b>  |

(1) Gross charge-offs of consumer loans for the nine months ended September 30, 2024 included \$512 thousands of demand deposit overdrafts.

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| (\$ in thousands)                        | Beginning Balance | Impact of ASC 326 Adoption | Merger Adjustments <sup>(2)</sup> | Charge-offs | Recoveries | Net (charge-offs) recoveries | Provisions | Ending Balance |
|------------------------------------------|-------------------|----------------------------|-----------------------------------|-------------|------------|------------------------------|------------|----------------|
| For Nine Months Ended September 30, 2023 |                   |                            |                                   |             |            |                              |            |                |
| Construction                             | \$ 2,973          | \$ 1,222                   | \$ 3                              | \$ —        | 10         | \$ 10                        | \$ (377)   | \$ 3,831       |
| Residential real estate                  | 2,622             | 4,974                      | 215                               | —           | 37         | 37                           | 11,327     | 19,175         |
| Commercial real estate                   | 4,899             | 3,742                      | 985                               | (1,327)     | —          | (1,327)                      | 14,501     | 22,800         |
| Commercial                               | 1,652             | 401                        | 278                               | —           | 10         | 10                           | 1,996      | 4,337          |
| Consumer <sup>(1)</sup>                  | 4,497             | 452                        | 14                                | (399)       | 210        | (189)                        | 2,082      | 6,856          |
| Credit Card                              | —                 | —                          | 18                                | (60)        | —          | (60)                         | 94         | 52             |
| Total                                    | \$ 16,643         | \$ 10,791                  | \$ 1,513                          | \$ (1,786)  | \$ 267     | \$ (1,519)                   | \$ 29,623  | \$ 57,051      |

(1) Gross charge-offs of consumer loans for the nine months ended September 30, 2023 included \$1.8 million of demand deposit overdrafts.

(2) Merger adjustments consist of gross-up for acquired PCD loans in the TCFC merger.

The following table presents the amortized cost basis of collateral-dependent loans by loan portfolio segment.

| (\$ in thousands)       | September 30, 2024     |                  |           |
|-------------------------|------------------------|------------------|-----------|
|                         | Real Estate Collateral | Other Collateral | Total     |
| Construction            | \$ 207                 | \$ —             | \$ 207    |
| Residential real estate | 19,600                 | —                | 19,600    |
| Commercial real estate  | 11,905                 | —                | 11,905    |
| Commercial              | —                      | 3,160            | 3,160     |
| Consumer                | —                      | 756              | 756       |
| Total                   | \$ 31,712              | \$ 3,916         | \$ 35,628 |

| (\$ in thousands)       | December 31, 2023      |                  |           |
|-------------------------|------------------------|------------------|-----------|
|                         | Real Estate Collateral | Other Collateral | Total     |
| Construction            | \$ 662                 | \$ —             | \$ 662    |
| Residential real estate | 8,047                  | —                | 8,047     |
| Commercial real estate  | 6,134                  | —                | 6,134     |
| Commercial              | —                      | 1,106            | 1,106     |
| Consumer                | —                      | 904              | 904       |
| Total                   | \$ 14,843              | \$ 2,010         | \$ 16,853 |

### Loan Modifications to Borrowers Experiencing Financial Difficulty

Modifications to borrowers experiencing financial difficulty may include interest rate reduction, principal or interest forgiveness, forbearance, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral.

During the three and nine months ended September 30, 2024 and 2023, no loan modifications were made to borrowers experiencing financial difficulty. During the three and nine months ended September 30, 2024 and 2023, there were no defaults on loan modifications made to borrowers experiencing financial difficulty.

As of September 30, 2024, all loan modification balances with borrowers experiencing financial difficulty that were modified during the preceding 12 months were classified as current non-accrual, of which \$98 thousand were for commercial real estate loans and \$216 thousand were for commercial loans.

### Foreclosure Proceedings

There were \$127 thousand of consumer mortgage loans collateralized by residential real estate property and \$552 thousand of Commercial Real Estate loans collateralized by Owner Occupied nonfarm nonresidential properties that were in the process of foreclosure as of September 30, 2024 and \$175 thousand as of December 31, 2023, respectively. There were no residential real estate properties included in the balance of other real estate owned (“OREO”) at September 30, 2024 and December 31, 2023.

**Note 5 – Goodwill and Other Intangibles**

The following table provides information on the significant components of goodwill and other acquired intangible assets at September 30, 2024 and December 31, 2023.

| (\$ in thousands)                          | September 30, 2024 |                         |
|--------------------------------------------|--------------------|-------------------------|
|                                            | Goodwill           | Core Deposit Intangible |
| Gross Carrying Amount                      | \$ 65,476          | \$ 59,151               |
| Additions                                  | —                  | —                       |
| Accumulated Impairment Charges             | (1,543)            | —                       |
| Accumulated Amortization                   | (667)              | (18,542)                |
| Net Carrying Amount                        | <u>\$ 63,266</u>   | <u>\$ 40,609</u>        |
| Weighted Average Remaining Life (in years) | 0.00 years         | 3.60 years              |

  

| (\$ in thousands)                          | December 31, 2023 |                         |
|--------------------------------------------|-------------------|-------------------------|
|                                            | Goodwill          | Core Deposit Intangible |
| Gross Carrying Amount                      | \$ 65,476         | \$ 10,503               |
| Additions                                  | —                 | 48,648                  |
| Accumulated Impairment Charges             | (1,543)           | —                       |
| Accumulated Amortization                   | (667)             | (11,061)                |
| Net Carrying Amount                        | <u>\$ 63,266</u>  | <u>\$ 48,090</u>        |
| Weighted Average Remaining Life (in years) | 0.00 years        | 3.70 years              |

The aggregate amortization expense was \$2.3 million for the three months ended September 30, 2024 and \$2.6 million for the three months ended September 30, 2023. The aggregate amortization expense was \$7.5 million for the nine months ended September 30, 2024 and \$3.5 million for the nine months ended September 30, 2023.

At September 30, 2024, estimated future remaining amortization for amortizing core deposit intangibles within the years ending December 31, is as follows:

| (\$ in thousands)                  | Amortization Expense |
|------------------------------------|----------------------|
| 2024                               | \$ 2,298             |
| 2025                               | 8,589                |
| 2026                               | 7,398                |
| 2027                               | 6,208                |
| 2028                               | 5,060                |
| Thereafter                         | 11,056               |
| Total amortizing intangible assets | <u>\$ 40,609</u>     |

## Note 6 – Leases

Lease liabilities represent the Company's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Company's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Company's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

The Company's long-term lease agreements are classified as operating leases. Certain leases offer the option to extend the lease term and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably certain of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following tables present information about the Company's leases.

| (\$ in thousands)                     | September 30, 2024 | December 31, 2023 |
|---------------------------------------|--------------------|-------------------|
| Lease liabilities                     | \$ 11,816          | \$ 12,857         |
| Right-of-use assets                   | \$ 11,384          | \$ 12,487         |
| Weighted average remaining lease term | 10.51 years        | 10.88 years       |
| Weighted average discount rate        | 3.27 %             | 3.24 %            |
| Remaining lease term - min            | 0.08 years         | 0.39 years        |
| Remaining lease term - max            | 16.93 years        | 17.68 years       |

|                                                                        | Three Months Ended September 30, |        | Nine Months Ended September 30, |          |
|------------------------------------------------------------------------|----------------------------------|--------|---------------------------------|----------|
| Lease cost (\$ in thousands)                                           | 2024                             | 2023   | 2024                            | 2023     |
| Operating lease cost                                                   | \$ 473                           | \$ 485 | \$ 1,445                        | \$ 1,153 |
| Total lease cost                                                       | \$ 473                           | \$ 485 | \$ 1,445                        | \$ 1,153 |
| Cash paid for amounts included in the measurement of lease liabilities | \$ 449                           | \$ 459 | \$ 1,367                        | \$ 1,090 |

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities is as follows:

| Lease payments due (\$ in thousands)  | As of September 30, 2024 |
|---------------------------------------|--------------------------|
| Three months ending December 31, 2024 | \$ 431                   |
| 2025                                  | 1,648                    |
| 2026                                  | 1,636                    |
| 2027                                  | 1,517                    |
| 2028                                  | 1,467                    |
| Thereafter                            | 7,233                    |
| Total undiscounted cash flows         | \$ 13,932                |
| Discount                              | 2,116                    |
| Lease liabilities                     | \$ 11,816                |

Total gross rental income was \$266 thousand and \$253 thousand for the three months ended September 30, 2024 and 2023, respectively. Total gross rental income was \$799 thousand and \$937 thousand for the nine months ended September 30, 2024 and 2023, respectively.

The following table presents our minimum future annual rental income on such leases as of September 30, 2024.

| (\$ in thousands)                     | As of September 30, 2024 |
|---------------------------------------|--------------------------|
| Three months ending December 31, 2024 | \$ 224                   |
| 2025                                  | 904                      |
| 2026                                  | 927                      |
| 2027                                  | 614                      |
| 2028                                  | 632                      |
| Thereafter                            | 2,478                    |
| Total                                 | \$ 5,779                 |

**Note 7 - Deposits**

Deposits consist of the following categories as of the dates indicated:

| (\$ in thousands)          | September 30, 2024 |          | December 31, 2023 |          |
|----------------------------|--------------------|----------|-------------------|----------|
|                            | Balance            | %        | Balance           | %        |
| Noninterest-bearing demand | \$ 1,571,393       | 30.07 %  | \$ 1,258,037      | 23.36 %  |
| Interest-bearing:          |                    |          |                   |          |
| Demand                     | 751,533            | 14.38 %  | 1,165,546         | 21.64 %  |
| Money market deposits      | 1,297,237          | 24.82 %  | 1,430,603         | 26.56 %  |
| Savings                    | 336,903            | 6.45 %   | 347,324           | 6.45 %   |
| Certificates of deposit    | 1,268,657          | 24.28 %  | 1,184,610         | 21.99 %  |
| Total interest-bearing     | 3,654,330          | 69.93 %  | 4,128,083         | 76.64 %  |
| Total Deposits             | \$ 5,225,723       | 100.00 % | \$ 5,386,120      | 100.00 % |

At September 30, 2024, the scheduled contractual maturities of certificates of deposit are as follows:

| (\$ in thousands) | September 30, 2024 |
|-------------------|--------------------|
| Within one year   | \$ 1,083,147       |
| Year 2            | 157,446            |
| Year 3            | 15,407             |
| Year 4            | 6,570              |
| Year 5            | 6,083              |
| Thereafter        | 4                  |
|                   | \$ 1,268,657       |

The aggregate amount of certificates of deposit that met or exceeded the FDIC insurance limit of \$250,000 at September 30, 2024 and December 31, 2023 was \$417.8 million and \$354.6 million, respectively.

## Note 8 - Borrowings

Long-term debt consisted of the following:

| (\$ in thousands)                                | September 30, 2024 | December 31, 2023 | Issue Date | Stated Maturity Date | Earliest Call Date | Interest Rate                                                   |
|--------------------------------------------------|--------------------|-------------------|------------|----------------------|--------------------|-----------------------------------------------------------------|
| FHLB Advances                                    | \$ 50,000          | —                 | 2024       | 2025                 |                    | 4.786%                                                          |
| Total long-term advances                         | 50,000             | —                 |            |                      |                    |                                                                 |
| September 2030 Subordinated Debentures           | 25,000             | \$ 25,000         | 2020       | 2030                 | 2025               | 5.375% through September 2025, 3-month SOFR + 5.265% thereafter |
| October 2030 Subordinated Debentures             | 19,500             | 19,500            | 2020       | 2030                 | 2025               | 4.75% through October 2025, 3-month SOFR + 4.58% thereafter     |
| Total subordinated debentures                    | 44,500             | 44,500            |            |                      |                    |                                                                 |
| Severn Capital Trust I                           | 20,619             | 20,619            | 2004       | 2035                 |                    | 3-month SOFR + 2.00%                                            |
| Tri-County Capital Trust I                       | 7,217              | 7,217             | 2004       | 2034                 |                    | 90-day SOFR + 2.60%                                             |
| Tri-County Capital Trust II                      | 5,155              | 5,155             | 2005       | 2035                 |                    | 90-day SOFR + 1.70%                                             |
| Total trust preferred securities                 | 32,991             | 32,991            |            |                      |                    |                                                                 |
| Less net discount and unamortized issuance costs | (4,035)            | (4,822)           |            |                      |                    |                                                                 |
| <b>Total long-term debt</b>                      | <b>\$ 123,456</b>  | <b>\$ 72,669</b>  |            |                      |                    |                                                                 |

At September 30, 2024, subordinated notes consisted of \$25.0 million of long-term debt issued by the Company in August 2020, and \$19.5 million of long-term debt assumed as a result of the merger with TCFC. The recorded balance of subordinated debt issued in 2020 and the assumed subordinated debt from TCFC, net of unamortized issuance costs and fair value discounts, respectively, were \$24.9 million and \$18.8 million, respectively.

The Company also assumed TRUPS in the aggregate of \$33.0 million as a result of the merger with TCFC in the third quarter of 2023 and the acquisition of Severn in the fourth quarter of 2022. Trust preferred securities consisted of \$20.6 million issued to Severn Capital Trust I, \$7.2 million issued by Tri-County Capital Trust I and \$5.2 million issued by Tri-County Capital Trust II. The recorded balance of the debt acquired from Severn at September 30, 2024 was \$18.7 million, net of the unamortized fair value adjustment of \$1.9 million. At September 30, 2024, the junior subordinated debt securities of Tri-County Capital Trust I and Tri-County Capital Trust II had a recorded balance of \$6.6 million and \$4.4 million, which are presented as net of the unamortized fair value adjustment of \$583 thousand and \$748 thousand, respectively.

The Company may periodically borrow from a correspondent federal funds line of credit arrangement, under a secured reverse repurchase agreement, or from the Federal Home Loan Bank (“FHLB”) to meet short-term liquidity needs. There were \$50.0 million outstanding long-term borrowings from the FHLB at September 30, 2024 and zero at December 31, 2023. The Company did not have any short-term borrowings from the FHLB at September 30, 2024 and December 31, 2023. Further information on these obligations is provided in the Company’s 2023 Annual Report.

## Note 9 - Stock-Based Compensation

At the 2016 annual meeting, stockholders approved the Shore Bancshares, Inc. 2016 Stock and Incentive Plan (“2016 Equity Plan”), replacing the Shore Bancshares, Inc. 2006 Stock and Incentive Plan (“2006 Equity Plan”), which expired on that date. The Company may issue shares of common stock or grant other equity-based awards pursuant to the 2016 Equity Plan. Stock-based awards granted to date generally are time-based, vest in equal installments on each anniversary of the grant date and range over a one- to five-year period of time, and, in the case of stock options, expire 10 years from the grant date. As part of the 2016 Equity Plan, a performance equity incentive award program, known as the “Long-term incentive plan” allows participating officers of the Company to earn incentive awards of performance share/restricted stock units if certain pre-determined targets are achieved at the end of a three-year performance cycle. Stock-based compensation expense based on the grant date fair value is recognized ratably over the requisite service period for all awards and reflects forfeitures as they occur. The 2016 Equity Plan originally reserved 750,000 shares of common stock for grant, and 190,166 shares remained available for grant at September 30, 2024.

The Company assumed 3,977 shares of restricted stock and 90,783 of restricted stock units at a fair market value of \$11.56 per share as a result of the merger with TCFC. The vesting period for the outstanding restricted stock grants is between three and five years. Restricted stock units and performance stock units vesting period is between one to three years. The recipients of the restricted stock units and performance stock units do not have any stockholder rights, including voting, dividend, or liquidation rights, with respect to the shares underlying awarded restricted stock units until the recipient becomes the record holder of those shares.

The following table summarizes restricted stock award and restricted stock unit activity for the Company under the 2016 Equity Plan for the nine months ended September 30, 2024.

|                                  | Restricted Stock |                                        | Restricted Stock Units |                                        | Performance Stock Units |                                        |
|----------------------------------|------------------|----------------------------------------|------------------------|----------------------------------------|-------------------------|----------------------------------------|
|                                  | Number of Shares | Weighted Average Grant Date Fair Value | Number of Shares       | Weighted Average Grant Date Fair Value | Number of Shares        | Weighted Average Grant Date Fair Value |
| Nonvested at beginning of period | 45,322           | \$ 15.42                               | 165,055                | \$ 11.56                               | —                       | \$ —                                   |
| Granted                          | 51,610           | 11.39                                  | 53,279                 | 11.31                                  | 43,651                  | 11.32                                  |
| Vested                           | (44,655)         | 15.33                                  | (79,553)               | 11.56                                  | —                       | —                                      |
| Forfeited                        | —                | —                                      | (3,256)                | 11.56                                  | —                       | —                                      |
| Nonvested at end of period       | 52,277           | \$ 11.52                               | 135,525                | \$ 11.46                               | 43,651                  | \$ 11.32                               |

The fair value of restricted stock awards that vested during the three months ended September 30, 2024 and 2023 was \$241 thousand and \$12 thousand, respectively. The fair value of restricted stock units vested during the three months ended September 30, 2024 and 2023 was \$505 thousand and \$122 thousand, respectively. The fair value of restricted stock awards vested during the nine months ended September 30, 2024 and 2023 was \$577 thousand and \$535 thousand, respectively. The fair value of restricted stock units that vested during the nine months ended September 30, 2024 and 2023 was \$907 thousand and \$122 thousand, respectively. There were no performance stock units that vested during the three and nine months ended September 30, 2024 and 2023.

## Note 10 – Derivatives

The Company maintains and accounts for derivatives, in the form of interest rate lock commitments (“IRLCs”) and mandatory forward contracts, in accordance with the FASB guidance on accounting for derivative instruments and hedging activities. We recognize gains and losses through mortgage-banking revenue in the Consolidated Statements of Income.

IRLCs on mortgage loans that we intend to sell in the secondary market are considered derivatives. We are exposed to price risk from the time a mortgage loan is locked in until the time the loan is sold. The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 14 days to 120 days, however, this period may be longer for construction to permanent loans that are originated with the intent of selling in the secondary market upon permanent financing. For these IRLCs and our closed inventory in loans held for sale, we attempt to protect the Bank from changes in interest rates through the use of to be announced (“TBA”) securities, which are forward contracts, as well as, to a significantly lesser degree, loan level commitments in the form of best efforts and mandatory forward contracts. These assets and liabilities are included in the Consolidated Balance Sheets in other assets and accrued expenses and other liabilities, respectively.

The following table provides information pertaining to the carrying amounts of our derivative financial instruments at September 30, 2024 and December 31, 2023.

| (\$ in thousands)          | September 30, 2024 |                      | December 31, 2023 |                      |
|----------------------------|--------------------|----------------------|-------------------|----------------------|
|                            | Notional Amount    | Estimated Fair Value | Notional Amount   | Estimated Fair Value |
| Asset - IRLCs              | \$ 14,199          | \$ 219               | \$ 6,785          | \$ 110               |
| Asset - TBA securities     | 20,750             | 46                   | 1,000             | 2                    |
| Liability - TBA securities | 16,000             | 37                   | 18,000            | 176                  |

## Note 11 – Accumulated Other Comprehensive Loss

The Company records unrealized holding gains (losses), net of tax, on investment securities AFS as accumulated other comprehensive income (loss), a separate component of stockholders’ equity. The following table provides information on the changes in the component of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2024 and 2023.

| (\$ in thousands)                             | Three Months Ended<br>September 30, 2024 | Three Months Ended<br>September 30, 2023 | Nine Months Ended<br>September 30, 2024 | Nine Months Ended<br>September 30, 2023 |
|-----------------------------------------------|------------------------------------------|------------------------------------------|-----------------------------------------|-----------------------------------------|
|                                               | Net Unrealized Gains<br>(Losses)         | Net Unrealized Losses                    | Net Unrealized Gains<br>(Losses)        | Net Unrealized Losses                   |
| Beginning of period                           | \$ (8,260)                               | \$ (8,561)                               | \$ (7,494)                              | \$ (9,021)                              |
| Other comprehensive income (loss), net of tax | 2,734                                    | (1,548)                                  | 1,968                                   | (1,088)                                 |
| End of period                                 | \$ (5,526)                               | \$ (10,109)                              | \$ (5,526)                              | \$ (10,109)                             |

## Note 12 – Regulatory Capital

Banks and bank holding companies are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Banks' assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Banks' capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier 1 and total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (leverage ratio). As of September 30, 2024 and December 31, 2023, management believes that the Company and the Bank met all capital adequacy requirements to which they were subject.

As of December 31, 2023, the most recent notification from our primary regulator categorized the Bank, as well capitalized under the regulatory framework for prompt corrective action. At September 30, 2024, there were no conditions or events since that notification that management believes would change the Bank's classification. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1, Tier 1 risk-based and total risk-based capital ratios, and Tier 1 leverage ratios, which are described below.

The minimum ratios for capital adequacy purposes are 7.00%, 8.50%, 10.50% and 4.00% for the common equity Tier 1, Tier 1 risk-based capital, total risk-based capital and leverage ratios, respectively which include a capital conservation buffer of 2.50% for common equity Tier 1, Tier 1, and total capital ratios. To be categorized as well capitalized, a bank must maintain minimum ratios of 6.50%, 8.00%, 10.00% and 5.00% for its common equity Tier 1, Tier 1 risk-based capital, total risk-based capital and leverage ratios, respectively.

The table presents the actual and required capital ratios for the Company and the Bank as of September 30, 2024 and December 31, 2023.

| (\$ in thousands)                              | The Company |         | The Bank |         | Regulatory min ratio<br>+ CCB <sup>(1)</sup> | To Be Well-Capitalized<br>Under Prompt Corrective<br>Action Regulation <sup>(5)</sup> |
|------------------------------------------------|-------------|---------|----------|---------|----------------------------------------------|---------------------------------------------------------------------------------------|
|                                                | Amount      | Ratio   | Amount   | Ratio   |                                              |                                                                                       |
| September 30, 2024                             |             |         |          |         |                                              |                                                                                       |
| Common Tier 1 Capital to RWA                   | \$ 446,402  | 9.27 %  | 509,511  | 10.60 % | 7.00 %                                       | 6.50 %                                                                                |
| Tier 1 Capital to RWA                          | 476,170     | 9.89 %  | 509,511  | 10.60 % | 8.50 %                                       | 8.00 %                                                                                |
| Total Capital to RWA                           | 579,664     | 12.04 % | 569,317  | 11.84 % | 10.50 %                                      | 10.00 %                                                                               |
| Tier 1 Capital to AA (Leverage) <sup>(2)</sup> | 476,170     | 8.31 %  | 509,511  | 8.90 %  | 4.00 %                                       | 5.00 %                                                                                |
| December 31, 2023                              |             |         |          |         |                                              |                                                                                       |
| Common Tier 1 Capital to RWA                   | \$ 408,317  | 8.69 %  | 470,200  | 10.02 % | 7.00 %                                       | 6.50 %                                                                                |
| Tier 1 Capital to RWA                          | 437,847     | 9.32 %  | 470,200  | 10.02 % | 8.50 %                                       | 8.00 %                                                                                |
| Total Capital to RWA                           | 539,572     | 11.49 % | 528,786  | 11.27 % | 10.50 %                                      | 10.00 %                                                                               |
| Tier 1 Capital to AA (Leverage) <sup>(2)</sup> | 437,847     | 7.75 %  | 470,200  | 8.33 %  | 4.00 %                                       | 5.00 %                                                                                |

| Regulatory Capital and Ratios<br>(\$ in thousands)                    | The Company         |                     | The Bank            |                     |
|-----------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                                       | September 30, 2024  | December 31, 2023   | September 30, 2024  | December 31, 2023   |
| Common equity                                                         | \$ 533,271          | \$ 511,135          | \$ 595,954          | \$ 570,100          |
| Goodwill <sup>(4)</sup>                                               | (61,397)            | (63,266)            | (61,397)            | (63,266)            |
| Core deposit intangible <sup>(3)</sup>                                | (30,572)            | (38,069)            | (30,572)            | (38,069)            |
| DTAs that arise from net operating loss and tax credit carry forwards | (426)               | (8,977)             | —                   | (6,059)             |
| AOCI losses                                                           | 5,526               | 7,494               | 5,526               | 7,494               |
| <b>Common Equity Tier 1 Capital</b>                                   | <b>446,402</b>      | <b>408,317</b>      | <b>509,511</b>      | <b>470,200</b>      |
| TRUPs                                                                 | 29,768              | 29,530              | —                   | —                   |
| <b>Tier 1 Capital</b>                                                 | <b>476,170</b>      | <b>437,847</b>      | <b>509,511</b>      | <b>470,200</b>      |
| Allowable reserve for credit losses and other Tier 2 adjustments      | 59,806              | 58,586              | 59,806              | 58,586              |
| Subordinated debentures                                               | 43,688              | 43,139              | —                   | —                   |
| <b>Total Capital</b>                                                  | <b>\$ 579,664</b>   | <b>\$ 539,572</b>   | <b>\$ 569,317</b>   | <b>\$ 528,786</b>   |
| <b>Risk-Weighted Assets ("RWA")</b>                                   | <b>\$ 4,816,165</b> | <b>\$ 4,697,504</b> | <b>\$ 4,808,058</b> | <b>\$ 4,693,009</b> |
| <b>Average Assets ("AA")</b>                                          | <b>\$ 5,729,576</b> | <b>\$ 5,649,116</b> | <b>\$ 5,721,995</b> | <b>\$ 5,644,930</b> |

(1) The regulatory minimum capital ratio ("Min. Ratio") + the capital conservation buffer ("CCB").

(2) Tier 1 Capital to AA (Leverage) has no capital conservation buffer defined. The PCA well capitalized is defined as 5.00%.

(3) Core deposit intangible is net of deferred tax liability.

(4) Goodwill is net of deferred tax liability.

(5) Applies to the Bank only.

Bank and holding company regulations impose certain restrictions on dividend payments by the Bank, as well as restricting extensions of credit and transfers of assets between the Bank and the Company.

At September 30, 2024, the Bank could pay dividends to the Company to the extent of its current period earnings plus the earnings of the preceding two years, so long as it maintained required capital ratios.

### **Note 13 – Fair Value Measurements**

Accounting guidance under GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This accounting guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities on a recurring basis and to determine fair value disclosures. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Under fair value accounting guidance, assets and liabilities are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine their fair values. These hierarchy levels are:

Level 1 inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Below is a discussion on the Company's assets measured at fair value on a recurring basis.

#### **Investment Securities Available for Sale**

Fair value measurement for investment securities AFS is based on quoted prices from an independent pricing service. The fair value measurements consider observable data that may include present value of future cash flows, prepayment assumptions, credit loss assumptions and other factors. The Company classifies its investments in U.S. Treasury securities, if any, as Level 1 in the fair value hierarchy, and it classifies its investments in U.S. Government agencies securities and mortgage-backed securities issued or guaranteed by U.S. Government sponsored entities as Level 2.

#### **Equity Securities**

Fair value measurement for equity securities is based on quoted market prices retrieved by the Company via on-line resources. Although these securities have readily available fair market values, the Company determined that they should be classified as level 2 investments in the fair value hierarchy due to not being considered traded in a highly active market.

#### **Loans Held for Sale**

Loans held for sale are carried at fair value, which is determined based on Mark to Trade for allocated/committed loans or Mark to Market analysis for unallocated/uncommitted loans based on third-party pricing models (Level 2).

#### **Mortgage Servicing Rights**

The fair value of mortgage servicing rights ("MSRs") is determined using a valuation model administered by a third party that calculates the present value of estimated future net servicing income (Level 3). The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, default rates, cost to service (including delinquency and foreclosure costs), escrow account earnings, contractual servicing fee income, and other ancillary income such as late fees. Management reviews all significant assumptions on a quarterly basis. Mortgage loan prepayment speed, a key assumption in the model, is the annual rate at which borrowers are forecasted to repay their mortgage loan principal. The discount rate used to determine the present value of estimated future net servicing income, another key assumption in the model, is an estimate of the required rate of return investors in the market would require for an asset with similar risk. Both assumptions can, and generally will, change as market conditions and interest rates change.

The significant unobservable inputs used in the fair value measurement of the reporting entity's residential MSRs are prepayment speeds, probability of default, rate of return, and cost of servicing. Significant increases/decreases in any of those inputs in isolation would have resulted in a significantly lower/higher fair value measurement. Generally, a change in the assumption used for prepayment speeds would have been accompanied by a directionally similar change in the markets, i.e. the 10-Year Treasury, and in the probability of default.

## IRLCs

We utilize a third-party specialist model to estimate the fair value of our IRLCs, which are valued based upon mortgage securities (TBA) prices less estimated costs to process and settle the loan. Fair value is adjusted for the estimated probability of the loan closing with the borrower (Level 3).

| (\$ in thousands)         | Fair Value | Valuation Technique | Unobservable Input                                      | Range             |
|---------------------------|------------|---------------------|---------------------------------------------------------|-------------------|
| <b>September 30, 2024</b> |            |                     |                                                         |                   |
| MSRs <sup>(1)</sup>       | \$ 5,309   | Market Approach     | Weighted average prepayment speed (PSA) <sup>(2)</sup>  | 220               |
| IRLCs - net asset         | \$ 219     | Market Approach     | Range of pull through rate<br>Average pull through rate | 78% - 100%<br>97% |
| <b>December 31, 2023</b>  |            |                     |                                                         |                   |
| MSRs <sup>(1)</sup>       | \$ 5,926   | Market Approach     | Weighted average prepayment speed (PSA) <sup>(2)</sup>  | 129               |
| IRLCs - net asset         | \$ 110     | Market Approach     | Range of pull through rate<br>Average pull through rate | 78% - 100%<br>98% |

- (1) The weighted average was calculated with reference to the principal balance of the underlying mortgages.  
(2) PSA = Public Securities Association Standard Prepayment Model.

The following table presents activity in MSRs for the three and nine months ended September 30, 2024.

| (\$ in thousands)                              | Three Months Ended September 30, 2024 | Nine Months Ended September 30, 2024 |
|------------------------------------------------|---------------------------------------|--------------------------------------|
| Beginning balance                              | \$ 5,995                              | \$ 5,926                             |
| Servicing rights resulting from sales of loans | 55                                    | 253                                  |
| Valuation adjustment                           | (741)                                 | (870)                                |
| Ending balance                                 | \$ 5,309                              | \$ 5,309                             |

The following table presents activity in the IRLCs - net asset for the three and nine months ended September 30, 2024.

| (\$ in thousands)    | Three Months Ended September 30, 2024 | Nine Months Ended September 30, 2024 |
|----------------------|---------------------------------------|--------------------------------------|
| Beginning balance    | \$ 208                                | \$ 110                               |
| Valuation adjustment | 11                                    | 109                                  |
| Ending balance       | \$ 219                                | \$ 219                               |

## Forward Contracts

To avoid interest rate risk, we hedge the open locked/closed position with TBA forward trades. On a regular basis, we allocate disbursed loans to mandatory commitments with government-sponsored enterprises and private investors delivering the loans within 120 days of origination to maximize interest earnings. For a small percentage of our business, we enter into best efforts forward sales commitments with investors at the time we make an IRLC to a borrower. Once a loan has been closed and funded, the best efforts commitments convert to mandatory forward sales commitments. The mandatory commitments are derivatives, and we measure and report them at fair value. Fair value is based on the gain or loss that would occur if we were to pair-off the transaction with the investor at the measurement date. This is a Level 2 input. We have elected to measure and report best efforts commitments at fair value, when outstanding, using a valuation methodology similar to that used for mandatory commitments.

Market assumptions utilized in the fair value measurement of the reporting entity's residential mortgage derivatives, inclusive of IRLCs, Closed Loan Inventory, TBA derivative trades, and Mandatory Forwards may be subject to investor overlays that may result in a significantly lower fair value measurement. Generally such overlays are announced with advanced notice in order to include the risk adjuster, however there are times when announcements are mandated resulting in a lower fair value measurement. Additionally market assumptions such as spec pool payups may result in a significantly higher fair value measurement at time of loan allocation to specific trades.

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The following tables present the recorded amount of assets measured at fair value on a recurring basis at September 30, 2024 and December 31, 2023. No assets were transferred from one hierarchy level to another during the first nine months of 2024 or 2023.

| (\$ in thousands)                        | Fair Value        | Quoted Prices<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant Unobservable<br>Inputs<br>(Level 3) |
|------------------------------------------|-------------------|----------------------------|-----------------------------------------------------|-------------------------------------------------|
| <b>September 30, 2024</b>                |                   |                            |                                                     |                                                 |
| <b>Assets:</b>                           |                   |                            |                                                     |                                                 |
| Securities available for sale:           |                   |                            |                                                     |                                                 |
| U.S. Government agencies                 | \$ 20,690         | \$ —                       | \$ 20,690                                           | \$ —                                            |
| Mortgage-backed                          | 106,221           | —                          | 106,221                                             | —                                               |
| Other debt securities                    | 6,428             | —                          | 6,428                                               | —                                               |
|                                          | <u>133,339</u>    | <u>—</u>                   | <u>133,339</u>                                      | <u>—</u>                                        |
| Equity securities                        | 5,950             | —                          | 5,950                                               | —                                               |
| TBA forward trades                       | 46                | —                          | 46                                                  | —                                               |
| Loans Held for Sale                      | 26,877            | —                          | 26,877                                              | —                                               |
| Loans Held for Investment, at fair value | 10,023            | —                          | 10,023                                              | —                                               |
| MSRs                                     | 5,309             | —                          | —                                                   | 5,309                                           |
| IRLCs                                    | 219               | —                          | —                                                   | 219                                             |
| <b>Total assets at fair value</b>        | <u>\$ 181,763</u> | <u>\$ —</u>                | <u>\$ 176,235</u>                                   | <u>\$ 5,528</u>                                 |
| <b>Liabilities:</b>                      |                   |                            |                                                     |                                                 |
| TBA securities                           | 37                | —                          | 37                                                  | —                                               |
| <b>Total liabilities at fair value</b>   | <u>\$ 37</u>      | <u>\$ —</u>                | <u>\$ 37</u>                                        | <u>\$ —</u>                                     |
|                                          |                   |                            |                                                     |                                                 |
| (\$ in thousands)                        | Fair Value        | Quoted Prices<br>(Level 1) | Significant Other Observable<br>Inputs<br>(Level 2) | Significant Unobservable<br>Inputs<br>(Level 3) |
| <b>December 31, 2023</b>                 |                   |                            |                                                     |                                                 |
| <b>Assets:</b>                           |                   |                            |                                                     |                                                 |
| Securities available for sale:           |                   |                            |                                                     |                                                 |
| U.S. Government agencies                 | \$ 20,475         | \$ —                       | \$ 20,475                                           | \$ —                                            |
| Mortgage-backed                          | 84,027            | —                          | 84,027                                              | —                                               |
| Other debt securities                    | 6,019             | —                          | 6,019                                               | —                                               |
|                                          | <u>110,521</u>    | <u>—</u>                   | <u>110,521</u>                                      | <u>—</u>                                        |
| Equity securities                        | 5,703             | —                          | 5,703                                               | —                                               |
| TBA forward trades                       | 2                 | —                          | 2                                                   | —                                               |
| Loans Held for Sale                      | 8,782             | —                          | 8,782                                               | —                                               |
| Loans Held for Investment, at fair value | 9,944             | —                          | 9,944                                               | —                                               |
| MSRs                                     | 5,926             | —                          | —                                                   | 5,926                                           |
| IRLCs                                    | 110               | —                          | —                                                   | 110                                             |
| <b>Total assets at fair value</b>        | <u>\$ 140,988</u> | <u>\$ —</u>                | <u>\$ 134,952</u>                                   | <u>\$ 6,036</u>                                 |
| <b>Liabilities:</b>                      |                   |                            |                                                     |                                                 |
| TBA securities                           | \$ 176            | \$ —                       | \$ 176                                              | \$ —                                            |
| <b>Total liabilities at fair value</b>   | <u>\$ 176</u>     | <u>\$ —</u>                | <u>\$ 176</u>                                       | <u>\$ —</u>                                     |

Below is a discussion on the Company's assets measured at fair value on a nonrecurring basis.

### Individually Evaluated Collateral-Dependent Loans

Loans for which repayment is substantially expected to be provided through the operation or sale of collateral are considered collateral dependent, and are valued based on the estimated fair value of the collateral, less estimated costs to sell at the reporting date, where applicable. Accordingly, collateral dependent loans are classified within Level 3 of the fair value hierarchy.

### Other Real Estate Owned (Foreclosed Assets)

Foreclosed assets are adjusted for fair value upon transfer of loans to foreclosed assets establishing a new cost basis. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. The estimated fair value for foreclosed assets included in Level 3 are determined by independent market based appraisals and other available market information, less costs to sell, that may be reduced further based on market expectations or an executed sales agreement. If the fair value of the collateral deteriorates subsequent to the initial recognition, the Company records the foreclosed asset as a non-recurring Level 3 adjustment. Valuation techniques are consistent with those techniques applied in prior periods.

### Reposessed Assets

The Company records reposessed assets at fair value on a nonrecurring basis. All reposessed assets are recorded at lower of the estimated fair value of the properties, less expected selling costs, or the carrying amount of the defaulted loans. From time to time, nonrecurring fair value adjustments are recorded to reflect partial write-downs based on current appraised value of an asset. The Company considers any valuation inputs related to reposessed assets to be Level 3 inputs.

The following tables set forth the Company's financial and nonfinancial assets subject to fair value adjustments (impairment) on a nonrecurring basis at September 30, 2024 and December 31, 2023. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| Quantitative Information about Level 3 Fair Value Measurements |            |                                        |                                                                           |                   |                                 |
|----------------------------------------------------------------|------------|----------------------------------------|---------------------------------------------------------------------------|-------------------|---------------------------------|
| (\$ in thousands)                                              | Fair Value | Valuation Technique                    | Unobservable Input                                                        | Range             | Weighted Average <sup>(1)</sup> |
| <b>September 30, 2024</b>                                      |            |                                        |                                                                           |                   |                                 |
| <b>Nonrecurring measurements:</b>                              |            |                                        |                                                                           |                   |                                 |
| Individually evaluated collateral dependent loans              | \$ 2,983   | Appraisal of collateral <sup>(1)</sup> | Appraisal adjustment <sup>(2)</sup><br>Liquidation expense <sup>(2)</sup> | 19% - 100%<br>10% | 64%<br>10%                      |
| Other real estate owned                                        | \$ 179     | Appraisal of collateral <sup>(1)</sup> | Appraisal adjustment <sup>(2)</sup>                                       | N/A               | 0%                              |
| Reposessed assets                                              | \$ 306     | Appraisal of collateral <sup>(1)</sup> | Appraisal adjustment <sup>(2)</sup>                                       | N/A               | 36%                             |

| Quantitative Information about Level 3 Fair Value Measurements |            |                                        |                                                                           |            |                  |
|----------------------------------------------------------------|------------|----------------------------------------|---------------------------------------------------------------------------|------------|------------------|
| (\$ in thousands)                                              | Fair Value | Valuation Technique                    | Unobservable Input                                                        | Range      | Weighted Average |
| <b>December 31, 2023</b>                                       |            |                                        |                                                                           |            |                  |
| <b>Nonrecurring measurements:</b>                              |            |                                        |                                                                           |            |                  |
| Individually evaluated collateral dependent loan               | \$ 633     | Appraisal of collateral <sup>(1)</sup> | Appraisal adjustment <sup>(2)</sup><br>Liquidation expense <sup>(2)</sup> | 51%<br>10% | 51%<br>10%       |
| Other real estate owned                                        | \$ 179     | Appraisal of collateral <sup>(1)</sup> | Appraisal adjustment <sup>(2)</sup>                                       | 0%         | 0%               |

(1) Unobservable inputs were weighted by the relative fair value of the instruments. No range is presented only when one instrument was available

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

# **Note 14 – Fair Value of Financial Instruments**

Financial instruments require disclosure of fair value information, whether or not recognized in the consolidated balance sheets, when it is practical to estimate the fair value. A financial instrument is defined as cash, evidence of an ownership interest in an entity or a contractual obligation which requires the exchange of cash. Certain items are specifically excluded from the financial instrument fair value disclosure requirements, including the Company's common stock, OREO, premises and equipment and other assets and liabilities.

The carrying amounts and estimated fair values of the Company's financial instruments are presented in the following table. Fair values for September 30, 2024 and December 31, 2023 were estimated using an exit price notion.

| <b>September 30, 2024</b>                     |                        | <b>Fair Value Measurements</b> |                |                |                |
|-----------------------------------------------|------------------------|--------------------------------|----------------|----------------|----------------|
| <b>Description of Asset (\$ in thousands)</b> | <b>Carrying Amount</b> | <b>Fair Value</b>              | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| <b>Assets</b>                                 |                        |                                |                |                |                |
| Cash and cash equivalents                     | \$ 183,621             | \$ 183,621                     | \$ 183,621     | \$ —           | \$ —           |
| Investment securities - AFS                   | 133,339                | 133,339                        | —              | 133,339        | —              |
| Investment securities - HTM, net              | 484,583                | 440,296                        | —              | 440,296        | —              |
| Equity securities                             | 5,950                  | 5,950                          | —              | 5,950          | —              |
| Restricted securities                         | 20,253                 | 20,253                         | —              | 20,253         | —              |
| Loans held for sale                           | 26,877                 | 26,877                         | —              | 26,877         | —              |
| TBA derivatives trades                        | 46                     | 46                             | —              | 46             | —              |
| Cash surrender value on life insurance        | 103,729                | 103,729                        | —              | 103,729        | —              |
| Loans, at fair value                          | 10,023                 | 10,023                         | —              | 10,023         | —              |
| Loans, net                                    | 4,665,217              | 4,499,722                      | —              | —              | 4,499,722      |
| MSRs                                          | 5,309                  | 5,309                          | —              | —              | 5,309          |
| IRLCs                                         | 219                    | 219                            | —              | —              | 219            |
| <b>Liabilities</b>                            |                        |                                |                |                |                |
| Deposits:                                     |                        |                                |                |                |                |
| Noninterest-bearing demand                    | \$ 1,571,393           | \$ 1,571,393                   | \$ —           | \$ 1,571,393   | \$ —           |
| Checking plus interest                        | 751,533                | 751,533                        | —              | 751,533        | —              |
| Money Market                                  | 1,297,237              | 1,297,237                      | —              | 1,297,237      | —              |
| Savings                                       | 335,161                | 335,161                        | —              | 335,161        | —              |
| Club                                          | 1,742                  | 1,742                          | —              | 1,742          | —              |
| Certificates of Deposit                       | 1,268,657              | 1,270,865                      | —              | 1,270,865      | —              |
| Advances from FHLB                            | 50,000                 | 50,545                         | —              | 50,545         | —              |
| Subordinated debt, net                        | 43,688                 | 43,461                         | —              | 43,461         | —              |
| TRUPS, net                                    | 29,768                 | 28,572                         | —              | 28,572         | —              |
| TBA Securities                                | 37                     | 37                             | —              | 37             | —              |

December 31, 2023

| December 31, 2023                      |                 |              | Fair Value Measurements |              |           |
|----------------------------------------|-----------------|--------------|-------------------------|--------------|-----------|
| Description of Asset (\$ in thousands) | Carrying Amount | Fair Value   | Level 1                 | Level 2      | Level 3   |
| Assets                                 |                 |              |                         |              |           |
| Cash and cash equivalents              | \$ 372,413      | \$ 372,413   | \$ 372,413              | \$ —         | \$ —      |
| Investment securities - AFS            | 110,521         | 110,521      | —                       | 110,521      | —         |
| Investment securities - HTM            | 513,188         | 457,830      | —                       | 457,830      | —         |
| Equity securities                      | 5,703           | 5,703        | —                       | 5,703        | —         |
| Loans held for sale                    | 8,782           | 8,782        | —                       | 8,782        | —         |
| TBA securities                         | 2               | 2            | —                       | 2            | —         |
| Cash surrender value on life insurance | 101,704         | 101,704      | —                       | 101,704      | —         |
| Loans, at fair value                   | 9,944           | 9,944        | —                       | 9,944        | —         |
| Loans, net                             | 4,573,715       | 4,477,468    | —                       | —            | 4,477,468 |
| MSRs                                   | 5,926           | 5,926        | —                       | —            | 5,926     |
| IRLCs                                  | 110             | 110          | —                       | —            | 110       |
|                                        |                 |              |                         |              |           |
| Liabilities                            |                 |              |                         |              |           |
| Deposits:                              |                 |              |                         |              |           |
| Noninterest-bearing demand             | \$ 1,258,037    | \$ 1,258,037 | \$ —                    | \$ 1,258,037 | \$ —      |
| Checking plus interest                 | 1,165,546       | 1,165,546    | —                       | 1,165,546    | —         |
| Money Market                           | 1,430,603       | 1,430,603    | —                       | 1,430,603    | —         |
| Savings                                | 347,324         | 347,324      | —                       | 347,324      | —         |
| Certificates of Deposit                | 1,184,610       | 1,184,447    | —                       | 1,184,447    | —         |
| Subordinated debt, net                 | 43,139          | 42,579       | —                       | 42,579       | —         |
| TRUPS, net                             | 29,530          | 28,266       | —                       | 28,266       | —         |
| TBA Securities                         | 176             | 176          | —                       | 176          | —         |

### Note 15 – Commitments and Contingencies

In the normal course of business, to meet the financial needs of its customers, the Bank is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit and other commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the letters of credit and commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

The following table provides information on commitments outstanding at September 30, 2024 and December 31, 2023.

| (\$ in thousands)            | September 30, 2024 | December 31, 2023 |
|------------------------------|--------------------|-------------------|
| Commitments to extend credit | \$ 695,887         | \$ 613,266        |
| Letters of credit            | 27,183             | 28,519            |
| Total                        | \$ 723,070         | \$ 641,785        |

In the normal course of business, the Company may become involved in litigation arising from banking, financial, and other activities. Management, after consultation with legal counsel, does not anticipate that the future liability, if any, arising out of current proceedings will have a material effect on the Company's financial condition, operating results, or liquidity.

## Note 16 – Earnings Per Share

Basic earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of potential common stock equivalents (stock-based awards). The following table provides information relating to the calculation of earnings per common share.

| (In thousands, except per share data)                         | Three Months Ended September 30, |            | Nine Months Ended September 30, |         |
|---------------------------------------------------------------|----------------------------------|------------|---------------------------------|---------|
|                                                               | 2024                             | 2023       | 2024                            | 2023    |
| Net income (loss)                                             | \$ 11,189                        | \$ (9,737) | \$ 30,607                       | \$ 738  |
| Average number of common shares outstanding                   | 33,318                           | 33,129     | 33,247                          | 24,354  |
| Dilutive effect of common stock equivalents                   | 21                               | —          | 7                               | —       |
| Average number of common shares used to calculate diluted EPS | 33,339                           | 33,129     | 33,254                          | 24,354  |
| Anti-dilutive shares                                          | —                                | 219        | —                               | 219     |
| Earnings (loss) per common share                              |                                  |            |                                 |         |
| Basic                                                         | \$ 0.34                          | \$ (0.29)  | \$ 0.92                         | \$ 0.03 |
| Diluted                                                       | \$ 0.34                          | \$ (0.29)  | \$ 0.92                         | \$ 0.03 |

There were 0 and 219 thousand anti-dilutive unvested restricted stock and performance stock unit awards excluded from the calculation of diluted earnings (loss) per share for the three months ended September 30, 2024 and 2023, respectively. There were 0 and 219 thousand anti-dilutive unvested restricted stock and performance stock unit awards excluded from the calculation of diluted earnings per share for the nine months ended September 30, 2024 and 2023, respectively.

## Note 17 – Revenue Recognition

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees and merchant income. Noninterest revenue streams in-scope of Topic 606 are discussed below.

### Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided.

Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or at the end of the month through a direct charge to customers' accounts.

### Trust and Investment Fee Income

Trust and investment fee income primarily comprise fees earned from the management and administration of trusts and other customer assets. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end through a direct charge to customers' accounts. The Company does not earn performance-based incentives.

Optional services such as real estate sales and tax return preparation services are also available to existing trust and asset management customers. The Company's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered.

## Title Company Revenue

Title Company revenue consists of revenue earned on performing title work for real estate transactions. The revenue is earned when the title work is performed. Payment for such performance obligations generally occurs at the time of the settlement of a real estate transaction. As such settlement is generally within 90 days of the performance of the title work, we recognize the revenue at the time of the settlement.

All contract issuance costs are expensed as incurred. We had no contract assets or liabilities at September 30, 2024.

## Other Noninterest Income

Other noninterest income consists of: fees, exchange, other service charges, safety deposit box rental fees, and other miscellaneous revenue streams. Fees and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Mastercard and VISA. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that rentals and renewals of safe deposit boxes will be recognized on a monthly basis consistent with the duration of the performance obligation.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and nine months ended September 30, 2024 and 2023.

| (\$ in thousands)                              | Three Months Ended September 30, |                  | Nine Months Ended September 30, |                  |
|------------------------------------------------|----------------------------------|------------------|---------------------------------|------------------|
|                                                | 2024                             | 2023             | 2024                            | 2023             |
| <b>Noninterest Income</b>                      |                                  |                  |                                 |                  |
| <i>In-scope of Topic 606:</i>                  |                                  |                  |                                 |                  |
| Service charges on deposit accounts            | \$ 1,543                         | \$ 1,505         | \$ 4,543                        | \$ 3,981         |
| Trust and investment fee income                | 880                              | 1,933            | 2,510                           | 2,764            |
| Interchange income                             | 1,711                            | 1,557            | 5,015                           | 4,081            |
| Title Company revenue                          | 100                              | 89               | 344                             | 412              |
| Other noninterest income                       | 506                              | 1,265            | 2,289                           | 2,212            |
| Noninterest Income (in-scope of Topic 606)     | 4,740                            | 6,349            | 14,701                          | 13,450           |
| Noninterest Income (out-of-scope of Topic 606) | 2,547                            | 8,635            | 7,593                           | 12,163           |
| <b>Total Noninterest Income</b>                | <b>\$ 7,287</b>                  | <b>\$ 14,984</b> | <b>\$ 22,294</b>                | <b>\$ 25,613</b> |

## Item 2 – Management’s Discussion and Analysis (“MD&A”) of Financial Condition and Results of Operations.

Unless the context clearly suggests otherwise, references to “the Company”, “we”, “our”, and “us” in the remainder of this Quarterly Report on Form 10-Q are to Shore Bancshares, Inc. and its consolidated subsidiaries.

### Forward-Looking Information

This Quarterly Report on Form 10-Q contains forward-looking statements. The statements contained herein that are not historical facts are forward-looking statements (as defined by the Private Securities Litigation Reform Act of 1995) based on management’s current expectations and beliefs concerning future developments and their potential effects on the Company. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company. There can be no assurance that future developments affecting the Company will be the same as those anticipated by management. These statements are evidenced by terms such as “anticipate,” “estimate,” “should,” “expect,” “believe,” “intend,” and similar expressions. Although these statements reflect management’s good faith beliefs and projections, they are not guarantees of future performance and they may not prove true. These projections involve risk and uncertainties that could cause actual results to differ materially from those addressed in the forward-looking statements. While there is no assurance that any list of risks and uncertainties or risk factors is complete, below are certain factors which could cause actual results to differ materially from those contained or implied in the forward-looking statements:

- general economic conditions, (including the interest rate environment, government economic and monetary policies, the strength of global financial markets and inflation/deflation and supply chain issues), whether national or regional, and conditions in the lending markets in which we participate that may have an adverse effect on the demand for our loans and other products, our credit quality and related levels of nonperforming assets and loan losses, and the value and salability of the real estate that we own or that is the collateral for our loans;
- recent adverse developments in the banking industry highlighted by high-profile bank failures and the potential impact of such developments on customer confidence, liquidity, and regulatory responses to these developments;
- the Company’s ability to remediate the material weaknesses identified in the Company’s internal control over financial reporting;
- the effectiveness of the Company’s internal control over financial reporting and disclosure controls and procedures;
- cybersecurity threats and the cost of defending against them;
- results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our reserve for loan losses or to write-down assets;
- changing bank regulatory conditions, policies or programs, whether arising as new legislation or regulatory initiatives, which could lead to restrictions on activities of banks generally, or our subsidiary bank in particular, more restrictive regulatory capital requirements, increased costs, including deposit insurance premiums, regulation or prohibition of certain income producing activities or changes in the secondary market for loans and other products;
- changes in market rates and prices may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our balance sheet;
- our liquidity requirements could be adversely affected by changes in our assets and liabilities;
- our ability to prudently manage our growth and execute our strategy;
- impairment of our goodwill and intangible assets;
- competitive factors among financial services organizations, including product and pricing pressures and our ability to attract, develop and retain qualified banking professionals;
- the expected cost savings, synergies and other financial benefits from the acquisition of The Community Financial Corporation (“TCFC”) or any other acquisition the Company has made or may make might not be realized within the expected time frames or at all;
- the growth and profitability of noninterest or fee income being less than expected;
- the effect of legislative or regulatory developments, including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry;
- the effect of any change in federal government enforcement of federal laws affecting the cannabis industry;

- the effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board (the “FASB”), the Securities and Exchange Commission (the “SEC”), the Public Company Accounting Oversight Board and other regulatory agencies;
- potential changes in federal policy and at regulatory agencies as a result of the upcoming 2024 presidential election;
- a deterioration of the credit rating for U.S. long-term sovereign debt, actions that the U.S. government may take to avoid exceeding the debt ceiling, and uncertainties surrounding the debt ceiling and the federal budget;
- the impact of recent or future changes in Federal Deposit Insurance Corporation (the “FDIC”) insurance assessment rate or the rules and regulations related to the calculation of the FDIC insurance assessment amount, including any special assessments;
- the effect of fiscal and governmental policies of the U.S. federal government;
- climate change, including the enhanced regulatory, compliance, credit and reputational risks and costs; and
- geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts of terrorism, and/or military conflicts, including the war between Russian and Ukraine and the conflict in the Middle East, which could impact business and economic conditions in the United States and abroad.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 (the “2023 Annual Report”) filed with SEC and available at the SEC’s Internet site (<http://www.sec.gov>).

The Company specifically disclaims any obligation to update any factors or to publicly announce the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

## **Critical Accounting Policies**

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and follow general practices within the industries in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported.

The most significant accounting policies that the Company follows are presented in Note 1 to the Notes to Consolidated Financial Statement included in the 2023 Annual Report. These policies, along with the disclosures presented in the notes to the financial statements and in this MD&A, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has determined that the accounting policies for the allowance for credit losses ("ACL") on loans, goodwill and bargain purchase gain, loans acquired in a business combination and income taxes are critical accounting policies. These policies are considered critical because they relate to accounting areas that require the most subjective or complex judgments, and, as such, could be most subject to revision as new information becomes available.

### Allowance for Credit Losses on Loans

The Company adopted ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326)", as amended, on January 1, 2023 and in accordance with ASC 326, has recorded an ACL on loans carried at amortized cost. The ACL represents management's best estimate of expected lifetime credit losses within the Company's loan portfolio as of the balance sheet date. The ACL is established through a provision for credit losses and is increased by recoveries of loans previously charged off. Loan losses are charged against the allowance when management's assessments confirm that the Company will not collect the full amortized cost basis of a loan. The calculation of expected credit losses is determined using cash flow methodology, and includes considerations of historical experience, current conditions, and reasonable and supportable economic forecasts that may affect collection of the recorded balances. The Company assesses an ACL to groups of loans which share similar risk characteristics or on an individual basis, as deemed appropriate. Changes in the ACL on loans and the related provision for credit losses, can materially affect financial results. Although the overall balance is determined based on specific portfolio segments and individually assessed assets, the entire balance is available to absorb credit losses for loans in the portfolio.

The determination of the appropriate level of ACL on loans inherently involves a high degree of subjectivity and requires the Company to make significant judgments concerning credit risks and trends using quantitative and qualitative information as well as reasonable and supportable forecasts of future economic conditions, all of which may undergo frequent and significant changes. Changes in conditions including unforeseen events, changes in asset-specific risk characteristics, and other economic factors both within and outside the Company's control, may indicate the need for an increase or decrease in the ACL on loans. While management makes every effort to utilize the best information available in making its assessment of the ACL estimate, the estimation process is inherently challenging as potential changes in any one factor or input may occur at different rates and/or impact pools of loans in different ways. Further, changes in factors and inputs may also be directionally inconsistent such that improvement in one factor may offset deterioration in others.

### Goodwill and Bargain Purchase Gain

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Determining fair value is subjective, requiring the use of estimates, assumptions, and management judgment. Goodwill is tested at least annually for impairment, usually during the fourth quarter, or on an interim basis if circumstances dictate. Impairment testing requires a qualitative assessment and/or an independent valuation of the fair value of each of the Company's reporting units compared to the carrying amount of its net assets, including goodwill. If the fair value of a reporting unit is less than book value, an impairment loss may be required to write down the related goodwill.

A bargain purchase gain represents the excess of the fair value of net assets acquired over the cost of an acquisition. Determining fair value is subjective, requiring the use of estimates, assumptions and management judgement. Bargain purchase gain is recorded as noninterest income in the period it was generated. An acquirer has a measurement period to finalize the accounting for a business combination which could adjust bargain purchase gain if material facts or circumstances arise.

### Loans Acquired in a Business Combination

Acquired loans are classified as either (i) purchase credit-deteriorated ("PCD") loans or (ii) purchased performing loans and are recorded at fair value on the date of acquisition.

PCD loans are those for which there is more than insignificant evidence of credit deterioration since origination. When determining fair value as of the date of acquisition, PCD loans are aggregated into pools based on common risk characteristics such as loan type, date of origination, and evidence of credit quality deterioration based on internal risk grades and past due and nonaccrual status. At the acquisition

date, the ACL is determined and added to the fair value of the loan to determine the new amortized cost basis. The difference between the new amortized cost basis and the unpaid principal balance is either a noncredit discount or premium that will be amortized or accreted into the interest income over the remaining life of the loan. Disposals of loans, which may include sale of loans to third parties, receipt of payments in full or in part from the borrower or foreclosure of the collateral, result in removal of the loan from the PCD loan portfolio at its carrying amount.

The Company accounts for purchased performing loans using the contractual cash flows method of recognizing discount accretion based on the acquired loans' contractual cash flows. Purchased performing loans are recorded at fair value including a credit discount. The fair value discount is accreted as an adjustment to yield over the estimated lives of the loans. Purchased performing loans do not have a more-than-insignificant deterioration in credit quality since origination and have an ACL established in a manner that is consistent with the Company originated loans. The allowance for PCD loans is determined based upon the Company's methodology for estimating the allowance under CECL, and is recorded as an adjustment to the acquired loan balance on the date of acquisition. Additionally, upon the purchase or acquisition of non-PCD loans, the Company measures and records a reserve for credit losses based on the Company's methodology for determining the allowance under CECL. The allowance for non-PCD loans is recorded through a charge to provision for credit losses in the period in which the loans were purchased or acquired.

#### Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. The Company accounts for income taxes using the liability method in accordance with required accounting guidance. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent on the generation of a sufficient level of future taxable income, recoverable taxes paid in prior years and tax planning strategies. The Company evaluates all positive and negative evidence before determining if a valuation allowance is deemed necessary regarding the realization of deferred tax assets.

The Company recognizes accrued interest and penalties as a component of tax expense.

The provision for income taxes includes the impact of reserve provisions and changes in the reserves that are considered appropriate as well as the related net interest and penalties. In addition, the Company is subject to the continuous examination of its income tax returns by the IRS and other tax authorities which may assert assessments against the Company. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations and assessments to determine the adequacy of its provision for income taxes. The Company remains subject to examination for tax years ending on or after December 31, 2020.

#### **Introduction**

The following MD&A is intended as a review of significant factors affecting the Company's financial condition and results of operations for the periods indicated. This discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and related notes presented elsewhere in this report, as well as the audited consolidated financial statements and related notes included in the 2023 Annual Report.

Shore Bancshares, Inc. is headquartered on the Eastern Shore of Maryland. It is the parent company of Shore United Bank, N.A. (the "Bank"). The Bank operates 40 full-service branches in Baltimore County, Howard County, Kent County, Queen Anne's County, Caroline County, Talbot County, Dorchester County, Anne Arundel County, Charles County, St Mary's County, Calvert County and Worcester County in Maryland, Kent County and Sussex County in Delaware, Fredericksburg City, Stafford County and Spotsylvania County in Virginia. The Company through Wye Financial Partners, a department of the Bank, provides full-service investment and insurance solutions through our broker/dealer, LPL Financial. The Bank also offers wealth management solutions such as corporate trustee services and trust administration through Wye Trust, a division of the Bank. The Company also engages in title work for real estate transactions through its wholly-owned subsidiary, Mid-Maryland Title Company, Inc.

The shares of common stock of Shore Bancshares, Inc. are listed on the NASDAQ Global Select Market under the symbol "SHBI".

Shore Bancshares, Inc. maintains an Internet site at [www.shorebancshares.com](http://www.shorebancshares.com) on which it makes available free of charge its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to the foregoing as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the SEC.

## OVERVIEW

The Company's net income for the third quarter of 2024 was \$11.2 million or \$0.34 per diluted common share, which was equal to the second quarter of 2024. The Company had a net loss of \$9.7 million or \$(0.29) per diluted common share for the third quarter of 2023, as a result of the merger with TCFC. Net income for the first nine months of 2024 was \$30.6 million or \$0.92 per diluted common share, compared to net income for the first nine months of 2023 of \$738 thousand or \$0.03 per diluted common share.

### Third Quarter and Nine Months Ended September 30, 2024 Highlights

- **Return on Average Assets ("ROAA")** - The Company reported ROAA of 0.77% for the third quarter of 2024, which was equal to reported ROAA for the second quarter of 2024. Non-GAAP ROAA, which excludes fraud expense, core deposit intangible amortization, and merger-related expenses, was 0.90% for the third quarter of 2024, compared to 0.91% for the second quarter of 2024.
- **Net Interest Income and Net Interest Margin** - Third quarter 2024 net interest income increased \$1.1 million to \$43.3 million from \$42.1 million in the second quarter of 2024. Net interest income increased due to modest loan growth, slightly higher accelerated accretion income, and loans and securities repricing at a faster pace than the Bank's cost of funds. Net interest margin ("NIM") increased six basis points ("bps") to 3.17% for the third quarter of 2024, from 3.11% for the second quarter of 2024. Excluding net accretion interest income of \$4.5 million and \$3.8 million for the same time periods, NIM increased one bp to 2.84% for the third quarter of 2024, from 2.83% for the second quarter of 2024.
- **Asset Quality** - Allowance for credit losses ("ACL") was \$58.7 million at September 30, 2024, compared to \$58.5 million at June 30, 2024. The third quarter of 2024 ACL as a percentage of loans remained stable at 1.24% from the second quarter of 2024. Nonperforming assets to total assets were 0.27% for the third quarter of 2024 compared to 0.29% for the second quarter of 2024 and 0.23% for the fourth quarter of 2023. Classified assets to total assets increased to 0.39% in the third quarter of 2024 compared to 0.33% for the second quarter of 2024 and 0.25% for the fourth quarter of 2023.
- **Operating Leverage** - The third quarter of 2024 efficiency ratio was 67.49% when compared to 66.23% in the second quarter of 2024. The third quarter efficiency ratio was affected by one-time data processing expense related to the fraud incident in the first quarter of 2024. The third quarter of 2024 non-GAAP efficiency ratio was 62.10% when compared to 61.05% in the second quarter of 2024.
- **Deposits** - Total deposits increased to \$5.23 billion at September 30, 2024 from \$5.15 billion at June 30, 2024. Average noninterest bearing deposits were \$1.58 billion for the third quarter of 2024 representing 30.55% of average funding, excluding subordinated debt, compared to 28.42% during the second quarter of 2024. The Bank's use of wholesale funding, which includes Federal Home Loan Bank ("FHLB") advances and brokered deposits, has been minimal in 2024. Wholesale funding increased from \$44.5 million or 0.74% of assets at December 31, 2023 to \$50.0 million or 0.84% of total assets at September 30, 2024. Sustained efforts to enhance the Bank's deposit franchise are expected to continue to attract additional deposits in future quarters.

## SUMMARY OF OPERATING RESULTS

A comparison of the results of operations for the three and nine months ended September 30, 2024 and September 30, 2023 is presented below.

| (\$ in thousands)                     | Unaudited (QTD)                  |            | Unaudited (YTD)                 |            |
|---------------------------------------|----------------------------------|------------|---------------------------------|------------|
|                                       | Three Months Ended September 30, |            | Nine Months Ended September 30, |            |
|                                       | 2024                             | 2023       | 2024                            | 2023       |
| <b>OPERATING DATA</b>                 |                                  |            |                                 |            |
| Interest income                       | \$ 74,689                        | \$ 71,248  | \$ 218,934                      | \$ 142,943 |
| Interest expense                      | 31,426                           | 25,626     | 92,396                          | 49,161     |
| Net interest income ("NII")           | 43,263                           | 45,622     | 126,538                         | 93,782     |
| Provision for credit losses           | 1,470                            | 28,176     | 3,958                           | 30,056     |
| NII after provision for credit losses | 41,793                           | 17,446     | 122,580                         | 63,726     |
| Noninterest income                    | 7,287                            | 14,984     | 22,294                          | 25,613     |
| Noninterest expense                   | 34,114                           | 47,158     | 104,311                         | 89,661     |
| Income (loss) before income taxes     | 14,966                           | (14,728)   | 40,563                          | (322)      |
| Income tax expense (benefit)          | 3,777                            | (4,991)    | 9,956                           | (1,060)    |
| Net income (loss)                     | \$ 11,189                        | \$ (9,737) | \$ 30,607                       | \$ 738     |

|                                                                      | Unaudited (QTD)                  |         | Unaudited (YTD)                 |        |
|----------------------------------------------------------------------|----------------------------------|---------|---------------------------------|--------|
|                                                                      | Three Months Ended September 30, |         | Nine Months Ended September 30, |        |
|                                                                      | 2024                             | 2023    | 2024                            | 2023   |
| <b>KEY OPERATING RATIOS</b>                                          |                                  |         |                                 |        |
| Return on average assets ("ROAA")                                    | 0.77 %                           | (0.67)% | 0.70 %                          | 0.02 % |
| Return on average equity ("ROAE")                                    | 8.41                             | (7.25)  | 7.84                            | 0.24   |
| Return on average tangible equity ("ROATCE") Non-GAAP <sup>(1)</sup> | 12.37                            | 1.74    | 12.83                           | 6.27   |
| Average total equity to average total assets                         | 9.11                             | 9.24    | 8.98                            | 9.77   |
| Interest rate spread                                                 | 2.06                             | 2.61    | 2.18                            | 2.46   |
| Net interest margin                                                  | 3.17                             | 3.35    | 3.12                            | 3.12   |
| Efficiency ratio <sup>(2)</sup>                                      | 67.49                            | 77.81   | 70.09                           | 75.10  |
| Noninterest income to average assets                                 | 0.50                             | 1.03    | 0.51                            | 0.80   |
| Noninterest expense to average assets                                | 2.34                             | 3.24    | 2.40                            | 2.79   |
| Net operating expense to average assets <sup>(3)</sup>               | 1.84                             | 2.21    | 1.89                            | 1.99   |

## COMMON SHARE DATA

|                                            |         |           |         |         |
|--------------------------------------------|---------|-----------|---------|---------|
| Basic net income (loss) per common share   | \$ 0.34 | \$ (0.29) | \$ 0.92 | \$ 0.03 |
| Diluted net income (loss) per common share | \$ 0.34 | \$ (0.29) | \$ 0.92 | \$ 0.03 |
| Cash dividends paid per common share       | \$ 0.12 | \$ 0.12   | \$ 0.36 | \$ 0.36 |
| Common dividend payout ratio               | 35.74 % | (40.83)%  | 39.10 % | NM      |

(1) ROATCE is computed by dividing net earnings applicable to common stockholders by average tangible common stockholders' equity. ROATCE is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies. Refer to Use of Non-GAAP Financial Measures for additional details.

(2) Efficiency ratio is noninterest expense divided by the sum of net interest income and noninterest income.

(3) Net operating expense is the sum of noninterest expense offset by noninterest income.

## RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023

### Summary of Financial Results

The Company reported net income for the three months ended September 30, 2024 of \$11.2 million or \$0.34 diluted earnings per common share compared to a net loss of \$9.7 million or diluted earnings per common share of \$(0.29) for the three months ended September 30, 2023. The Company's ROAA, ROACE and ROATCE were 0.77%, 8.41% and 12.37%, respectively, for the three months ended September 30, 2024, compared to (0.67)%, (7.25)% and 1.74%, respectively, for the three months ended September 30, 2023.

| (\$ in thousands)                 | Three Months Ended September 30, |            | \$ Change | % Change  |
|-----------------------------------|----------------------------------|------------|-----------|-----------|
|                                   | 2024                             | 2023       |           |           |
| Interest and dividend income      | \$ 74,689                        | \$ 71,248  | \$ 3,441  | 4.83 %    |
| Interest expense                  | 31,426                           | 25,626     | 5,800     | 22.63 %   |
| Net interest income               | 43,263                           | 45,622     | (2,359)   | (5.17)%   |
| Provision for credit losses       | 1,470                            | 28,176     | (26,706)  | (94.78)%  |
| Noninterest income                | 7,287                            | 14,984     | (7,697)   | (51.37)%  |
| Noninterest expense               | 34,114                           | 47,158     | (13,044)  | (27.66)%  |
| Income (loss) before income taxes | 14,966                           | (14,728)   | 29,694    | (201.61)% |
| Income tax expense (benefit)      | 3,777                            | (4,991)    | 8,768     | (175.68)% |
| Net income (loss)                 | \$ 11,189                        | \$ (9,737) | \$ 20,926 | (214.91)% |

### Net Interest Income

Tax-equivalent net interest income is net interest income adjusted for the tax-favored status of income from certain loans and investments. As shown in the table below, tax-equivalent net interest income was \$43.3 million for the third quarter of 2024 and \$45.7 million for the third quarter of 2023. The decrease in tax-equivalent net interest income was primarily due to an increase in interest on deposits, a decrease in interest on deposits with other banks and an increase in interest on long-term borrowings, partially offset by an increase in interest and fees on loans, all significantly impacted by the merger with TCFC in the third quarter of 2023.

| (\$ in thousands)                               | Three Months Ended September 30, |                  | \$ Change         | % Change       |
|-------------------------------------------------|----------------------------------|------------------|-------------------|----------------|
|                                                 | 2024                             | 2023             |                   |                |
| <b>Interest and dividend income</b>             |                                  |                  |                   |                |
| Loans, including fees                           | \$ 69,157                        | \$ 64,869        | \$ 4,288          | 6.61 %         |
| Interest and dividends on investment securities | 4,968                            | 5,166            | (198)             | (3.83)%        |
| Interest on deposits with banks                 | 564                              | 1,213            | (649)             | (53.50)%       |
| <b>Total Interest and Dividend Income</b>       | <b>\$ 74,689</b>                 | <b>\$ 71,248</b> | <b>\$ 3,441</b>   | <b>4.83 %</b>  |
| <b>Interest Expense</b>                         |                                  |                  |                   |                |
| Deposits                                        | \$ 28,856                        | \$ 23,473        | \$ 5,383          | 22.93 %        |
| Short-term borrowings                           | 491                              | 692              | (201)             | (29.05)%       |
| Long-term debt                                  | 2,079                            | 1,461            | 618               | 42.30 %        |
| <b>Total Interest Expense</b>                   | <b>\$ 31,426</b>                 | <b>\$ 25,626</b> | <b>\$ 5,800</b>   | <b>22.63 %</b> |
| <b>Taxable-equivalent adjustment</b>            | <b>\$ 82</b>                     | <b>\$ 80</b>     | <b>\$ 2</b>       | <b>2.50 %</b>  |
| <b>Tax-Equivalent Net Interest Income</b>       | <b>\$ 43,345</b>                 | <b>\$ 45,702</b> | <b>\$ (2,357)</b> | <b>(5.16)%</b> |

## Average Balances and Yields

The following table sets forth average balances, average yields and costs, and certain other information for the periods indicated. Tax-equivalent adjustments were made. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effects of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

| (\$ in thousands)              | Three Months Ended September 30, |           |             | Three Months Ended September 30, |           |             |
|--------------------------------|----------------------------------|-----------|-------------|----------------------------------|-----------|-------------|
|                                | 2024                             |           |             | 2023                             |           |             |
|                                | Average Balance                  | Interest  | Yield/ Rate | Average Balance                  | Interest  | Yield/ Rate |
| Earning assets                 |                                  |           |             |                                  |           |             |
| Loans <sup>(1), (2), (3)</sup> |                                  |           |             |                                  |           |             |
| Residential real estate        | \$ 1,412,086                     | \$ 20,723 | 5.84 %      | \$ 1,141,707                     | \$ 14,548 | 5.06 %      |
| Commercial real estate         | 2,749,395                        | 39,858    | 5.77        | 2,831,569                        | 40,536    | 5.68        |
| Commercial                     | 210,728                          | 3,732     | 7.05        | 233,756                          | 5,315     | 9.02        |
| Consumer                       | 320,960                          | 4,306     | 5.34        | 332,486                          | 4,183     | 4.99        |
| State and political            | 1,883                            | 32        | 6.76        | 929                              | 10        | 4.27        |
| Credit Cards                   | 7,132                            | 170       | 9.48        | 6,164                            | 149       | 9.59        |
| Other                          | 31,817                           | 416       | 5.20        | 16,137                           | 201       | 4.94        |
| Total Loans                    | 4,734,001                        | 69,237    | 5.82        | 4,562,748                        | 64,942    | 5.65        |
| Investment securities:         |                                  |           |             |                                  |           |             |
| Taxable                        | 655,718                          | 4,962     | 3.03        | 778,081                          | 5,047     | 2.59        |
| Tax-exempt <sup>(1)</sup>      | 657                              | 8         | 4.87        | 663                              | 34        | 20.51       |
| Federal funds sold             | —                                | —         | —           | 7,533                            | 92        | 4.85        |
| Interest-bearing deposits      | 44,935                           | 564       | 4.99        | 55,547                           | 1,213     | 8.66        |
| Total earning assets           | 5,435,311                        | 74,771    | 5.47 %      | 5,404,572                        | 71,328    | 5.24 %      |
| Cash and due from banks        | 46,996                           |           |             | 51,714                           |           |             |
| Other assets                   | 386,700                          |           |             | 359,726                          |           |             |
| Allowance for credit losses    | (58,515)                         |           |             | (46,700)                         |           |             |
| Total assets                   | \$ 5,810,492                     |           |             | \$ 5,769,312                     |           |             |

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| (\$ in thousands)                                                                                                         | Three Months Ended September 30, |           |             | Three Months Ended September 30, |           |             |
|---------------------------------------------------------------------------------------------------------------------------|----------------------------------|-----------|-------------|----------------------------------|-----------|-------------|
|                                                                                                                           | 2024                             |           |             | 2023                             |           |             |
|                                                                                                                           | Average Balance                  | Interest  | Yield/ Rate | Average Balance                  | Interest  | Yield/ Rate |
| Interest-bearing liabilities                                                                                              |                                  |           |             |                                  |           |             |
| Demand deposits                                                                                                           | \$ 581,517                       | \$ 5,472  | 3.74 %      | \$ 1,056,956                     | \$ 6,659  | 2.50 %      |
| Money market and savings deposits                                                                                         | 1,670,210                        | 10,420    | 2.48        | 1,572,920                        | 6,810     | 1.72        |
| Brokered deposits                                                                                                         | 25,829                           | 222       | 3.42        | 98,649                           | 1,225     | 4.93        |
| Certificates of deposit \$100,000 or more                                                                                 | 797,439                          | 8,433     | 4.21        | 706,642                          | 6,272     | 3.52        |
| Other time deposits                                                                                                       | 431,834                          | 4,309     | 3.97        | 285,743                          | 2,507     | 3.48        |
| Interest-bearing deposits <sup>(4)</sup>                                                                                  | 3,506,829                        | 28,856    | 3.27        | 3,720,910                        | 23,473    | 2.50        |
| Advances from FHLB - short-term                                                                                           | 33,500                           | 491       | 5.83        | 70,348                           | 692       | 3.90        |
| Advances from FHLB - long-term                                                                                            | 50,000                           | 625       | 4.97        | —                                | —         | —           |
| Subordinated debt and Guaranteed preferred beneficial interest in junior subordinated debentures ("TRUPS") <sup>(4)</sup> | 72,946                           | 1,454     | 7.93        | 71,907                           | 1,461     | 8.06        |
| Total interest-bearing liabilities                                                                                        | 3,663,275                        | 31,426    | 3.41 %      | 3,863,165                        | 25,626    | 2.63 %      |
| Noninterest-bearing deposits                                                                                              | 1,579,519                        |           |             | 1,345,976                        |           |             |
| Accrued expenses and other liabilities                                                                                    | 38,543                           |           |             | 27,057                           |           |             |
| Stockholders' equity                                                                                                      | 529,155                          |           |             | 533,114                          |           |             |
| Total liabilities and stockholders' equity                                                                                | \$ 5,810,492                     |           |             | \$ 5,769,312                     |           |             |
| Net interest income                                                                                                       |                                  | \$ 43,345 |             |                                  | \$ 45,702 |             |
| Net interest spread                                                                                                       |                                  |           | 2.06 %      |                                  |           | 2.61 %      |
| Net interest margin                                                                                                       |                                  |           | 3.17 %      |                                  |           | 3.35 %      |
| Cost of Funds                                                                                                             |                                  |           | 2.38 %      |                                  |           | 1.95 %      |
| Cost of Deposits                                                                                                          |                                  |           | 2.26 %      |                                  |           | 1.84 %      |
| Cost of Debt                                                                                                              |                                  |           | 6.54 %      |                                  |           | 6.00 %      |
| Tax-equivalent adjustment                                                                                                 |                                  |           |             |                                  |           |             |
| Loans                                                                                                                     |                                  | \$ 80     |             |                                  | \$ 73     |             |
| Investment securities                                                                                                     |                                  | 2         |             |                                  | 7         |             |
| Total                                                                                                                     |                                  | \$ 82     |             |                                  | \$ 80     |             |

(1) All amounts are reported on a tax-equivalent basis computed using the statutory federal income tax rate of 21.0%, exclusive of nondeductible interest expense.

(2) Average loan balances include nonaccrual loans.

(3) Interest income on loans includes accreted loan fees, net of costs and accretion of discounts on acquired loans, which are included in the yield calculations. There were \$5.0 million and \$6.1 million of accretion interest on loans for the three months ended September 30, 2024 and 2023, respectively.

(4) Interest expense on deposits and borrowing includes amortization of deposit premiums and amortization of borrowing fair value adjustment. There were \$287 thousand and \$484 thousand of amortization of deposits premium, and \$232 thousand and \$232 thousand of amortization of borrowing fair value adjustment for the three months ended September 30, 2024 and 2023, respectively.

The following table presents changes in volume and rate related to interest income and interest expense for the periods indicated.

**Three Months Ended September 30, 2024 Compared to the Three Months Ended September 30, 2023**

| (\$ in thousands)                    | Volume     | Due to Rate | Total      |
|--------------------------------------|------------|-------------|------------|
| <b>Interest income:</b>              |            |             |            |
| <b>Loan Portfolio</b>                |            |             |            |
| Residential real estate              | \$ 3,936   | \$ 2,238    | \$ 6,174   |
| Commercial real estate               | (1,319)    | 641         | (678)      |
| Commercial                           | (425)      | (1,158)     | (1,583)    |
| Consumer                             | (170)      | 293         | 123        |
| State and political                  | 16         | 6           | 22         |
| Credit Cards                         | 23         | (2)         | 21         |
| Other                                | 204        | 11          | 215        |
| Taxable investment securities        | (941)      | 856         | (85)       |
| Tax-exempt investment securities     | —          | (26)        | (26)       |
| Fed funds sold                       | —          | (92)        | (92)       |
| Interest-bearing deposits            | (136)      | (512)       | (648)      |
| Total interest income                | \$ 1,188   | \$ 2,255    | \$ 3,443   |
| <b>Interest-bearing liabilities:</b> |            |             |            |
| Interest-bearing demand deposits     | \$ (4,482) | \$ 3,294    | \$ (1,188) |
| Money market and savings deposits    | 605        | 3,005       | 3,610      |
| Certificate of deposits              | 1,757      | 1,203       | 2,960      |
| Advances from FHLB - Short-term      | (542)      | 341         | (201)      |
| Advances from FHLB - Long-term       | 625        | —           | 625        |
| Subordinated debt                    | 17         | (23)        | (6)        |
| Total interest-bearing liabilities   | \$ (2,020) | \$ 7,820    | \$ 5,800   |
| Net change in net interest income    | \$ 3,208   | \$ (5,565)  | \$ (2,357) |

Fluctuations in net interest income can result from the combination of changes in the average balances of asset and liability categories and changes in interest rates. Interest rates earned and paid are affected by general economic conditions, particularly changes in market interest rates, and by competitive factors, government policies and actions of regulatory authorities.

Net interest income was \$43.3 million for the third quarter of 2024, compared to \$45.6 million for the third quarter of 2023. The decrease was primarily due to an increase in interest on deposits of \$5.4 million, a decrease in interest on deposits with other banks of \$649 thousand and an increase in interest on long-term borrowings of \$618 thousand. These changes were partially offset by an increase in interest and fees on loans of \$4.3 million.

The Company's NIM decreased to 3.17% for the third quarter of 2024 from 3.35% for the third quarter of 2023. Comparing the third quarter of 2024 to the third quarter of 2023, the Company's interest-earning asset yields increased 23 basis points to 5.47% from 5.24%, while the cost of funds repriced at a faster pace resulting in an increase of 43 basis points to 2.38% from 1.95% for the same period.

**Provision for Credit Losses ("PCL") and Allowance for Credit Losses**

See discussion of the Bank's PCL and ACL in the asset quality discussion in the analysis of financial condition in this MD&A.

**Noninterest Income**

Total noninterest income for the third quarter of 2024 was \$7.3 million, a decrease of \$7.7 million from \$15.0 million for the third quarter of 2023. The decrease was primarily due to lower trust and investment fee income of \$1.1 million, and a one time third quarter 2023 bargain purchase gain of \$8.8 million, partially offset by \$2.2 million of losses on sale of investment securities, a direct result of the merger with TCFC in the third quarter of 2023.

## **Noninterest Expense**

Total noninterest expense of \$34.1 million for the third quarter of 2024 decreased \$13.0 million when compared to the third quarter of 2023 total noninterest expense of \$47.2 million. The decrease in total noninterest expense from the third quarter of 2023 was primarily due to one time merger related expenses that were incurred in 2023, partially offset by an increase in expenses due to the operation of a larger branch network and employee base due to the merger with TCFC, which significantly impacted almost all expense line items. In addition, despite the increased size, the Company has prudently reduced its staff by approximately 72 FTEs since the consummation of the merger.

## **Income Taxes**

The Company reported income tax expense of \$3.8 million for the third quarter of 2024, and income tax benefit of \$5.0 million for the third quarter of 2023. The effective tax rate for the third quarter of 2024 and 2023 was 25.24% and (33.89%), respectively. The third quarter 2023 tax rate was impacted by a net pre-tax loss, nondeductible merger costs, and reassessment of deferred tax assets and liabilities at an estimated effective tax rate due to an adjustment to state apportionment.

## RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023

### Summary of Financial Results

The Company reported net income for the nine months ended September 30, 2024 of \$30.6 million or diluted earnings per share of \$0.92 compared to net income of \$738 thousand or diluted earnings per share of \$0.03 for the nine months ended September 30, 2023. The Company's ROAA, Non-GAAP ROAA, ROACE and ROATCE were 0.70%, 0.91%, 7.84% and 12.83% for the nine months ended September 30, 2024, respectively, compared to 0.02%, 0.49%, 0.24% and 6.27% for the nine months ended September 30, 2023, respectively.

The increase to net income in the first nine months of 2024 compared to the same period in 2023 was primarily due to the merger with TCFC, which resulted in higher net interest income and a lower provision for credit losses, partially offset by higher noninterest expense, higher income tax expense and lower noninterest income. The increase in net interest income was impacted by higher average balances and yields earned on average earning assets, partially offset by higher average balances and rates paid on interest-bearing liabilities. The decrease in the provision for credit losses in 2024 was due to higher levels of reserves required by the Company's CECL model related to the merger in 2023 and recognition of provision on acquired loans. Almost all noninterest expense line items in 2024 increased as a result of the merger and the expanded operations of the newly combined Company.

| (\$ in thousands)                 | Nine Months Ended September 30, |            | \$ Change | % Change |
|-----------------------------------|---------------------------------|------------|-----------|----------|
|                                   | 2024                            | 2023       |           |          |
| Interest and dividend income      | \$ 218,934                      | \$ 142,943 | \$ 75,991 | 53.16 %  |
| Interest expenses                 | 92,396                          | 49,161     | 43,235    | 87.95 %  |
| Net interest income               | 126,538                         | 93,782     | 32,756    | 34.93 %  |
| Provision for credit losses       | 3,958                           | 30,056     | (26,098)  | (86.83)% |
| Noninterest income                | 22,294                          | 25,613     | (3,319)   | (12.96)% |
| Noninterest expenses              | 104,311                         | 89,661     | 14,650    | 16.34 %  |
| Income (loss) before income taxes | 40,563                          | (322)      | 40,885    | NM       |
| Income tax expense (benefit)      | 9,956                           | (1,060)    | 11,016    | NM       |
| Net income                        | \$ 30,607                       | \$ 738     | \$ 29,869 | NM       |

### Net Interest Income

As shown in the table below, tax-equivalent net interest income increased \$32.8 million to \$126.8 million for the nine months ended September 30, 2024, compared to \$94.0 million for the nine months ended September 30, 2023. The increase in net interest income when compared to the prior period was primarily due to the increase in the average balance of loans of \$1.40 billion, or 42.3%. The increase in interest income was partially offset by increased total interest expense of \$43.2 million, or 87.9%, primarily due to increases in the cost of funds and in the average balance of interest-bearing deposits of \$1.02 billion, or 38.1%, and an increase in net accretion interest of \$5.5 million. All of the noted increases were significantly impacted by the merger.

| (\$ in thousands)                               | Nine Months Ended September 30, |                   | \$ Change        | % Change       |
|-------------------------------------------------|---------------------------------|-------------------|------------------|----------------|
|                                                 | 2024                            | 2023              |                  |                |
| <b>Interest and dividend income</b>             |                                 |                   |                  |                |
| Loans, including fees                           | \$ 202,203                      | \$ 128,424        | \$ 73,779        | 57.45 %        |
| Interest and dividends on investment securities | 14,629                          | 12,973            | 1,656            | 12.76 %        |
| Interest on deposits with banks                 | 2,102                           | 1,546             | 556              | 35.96 %        |
| <b>Total Interest and Dividend Income</b>       | <b>\$ 218,934</b>               | <b>\$ 142,943</b> | <b>\$ 75,991</b> | <b>53.16 %</b> |
| <b>Interest Expenses</b>                        |                                 |                   |                  |                |
| Deposits                                        | \$ 84,938                       | \$ 40,668         | \$ 44,270        | 108.86 %       |
| Short-term borrowings                           | 2,131                           | 5,501             | (3,370)          | (61.26)%       |
| Long-term debt                                  | 5,327                           | 2,992             | 2,335            | 78.04 %        |
| <b>Total Interest Expenses</b>                  | <b>\$ 92,396</b>                | <b>\$ 49,161</b>  | <b>\$ 43,235</b> | <b>87.95 %</b> |
| Taxable-equivalent adjustment                   | \$ 242                          | \$ 172            | \$ 70            | 40.70 %        |
| <b>Tax Equivalent Net Interest Income</b>       | <b>\$ 126,780</b>               | <b>\$ 93,954</b>  | <b>\$ 32,826</b> | <b>34.94 %</b> |

## Average Balances and Yields

The following tables present the distribution of the average consolidated balance sheets, interest income/expense, and annualized yields earned and rates paid for the nine months ended September 30, 2024 and 2023.

| (\$ in thousands)              | Nine Months Ended September 30, 2024 |           |             | Nine Months Ended September 30, 2023 |           |             |
|--------------------------------|--------------------------------------|-----------|-------------|--------------------------------------|-----------|-------------|
|                                | Average Balance                      | Interest  | Yield/ Rate | Average Balance                      | Interest  | Yield/ Rate |
| Earning assets                 |                                      |           |             |                                      |           |             |
| Loans <sup>(1), (2), (3)</sup> |                                      |           |             |                                      |           |             |
| Consumer real estate           | \$ 1,387,387                         | \$ 58,493 | 5.63 %      | \$ 990,970                           | \$ 35,929 | 4.85 %      |
| Commercial real estate         | 2,736,941                            | 117,832   | 5.75 %      | 1,806,983                            | 71,328    | 5.28 %      |
| Commercial                     | 215,788                              | 11,755    | 7.28 %      | 171,702                              | 9,312     | 7.25 %      |
| Consumer                       | 325,935                              | 12,843    | 5.26 %      | 318,066                              | 11,440    | 4.81 %      |
| State and political            | 1,896                                | 78        | 5.50 %      | 936                                  | 27        | 3.86 %      |
| Credit Cards                   | 7,654                                | 539       | 9.41 %      | 2,077                                | 149       | 9.59 %      |
| Other                          | 23,093                               | 900       | 5.21 %      | 11,192                               | 400       | 4.78 %      |
| Total Loans                    | 4,698,694                            | 202,440   | 5.76 %      | 3,301,926                            | 128,585   | 5.21 %      |
| Investment securities:         |                                      |           |             |                                      |           |             |
| Taxable                        | 671,875                              | 14,611    | 2.90        | 692,718                              | 12,840    | 2.47        |
| Tax-exempt <sup>(1)</sup>      | 658                                  | 23        | 4.66        | 664                                  | 52        | 10.44       |
| Federal funds sold             | —                                    | —         | —           | 2,539                                | 92        | 4.84        |
| Interest-bearing deposits      | 56,486                               | 2,102     | 4.97        | 27,750                               | 1,546     | 7.45        |
| Total earning assets           | 5,427,713                            | 219,176   | 5.39 %      | 4,025,597                            | 143,115   | 4.75 %      |
| Cash and due from banks        | 47,211                               |           |             | 36,831                               |           |             |
| Other assets                   | 391,106                              |           |             | 271,721                              |           |             |
| Allowance for credit losses    | (57,877)                             |           |             | (35,206)                             |           |             |
| Total assets                   | \$ 5,808,153                         |           |             | \$ 4,298,943                         |           |             |

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| (\$ in thousands)                                                                                                         | Nine Months Ended September 30, 2024 |            |             | Nine Months Ended September 30, 2023 |           |             |
|---------------------------------------------------------------------------------------------------------------------------|--------------------------------------|------------|-------------|--------------------------------------|-----------|-------------|
|                                                                                                                           | Average Balance                      | Interest   | Yield/ Rate | Average Balance                      | Interest  | Yield/ Rate |
| <b>Interest-bearing liabilities</b>                                                                                       |                                      |            |             |                                      |           |             |
| Demand deposits                                                                                                           | \$ 800,258                           | 17,384     | 2.90 %      | \$ 813,834                           | 13,808    | 2.27 %      |
| Money market and savings deposits                                                                                         | 1,676,457                            | 30,871     | 2.46        | 1,163,595                            | 11,709    | 1.35        |
| Brokered deposits                                                                                                         | 16,642                               | 567        | 4.55        | 33,244                               | 1,225     | 4.93        |
| Certificates of deposit \$100,000 or more                                                                                 | 774,112                              | 23,689     | 4.09        | 421,852                              | 9,685     | 3.07        |
| Other time deposits                                                                                                       | 422,212                              | 12,427     | 3.93        | 239,834                              | 4,241     | 2.36        |
| Interest-bearing deposits <sup>(4)</sup>                                                                                  | 3,689,681                            | 84,938     | 3.07        | 2,672,359                            | 40,668    | 2.03        |
| Securities sold under retail repurchase agreements and federal funds purchased                                            | —                                    | —          | —           | —                                    | —         | —           |
| Advances from FHLB - short-term                                                                                           | 50,288                               | 2,131      | 5.66        | 148,546                              | 5,501     | 4.95        |
| Advances from FHLB - long-term                                                                                            | 26,825                               | 971        | 4.84        | —                                    | —         | —           |
| Subordinated debt and Guaranteed preferred beneficial interest in junior subordinated debentures ("TRUPS") <sup>(4)</sup> | 72,682                               | 4,356      | 8.01        | 52,839                               | 2,992     | 7.57        |
| Total interest-bearing liabilities                                                                                        | 3,839,476                            | 92,396     | 3.21 %      | 2,873,744                            | 49,161    | 2.29 %      |
| Noninterest-bearing deposits                                                                                              | 1,408,270                            |            |             | 983,325                              |           |             |
| Accrued expenses and other liabilities                                                                                    | 38,843                               |            |             | 22,073                               |           |             |
| Stockholders' equity                                                                                                      | 521,564                              |            |             | 419,801                              |           |             |
| Total liabilities and stockholders' equity                                                                                | \$ 5,808,153                         |            |             | \$ 4,298,943                         |           |             |
| <b>Net interest income</b>                                                                                                |                                      |            |             |                                      |           |             |
|                                                                                                                           |                                      | \$ 126,780 |             |                                      | \$ 93,954 |             |
| <b>Net interest spread</b>                                                                                                |                                      |            |             |                                      |           |             |
|                                                                                                                           |                                      |            | 2.18 %      |                                      |           | 2.46 %      |
| <b>Net interest margin</b>                                                                                                |                                      |            |             |                                      |           |             |
|                                                                                                                           |                                      |            | 3.12 %      |                                      |           | 3.12 %      |
| <b>Cost of Funds</b>                                                                                                      |                                      |            |             |                                      |           |             |
|                                                                                                                           |                                      |            | 2.35 %      |                                      |           | 1.70 %      |
| <b>Cost of Deposits</b>                                                                                                   |                                      |            |             |                                      |           |             |
|                                                                                                                           |                                      |            | 2.23 %      |                                      |           | 1.49 %      |
| <b>Cost of Debt</b>                                                                                                       |                                      |            |             |                                      |           |             |
|                                                                                                                           |                                      |            | 6.65 %      |                                      |           | 5.64 %      |
| <b>Tax-equivalent adjustment</b>                                                                                          |                                      |            |             |                                      |           |             |
| Loans                                                                                                                     |                                      | \$ 237     |             |                                      | \$ 161    |             |
| Investment securities                                                                                                     |                                      | 5          |             |                                      | 11        |             |
| Total                                                                                                                     |                                      | \$ 242     |             |                                      | \$ 172    |             |

(1) All amounts are reported on a tax-equivalent basis computed using the statutory federal income tax rate of 21.0%, exclusive of nondeductible interest expense.

(2) Average loan balances include nonaccrual loans.

(3) Interest income on loans includes accreted loan fees, net of costs and accretion of discounts on acquired loans, which are included in the yield calculations. There were \$13.7 million and \$7.0 million of accretion interest on loans for the nine months ended September 30, 2024 and 2023, respectively.

(4) Interest expense on deposits and borrowing includes amortization of deposit premiums and amortization of borrowing fair value adjustment. There were \$1.1 million and \$308 thousand of amortization of deposits premium, and \$695 thousand and \$325 thousand of amortization of borrowing fair value adjustment for the nine months ended September 30, 2024 and 2023, respectively.

The following table presents changes in volume and rate related to interest income and interest expense for the periods indicated.

**Nine Months Ended September 30, 2024 Compared to the Nine Months Ended September 30, 2023**

| <i>(\$ in thousands)</i>                    | <b>Volume</b>    | <b>Due to Rate</b> | <b>Total</b>     |
|---------------------------------------------|------------------|--------------------|------------------|
| <b>Interest income from earning assets:</b> |                  |                    |                  |
| <b>Loans</b>                                |                  |                    |                  |
| Residential real estate                     | \$ 16,777        | \$ 5,787           | \$ 22,564        |
| Commercial real estate                      | 40,146           | 6,358              | 46,504           |
| Commercial                                  | 2,404            | 39                 | 2,443            |
| Consumer                                    | 331              | 1,072              | 1,403            |
| State and political                         | 40               | 11                 | 51               |
| Credit Cards                                | 393              | (3)                | 390              |
| Other                                       | 464              | 36                 | 500              |
| Taxable investment securities               | (463)            | 2,234              | 1,771            |
| Tax-exempt investment securities            | —                | (29)               | (29)             |
| Fed funds sold                              | —                | (92)               | (92)             |
| Interest-bearing deposits                   | 1,071            | (515)              | 556              |
| <b>Total interest income</b>                | <b>\$ 61,163</b> | <b>\$ 14,898</b>   | <b>\$ 76,061</b> |
| <b>Interest-bearing liabilities:</b>        |                  |                    |                  |
| Interest-bearing demand deposits            | (263)            | 3,838              | 3,575            |
| Money market and savings deposits           | 9,493            | 9,669              | 19,162           |
| Certificate of deposits                     | 15,586           | 5,946              | 21,532           |
| Advances from FHLB - Short-term             | (4,159)          | 790                | (3,369)          |
| Advances from FHLB - Long-term              | 971              | —                  | 971              |
| Subordinated debt                           | 1,190            | 174                | 1,364            |
| <b>Total interest-bearing liabilities</b>   | <b>\$ 22,818</b> | <b>\$ 20,417</b>   | <b>\$ 43,235</b> |
| <b>Net change in net interest income</b>    | <b>\$ 38,345</b> | <b>\$ (5,519)</b>  | <b>\$ 32,826</b> |

The Company's net interest margin remained flat at 3.12% for the nine months ended September 30, 2024 as compared to the same period in 2023, as more rapid increases in rates on interest-bearing liabilities were offset by lower increases in interest-earning asset yields and larger balances in noninterest-bearing deposits. The increases in the average balance and rates paid on interest-bearing deposits of \$1.02 billion and 104 bps, respectively, were partially offset by increases in the average balance and yields earned on average earning assets of \$1.40 billion and 64 bps, respectively. Additionally, margins were positively impacted as average balances of noninterest-bearing deposits increased \$424.9 million, or 43.2%, from 25.9% of average funding for the nine months ended September 30, 2023 to 27.2% of average funding for the nine months ended September 30, 2024. Net accretion income impacted net interest margin by 29 bps and 21 bps for the nine months ended September 30, 2024 and 2023, respectively. Until the balance sheet restructuring in the third quarter of 2023, the net interest margin experienced compression due to the Company's liability sensitive position, deposit rate pressures and significantly higher FHLB borrowing rates.

### **Provision for Credit Losses and Allowance for Credit Losses**

See discussion of the Bank's PCL and ACL in the asset quality discussion in the analysis of financial condition in this MD&A.

### **Noninterest Income**

Total noninterest income of \$22.3 for the nine months ended September 30, 2024 decreased \$3.3 million, or 13.0%, when compared to the same period in 2023. The decrease was primarily due to lower trust and investment fee income of \$1.1 million. The decrease was affected by one-time bargain purchase income of \$8.8 million and \$2.2 million of losses on sale of investment securities in the third quarter 2023, both a direct result of the merger with TCFC in the third quarter of 2023.

### **Noninterest Expense**

Total noninterest expense of \$104.3 for the nine months ended September 30, 2024 increased \$14.6 million, or 16.3%, when compared to the same period in 2023. Almost all noninterest expense line items increased as a result of the merger with TCFC and the expanded operations of the newly combined Company and \$4.7 million of credit card related fraud losses. There were no merger-related expenses for the nine months ended September 30, 2024, compared to \$16.8 million for the nine months ended September 30, 2023. The Company continues to focus on streamlining processes to unlock operational efficiencies and reduce overall noninterest expenses.

### **Income Taxes**

The Company reported income tax expense of \$10.0 million for the nine months ended September 30, 2024, and income tax benefit of \$1.1 million for the nine months ended September 30, 2023. The effective tax rate was 24.54% for the nine months ended September 30, 2024, and (329.12)% for the nine months ended September 30, 2023. The 2023 effective tax rate was impacted by nondeductible merger costs incurred.

## ANALYSIS OF FINANCIAL CONDITION

### Balance Sheet Summary

Total assets were \$5.92 billion at September 30, 2024, a decrease of \$93.2 million, or 1.6%, when compared to \$6.01 billion at December 31, 2023. The aggregate decrease was primarily due to decreases in cash and cash equivalents of \$188.8 million and investment securities held to maturity (“HTM”) of \$28.6 million partially offset by an increase in investment securities available for sale (“AFS”) of \$22.8 million and loans held for investment of \$92.9 million. The ratios of the ACL on loans to total loans were 1.24% and 1.24% at September 30, 2024 and December 31, 2023, respectively.

### Cash and Cash Equivalents

Cash and cash equivalents totaled \$183.6 million at September 30, 2024, compared to \$372.4 million at December 31, 2023. Total cash and cash equivalents fluctuate due to transactions in process and other liquidity demands. Management believes liquidity needs are satisfied by the current balance of cash and cash equivalents, readily available access to traditional and wholesale funding sources, and the portions of the investment and loan portfolios that mature within one year.

### Investment Securities

The investment portfolio includes debt and equity securities. Securities are classified as either AFS or HTM. AFS investment securities are stated at estimated fair value based on market prices. They represent securities which may be sold as part of the asset/liability management strategy or in response to changing interest rates. Net unrealized holding gains and losses on these securities are reported net of related income taxes as accumulated other comprehensive income (loss), a separate component of stockholders’ equity. Investment securities in the HTM category are stated at cost adjusted for amortization of premiums and accretion of discounts and the ACL. We have the intent and ability to hold such securities until maturity. At September 30, 2024, 21.6% of the portfolio of debt securities was classified as AFS and 78.4% was classified as HTM, compared to 17.7% and 82.3% respectively, at December 31, 2023. See Note 3 – “Investment Securities”, in the Notes to Consolidated Financial Statements for additional details on the composition of our investment portfolio.

Investment securities, including restricted stock and equity securities, totaled \$644.2 million at September 30, 2024, a \$3.2 million, or 0.5%, decrease compared to \$647.4 million at December 31, 2023.

At September 30, 2024, AFS securities, carried at fair value, totaled \$133.3 million compared to \$110.5 million at December 31, 2023. At September 30, 2024, AFS securities consisted of 79.7% mortgage-backed, 15.5% U.S. Government agencies and 4.8% corporate bonds, compared to 76.0%, 18.5% and 5.5%, respectively, at year-end 2023. At September 30, 2024, the accumulated other comprehensive loss was \$5.5 million, compared to \$7.5 million at December 31, 2023.

At September 30, 2024, HTM securities, carried at amortized cost, totaled \$484.7 million compared to \$513.3 million at December 31, 2023. At September 30, 2024, HTM securities consisted of 70.1% mortgage-backed, 27.4% U.S. Government agencies, 2.2% other debt securities, and 0.3% states and political subdivisions, compared to 69.7%, 27.9%, 2.0% and 0.3%, respectively, at year-end 2023.

At September 30, 2024 and December 31, 2023, 97.0% and 97.1%, respectively, of the Bank’s carrying value of its investment portfolio consisted of securities issued or guaranteed by U.S. Government agencies or government-sponsored agencies.

The Company monitors the credit quality of HTM securities through credit ratings provided by Standard & Poor’s Rating Services and Moody’s Investor Services. Credit ratings express opinions about the credit quality of a security, and are updated at each quarter end. Investment grade securities are rated BBB- or higher by S&P and Baa3 or higher by Moody’s and are generally considered by the rating agencies and market participants to be of low credit risk. Conversely, securities rated below investment grade, which are labeled as speculative grade by the rating agencies, are considered to have distinctively higher credit risk than investment grade securities. There were no speculative grade HTM securities at September 30, 2024 or December 31, 2023. HTM securities that are not rated are agency mortgage-backed securities sponsored by U.S. government agencies, as well as direct obligations of the agencies, with the remainder being sub-debt of other banks.

The following table shows the amortized cost of HTM securities based on their lowest publicly available credit rating as of September 30, 2024.

| (\$ in thousands)                     | September 30, 2024 |          |          |          |        |          |            |
|---------------------------------------|--------------------|----------|----------|----------|--------|----------|------------|
|                                       | Investment Grade   |          |          |          |        |          |            |
|                                       | Aaa                | Aa1      | A3       | Baa1     | Baa2   | NR       | Total      |
| U.S. Treasury and government agencies | \$ 132,870         | \$ —     | \$ —     | \$ —     | \$ —   | \$ —     | \$ 132,870 |
| Mortgage-backed-residential           | 339,848            | —        | —        | —        | —      | —        | 339,848    |
| States and political subdivisions     | —                  | 1,466    | —        | —        | —      | —        | 1,466      |
| Other debt securities                 | —                  | —        | 4,000    | 4,000    | 500    | 2,000    | 10,500     |
| Total held-to maturity securities     | \$ 472,718         | \$ 1,466 | \$ 4,000 | \$ 4,000 | \$ 500 | \$ 2,000 | \$ 484,684 |

The following table shows the amortized cost of HTM securities based on their lowest publicly available credit rating as of December 31, 2023.

| (\$ in thousands)                                | December 31, 2023 |          |          |          |        |          |            |
|--------------------------------------------------|-------------------|----------|----------|----------|--------|----------|------------|
|                                                  | Investment Grade  |          |          |          |        |          |            |
|                                                  | Aaa               | Aa1      | A3       | Baa1     | Baa2   | NR       | Total      |
| U.S. Treasury and government agencies            | \$ 140,761        | \$ —     | \$ —     | \$ —     | \$ —   | \$ 2,681 | \$ 143,442 |
| Mortgage-backed securities                       | 357,870           | —        | —        | —        | —      | —        | 357,870    |
| Obligations of states and political subdivisions | —                 | 1,470    | —        | —        | —      | —        | 1,470      |
| Other debt securities                            | —                 | —        | 4,000    | 4,000    | 500    | 2,000    | 10,500     |
| Total held-to-maturity securities                | \$ 498,631        | \$ 1,470 | \$ 4,000 | \$ 4,000 | \$ 500 | \$ 4,681 | \$ 513,282 |

## Loans

### Loans Held for Sale

The Bank originates residential mortgage loans for sale on the secondary market, which are recorded at fair value. At September 30, 2024 and December 31, 2023, the fair value of loans held for sale amounted to \$26.9 million and \$8.8 million, respectively. The Bank makes certain representations to purchasers in the sale of the mortgage loans related to loan ownership, loan compliance and legality, and accurate documentation. If a loan is found to be out of compliance with any of the representations subsequent to the date of purchase, the Bank may be required to repurchase the loan or indemnify the purchaser.

### Loans Held for Investment

The following table summarizes the Company's loan portfolio at September 30, 2024 and December 31, 2023.

| (\$ in thousands)                    | September 30, 2024 | %        | December 31, 2023 | %        | \$ Change | % Change |
|--------------------------------------|--------------------|----------|-------------------|----------|-----------|----------|
| Construction                         | \$ 337,113         | 7.12 %   | \$ 299,000        | 6.40 %   | \$ 38,113 | 12.75 %  |
| Residential real estate              | 1,570,998          | 33.19 %  | 1,490,438         | 32.10 %  | 80,560    | 5.41 %   |
| Commercial real estate               | 2,276,381          | 48.09 %  | 2,286,154         | 49.30 %  | (9,773)   | (0.43)%  |
| Commercial                           | 225,083            | 4.75 %   | 229,939           | 5.00 %   | (4,856)   | (2.11)%  |
| Consumer                             | 317,149            | 6.70 %   | 328,896           | 7.10 %   | (11,747)  | (3.57)%  |
| Credit Cards                         | 7,185              | 0.15 %   | 6,583             | 0.10 %   | 602       | 9.14 %   |
| Total loans                          | 4,733,909          | 100.00 % | 4,641,010         | 100.00 % | 92,899    | 2.00 %   |
| Allowance for credit losses on loans | (58,669)           |          | (57,351)          |          | (1,318)   | 2.30 %   |
| Total loans, net                     | \$ 4,675,240       |          | \$ 4,583,659      |          | \$ 91,581 | 2.00 %   |

Our loan portfolio has a CRE concentration, which is generally defined as a combination of certain construction and CRE loans. The federal banking regulators have issued guidance for those institutions which are deemed to have concentrations in CRE lending. Pursuant to the supervisory criteria contained in the guidance for identifying institutions with a potential CRE concentration risk, institutions which have (1) total reported loans for construction, land development, and other land acquisitions which represent 100% or more of an institution's total risk-based capital; or (2) total non-owner occupied CRE loans representing 300% or more of the institution's total risk-based capital and the institution's non-owner occupied CRE loan portfolio (including construction) has increased 50% or more during the prior 36 months are identified as having potential CRE concentration risk. Institutions which are deemed to have concentrations in CRE

lending are expected to employ heightened levels of risk management with respect to their CRE portfolios, and may be required to hold higher levels of capital. The Bank has a concentration in CRE loans, and has experienced significant growth in its CRE portfolio in recent years and was further impacted with its acquisition of CBTC in the third quarter of 2023. Non-owner occupied CRE loans as an amount and as a percentage of the Bank's Tier 1 Capital + ACL at September 30, 2024 and December 31, 2023 were \$2.07 billion or 364.0% and \$2.02 billion or 382.6%, respectively. Construction loans as an amount and as a percentage of the Bank's Tier 1 Capital + ACL at September 30, 2024 and December 31, 2023 were \$337.1 million or 59.3% and \$299.0 million or 56.7%, respectively.

The CRE portfolio (including construction) has increased significantly in the past two years. Management has extensive experience in CRE lending, and has implemented and continues to maintain heightened risk management procedures, as well as strong underwriting criteria with respect to its CRE portfolio. Monitoring practices include stress testing analysis to evaluate changes in collateral values and to cash flows from interest rate increases and declines in net operating income. We may be required to maintain higher levels of capital as a result of our CRE concentrations, which could require us to obtain additional capital or to sell/participate portions of loans, which may adversely affect stockholder returns.

#### Non-Owner Occupied CRE Loans

| (\$ in thousands)                                 | September 30, 2024 |                   |                                   |                                   |
|---------------------------------------------------|--------------------|-------------------|-----------------------------------|-----------------------------------|
|                                                   | Amount             | Average Loan Size | % of Non-Owner Occupied CRE Loans | % of Total Portfolio Loans, Gross |
| Loan Type:                                        |                    |                   |                                   |                                   |
| Retail                                            | \$ 432,222         | \$ 2,349          | 20.9 %                            | 9.1 %                             |
| Office/Office Condo                               | 369,475            | 1,546             | 17.9 %                            | 7.8 %                             |
| Multi-Family (5+ Units)                           | 266,804            | 2,242             | 12.9 %                            | 5.6 %                             |
| Motel/Hotel                                       | 212,890            | 4,174             | 10.3 %                            | 4.5 %                             |
| Industrial/Warehouse                              | 224,641            | 1,582             | 10.9 %                            | 4.7 %                             |
| Commercial - Improved                             | 166,815            | 1,264             | 8.1 %                             | 3.5 %                             |
| Other <sup>(1)</sup>                              | 395,276            | 512               | 19.1 %                            | 8.3 %                             |
| Total non-owner occupied CRE loans <sup>(2)</sup> | \$ 2,068,123       | \$ 1,262          | 100.0 %                           | 43.5 %                            |
| Total Portfolio loans, gross <sup>(3)</sup>       | \$ 4,733,909       |                   |                                   |                                   |

- (1) Other non-owner occupied CRE loans include 1-4 family dwelling loans of \$116.9 million, lot/land loans of \$94.3 million, self-storage loans of \$84.2 million and other loans of \$99.7 million.
- (2) The balances for our non-owner occupied CRE portfolio as of September 30, 2024, as presented in this table, coincide with our internal evaluation of risk for the purpose of monitoring loan concentrations in accordance with internal and regulatory guidelines. Within the non-owner occupied balances presented in this table, the Company has included certain loans secured by multi-family residential properties and other investor owned 1-4 family residential properties that are reported in the residential real estate caption in other areas of this report. As such, the total balance of loans presented in this table when added to the balance of the table presented below detailing owner occupied CRE may not reconcile to the CRE caption included in other tables and footnotes.
- (3) Excludes loans held for sale of \$26.9 million.

#### Owner Occupied CRE Loans

| (\$ in thousands)                           | September 30, 2024 |                   |                               |                                   |
|---------------------------------------------|--------------------|-------------------|-------------------------------|-----------------------------------|
|                                             | Amount             | Average Loan Size | % of Owner Occupied CRE Loans | % of Total Portfolio Loans, Gross |
| Loan Type:                                  |                    |                   |                               |                                   |
| Office/Office Condo                         | \$ 139,901         | \$ 530            | 18.7 %                        | 3.0 %                             |
| Industrial/Warehouse                        | 106,811            | 668               | 14.3 %                        | 2.3 %                             |
| Church                                      | 69,480             | 926               | 9.3 %                         | 1.5 %                             |
| Retail                                      | 61,458             | 580               | 8.2 %                         | 1.3 %                             |
| Commercial - Improved                       | 165,806            | 958               | 22.2 %                        | 3.5 %                             |
| Other <sup>(1)</sup>                        | 203,043            | 1,216             | 27.2 %                        | 4.3 %                             |
| Total owner occupied CRE loans              | \$ 746,499         | \$ 790            | 100.0 %                       | 15.9 %                            |
| Total Portfolio loans, gross <sup>(2)</sup> | \$ 4,733,909       |                   |                               |                                   |

- (1) Other owner occupied CRE loans include marine/boat slips of \$59.1 million, restaurant loans of \$58.7 million, fire/CMS building loans of \$41.0 million and other loans of \$44.4 million.
- (2) Excludes loans held for sale of \$26.9 million.

### Office CRE Portfolio

The Bank's office CRE loan portfolio, which includes owner occupied and non-owner occupied CRE loans, was \$509.4 million or 10.8% of total loans of \$4.73 billion at September 30, 2024. The Bank's office CRE loan portfolio included \$140.9 million or 27.7% of the total with medical tenants and \$71.8 million or 14.1% of the total with government or government contractor tenants. There were 503 loans in the office CRE portfolio with an average and median loan size of \$1.0 million and \$380 thousand, respectively. Loan to Value ("LTV") estimates are less than 50% for \$177.8 million or 34.9% of the office CRE portfolio and greater than 80% for \$18.4 million or 3.6% of the office CRE portfolio. LTV collateral values are based on the most recent appraisal, which varies from the initial loan boarding to interim credit reviews. LTV estimates for the office CRE portfolio are summarized below and LTV collateral values are based on the most recent appraisal, which may vary from the appraised value at loan origination.

| <b>LTV Range (\$ in thousands)</b> | <b>Loan Count</b> | <b>Loan Balance</b> | <b>% of Total CRE</b> |
|------------------------------------|-------------------|---------------------|-----------------------|
| Less than or equal to 50%          | 258               | \$ 177,771          | 35 %                  |
| 50%-60%                            | 69                | 118,547             | 23 %                  |
| 60%-70%                            | 80                | 111,951             | 22 %                  |
| 70%-80%                            | 73                | 82,674              | 16 %                  |
| Greater than 80%                   | 23                | 18,433              | 4 %                   |
| Grand Total                        | 503               | \$ 509,376          | 100 %                 |

The Bank had 18 office CRE loans totaling \$164.6 million that were greater than \$5.0 million at September 30, 2024, compared to 24 office CRE loans totaling \$189.8 million at December 31, 2023. The decrease in this portfolio segment was the result of normal amortization and two large loan payoffs in the second quarter. For the office CRE portfolio, at September 30, 2024, the average loan debt-service coverage ratio was 2.5x and average LTV was 50.0%. Of the office CRE portfolio balance, 73% is secured by properties in rural or suburban areas with limited exposure to metropolitan cities and 97% are secured by properties with five stories or less. Of the office CRE loans, \$4.5 million will mature and \$1.2 million will reprice prior to December 31, 2024. Of the office CRE loans, \$2.0 million are special mention or substandard.

The following table summarizes asset quality information and ratios at September 30, 2024 and December 31, 2023.

| (\$ in thousands)                                                                                   | September 30, 2024 | December 31, 2023 |
|-----------------------------------------------------------------------------------------------------|--------------------|-------------------|
| <b>ASSET QUALITY</b>                                                                                |                    |                   |
| Total portfolio loans                                                                               | \$ 4,733,909       | \$ 4,641,010      |
| Classified Assets <sup>(1)</sup>                                                                    | 23,283             | 14,851            |
| Allowance for credit losses on loans                                                                | (58,669)           | (57,351)          |
| Past due loans - 30 to 89 days                                                                      | 8,963              | 10,853            |
| Accruing past due loans >= 90 days                                                                  | 454                | 738               |
| Total past due (delinquency) loans                                                                  | 9,417              | 11,591            |
| Non-accrual loans                                                                                   | 14,844             | 12,784            |
| Accruing borrowers experiencing financial difficulty ("BEFD") modifications <sup>(2)</sup>          | —                  | 153               |
| Other real estate owned ("OREO") and repossessed assets                                             | 485                | 179               |
| Non-accrual loans, OREO, repossessed assets and BEFD modifications                                  | 15,329             | 13,116            |
| <b>ASSET QUALITY RATIOS</b>                                                                         |                    |                   |
| Classified assets to total assets <sup>(1)</sup>                                                    | 0.39 %             | 0.25 %            |
| Classified assets to risk-based capital <sup>(1)</sup>                                              | 4.02 %             | 2.75 %            |
| Allowance for credit losses on loans to total portfolio loans                                       | 1.24 %             | 1.24 %            |
| Allowance for credit losses on loans to non-accrual loans                                           | 395.24 %           | 448.62 %          |
| Past due loans - 30 to 89 days to total portfolio loans                                             | 0.19 %             | 0.23 %            |
| Past due loans >=90 days and non-accrual to total loans                                             | 0.32 %             | 0.29 %            |
| Total past due (delinquency) and non-accrual to total portfolio loans                               | 0.51 %             | 0.53 %            |
| Non-accrual loans to total portfolio loans                                                          | 0.31 %             | 0.28 %            |
| Non-accrual loans and BEFD modifications to total loans                                             | 0.31 %             | 0.28 %            |
| Non-accrual loans OREO and repossessed assets to total assets                                       | 0.26 %             | 0.22 %            |
| Non-accrual loans OREO and repossessed assets to total portfolio loans, OREO and repossessed assets | 0.32 %             | 0.28 %            |
| Non-accrual loans, OREO, repossessed assets and BEFD modifications to total assets                  | 0.26 %             | 0.22 %            |

(1) Classified assets are substandard loans and OREO and other repossessed assets. Classified assets do not include special mention loans.

(2) BEFD modification loans include both non-accrual and accruing performing loans. All BEFD modification loans are included in the calculation of asset quality financial ratios. Non-accrual BEFD modification loans are included in the non-accrual balance and accruing BEFD modification loans are included in the accruing BEFD modification balance.

#### Allowance for Credit Losses on Loans

The ACL was \$58.7 million at September 30, 2024, \$57.4 million at December 31, 2023 and \$57.1 million at September 30, 2023. There were net charge-offs of \$1.4 million for the three months ended September 30, 2024, compared to net charge-offs of \$1.4 million for the three months ended September 30, 2023. There were net charge-offs of \$3.0 million for the nine months ended September 30, 2024, compared to net charge-offs of \$1.5 million for the nine months ended September 30, 2023. The ratio of annualized net charge-offs to average loans was 0.12% for the three months ended September 30, 2024, compared to annualized net charge-offs of 0.13% for the three months ended September 30, 2023. The ratio of annualized net charge-offs to average loans was 0.09% for the nine months ended September 30, 2024, compared to annualized net charge-offs of 0.06% for the nine months ended September 30, 2023.

Management remains focused on its efforts to dispose of problem loans and to prudently charge-off nonperforming loans to enable the Company to maintain overall credit quality. The ACL as a percentage of period-end loans was 1.24% at September 30, 2024 and 1.23% at December 31, 2023.

The following tables present a summary of the net charge-off activity in the ACL at or for the three and nine months ended September 30, 2024 and 2023.

| (\$ in thousands)                      | Three Months Ended              |                                |         |                                 |                                |         |
|----------------------------------------|---------------------------------|--------------------------------|---------|---------------------------------|--------------------------------|---------|
|                                        | September 30, 2024              |                                |         | September 30, 2023              |                                |         |
|                                        | Net (Charge-offs)<br>Recoveries | Average Balance <sup>(1)</sup> | %       | Net (Charge-offs)<br>Recoveries | Average Balance <sup>(1)</sup> | %       |
| Construction                           | \$ 1                            | \$ 333,912                     | — %     | \$ 3                            | \$ 398,341                     | — %     |
| Residential real estate                | 1                               | 1,553,456                      | — %     | 3                               | 1,425,729                      | — %     |
| Commercial real estate                 | —                               | 2,273,344                      | — %     | (1,327)                         | 2,389,138                      | 0.22 %  |
| Commercial                             | (153)                           | 222,986                        | 0.27 %  | 2                               | 776                            | (1.03)% |
| Consumer                               | (927)                           | 318,449                        | 1.16 %  | (70)                            | 330,929                        | 0.08 %  |
| Credit cards                           | (210)                           | 3,336                          | 25.04 % | (60)                            | 6,223                          | — %     |
|                                        | \$ (1,288)                      | \$ 4,705,483                   | 0.11 %  | \$ (1,449)                      | \$ 4,551,136                   | 0.13 %  |
| Allowance for credit losses            | —                               | (58,669)                       | — %     | —                               | (28,730)                       | — %     |
| Total net charge-off and average loans | \$ (1,288)                      | \$ 4,646,814                   | 0.11 %  | \$ (1,449)                      | \$ 4,522,406                   | 0.13 %  |

(1) Excludes loans held for sale.

| (\$ in thousands)                      | Nine Months Ended               |                                |         |                                 |                                |         |
|----------------------------------------|---------------------------------|--------------------------------|---------|---------------------------------|--------------------------------|---------|
|                                        | September 30, 2024              |                                |         | September 30, 2023              |                                |         |
|                                        | Net (Charge-offs)<br>Recoveries | Average Balance <sup>(1)</sup> | %       | Net (Charge-offs)<br>Recoveries | Average Balance <sup>(1)</sup> | %       |
| Construction                           | \$ (5)                          | \$ 314,191                     | — %     | \$ 10                           | \$ 292,430                     | — %     |
| Residential real estate                | 4                               | 1,533,716                      | — %     | 37                              | 1,056,892                      | — %     |
| Commercial real estate                 | —                               | 2,277,971                      | — %     | (1,327)                         | 1,528,869                      | 0.12 %  |
| Commercial                             | (173)                           | 227,037                        | 0.10 %  | 10                              | 93,925                         | (0.01)% |
| Consumer                               | (2,169)                         | 322,996                        | 0.90 %  | (189)                           | 319,699                        | 0.08 %  |
| Credit cards                           | (396)                           | 3,228                          | 16.39 % | (60)                            | 2,075                          | — %     |
|                                        | \$ (2,739)                      | \$ 4,679,139                   | 0.08 %  | \$ (1,519)                      | \$ 3,293,890                   | 0.06 %  |
| Allowance for credit losses            | —                               | (58,669)                       | — %     | —                               | (57,051)                       | — %     |
| Total net charge-off and average loans | \$ (2,739)                      | \$ 4,620,470                   | 0.08 %  | \$ (1,519)                      | \$ 3,236,839                   | 0.06 %  |

(1) Excludes loans held for sale.

## Nonperforming Assets

Classified assets increased \$8.4 million to \$23.3 million or 0.39% of total assets at September 30, 2024 from \$14.9 million or 0.25% of total assets at December 31, 2023. Classified assets are substandard loans, repossessed assets and OREO. The increase was primarily due to increases in OREO and repossessed assets of \$0.3 million and \$8.1 million in substandard loans.

As shown in the following table, nonperforming assets were \$15.8 million or 0.27% of total assets at September 30, 2024 compared to \$13.7 million or 0.23% of total assets at December 31, 2023. The balance of nonperforming assets decreased primarily due to decreases in total loans 90 days or more past due of \$0.3 million and repossessed assets and OREO of \$0.3 million, partially offset by an increase in nonaccrual loans of \$2.1 million.

The following table summarizes our nonperforming assets at September 30, 2024 and December 31, 2023.

| <i>(\$ in thousands)</i>                                                     | September 30, 2024 | December 31, 2023 |
|------------------------------------------------------------------------------|--------------------|-------------------|
| Nonperforming assets                                                         |                    |                   |
| Nonaccrual loans                                                             | \$ 14,844          | \$ 12,784         |
| Total loans 90 days or more past due and still accruing                      | 454                | 738               |
| Other real estate owned and repossessed assets                               | 485                | 179               |
| Total nonperforming assets                                                   | \$ 15,783          | \$ 13,701         |
| As a percent of total loans:                                                 |                    |                   |
| Nonaccrual loans                                                             | 0.31 %             | 0.28 %            |
| As a percent of total loans, other real estate owned and repossessed assets: |                    |                   |
| Nonperforming assets                                                         | 0.33 %             | 0.30 %            |
| As a percent of total assets:                                                |                    |                   |
| Nonaccrual loans                                                             | 0.25 %             | 0.21 %            |
| Nonperforming assets                                                         | 0.27 %             | 0.23 %            |

## Deposits

The following is a breakdown of the Company's deposit portfolio at September 30, 2024 and December 31, 2023:

| (\$ in thousands)             | September 30, 2024  |                 | December 31, 2023   |                 | \$ Change           | % Change        |
|-------------------------------|---------------------|-----------------|---------------------|-----------------|---------------------|-----------------|
|                               | Balance             | %               | Balance             | %               |                     |                 |
| Noninterest-bearing demand    | \$ 1,571,393        | 30.07 %         | \$ 1,258,037        | 23.36 %         | \$ 313,356          | 24.91 %         |
| Interest-bearing:             |                     |                 |                     |                 |                     |                 |
| Demand                        | 751,533             | 14.38 %         | 1,165,546           | 21.64 %         | (414,013)           | (35.52)%        |
| Money market deposits         | 1,297,237           | 24.82 %         | 1,430,603           | 26.56 %         | (133,366)           | (9.32)%         |
| Savings                       | 336,903             | 6.45 %          | 347,324             | 6.45 %          | (10,421)            | (3.00)%         |
| Certificates of deposit       | 1,268,657           | 24.28 %         | 1,184,610           | 21.99 %         | 84,047              | 7.09 %          |
| <b>Total interest-bearing</b> | <b>3,654,330</b>    | <b>69.93 %</b>  | <b>4,128,083</b>    | <b>76.64 %</b>  | <b>(473,753)</b>    | <b>(11.48)%</b> |
| <b>Total Deposits</b>         | <b>\$ 5,225,723</b> | <b>100.00 %</b> | <b>\$ 5,386,120</b> | <b>100.00 %</b> | <b>\$ (160,397)</b> | <b>(2.98)%</b>  |

Total deposits decreased \$160.4 million, or 3.0%, to \$5.23 billion at September 30, 2024 when compared to December 31, 2023. The decrease in total deposits was primarily due to a decrease in demand deposits of \$414.0 million, and money market and savings of \$143.8 million. The decrease in deposits is attributable to seasonal municipal runoff and a decrease in interest rate-sensitive cannabis-related deposits. The increase in noninterest-bearing deposits was significantly impacted by a transfer of \$399.4 million of demand deposits which carried an average rate of four bps during the second quarter of 2024.

Total estimated uninsured deposits were \$895.9 million or 17.1% of total deposits at September 30, 2024 and \$1.05 billion or 19.5% of total deposits at December 31, 2023. At September 30, 2024, there were \$127.4 million included in uninsured deposits that the Bank secured using the market value of pledged collateral. The Bank's uninsured deposits, excluding the market value of pledged collateral, at September 30, 2024 were \$768.6 million or 14.7% of total deposits. Reciprocal deposits were \$1.29 billion at September 30, 2024 compared to \$1.29 billion at December 31, 2023. Reciprocal deposits as a percentage of the Bank's liabilities at September 30, 2024 and December 31, 2023 were 24.3% and 23.8%, respectively.

The Bank is required to monitor large deposit relationships and concentration risks in accordance with regulatory guidance. This includes monitoring deposit concentrations and maintaining fund management policies and strategies that take into account potentially volatile concentrations and significant deposits that mature simultaneously. Regulatory guidance defines a large depositor as a customer or entity that owns or controls 2% or more of the Bank's total deposits. At September 30, 2024, the Bank had three local municipal customer deposit relationships that exceeded 2% of total deposits, totaling \$477.3 million, which represented 9.1% of total deposits of \$5.23 billion. At December 31, 2023, there were four customer deposit relationships that exceeded 2% of total deposits, totaling \$598.5 million, which represented 11.1% of total deposits of \$5.40 billion.

### Wholesale Funding - Short-Term Borrowings and Brokered Deposits

The Company had no short-term borrowings at September 30, 2024 and December 31, 2023. Short-term advances are defined as those with original maturities of one year or less. At September 30, 2024 and December 31, 2023, the Company had no securities sold under agreements to repurchase or overnight borrowings from correspondent banks.

The Company's wholesale funding increased \$5.5 million, which includes FHLB advances and brokered deposits, from \$44.5 million in brokered deposits at December 31, 2023 to \$50.0 million in FHLB advances at September 30, 2024.

## Long-Term Debt

The Company occasionally borrows from the FHLB to meet longer term liquidity needs, specifically to fund loan growth when liquidity from deposit growth is not sufficient. There were long-term borrowings from the FHLB outstanding at September 30, 2024 of \$50.0 million and zero at December 31, 2023. This increase was due to a purchase of \$50 million in FHLB advances for 18-months at 4.79% which was lower than short-term FHLB advances of 5.57%. These advances have the option to be called by FHLB at any time and mature on November 7, 2025.

On August 25, 2020, the Company entered into Subordinated Note Purchase Agreements pursuant to which the Company issued and sold \$25.0 million in aggregate principal amount with an initial interest rate of 5.375% of Fixed-to-Floating Rate Subordinated Notes due September 1, 2030.

As a result of the merger with Severn Bancorp, Inc., effective October 31, 2021, the Company acquired Junior Subordinated Debt Securities due in 2035 which had an outstanding principal balance of \$20.6 million. The debt balances of \$18.7 million at September 30, 2024 and \$18.6 million at December 31, 2023 were presented net of fair value adjustments of \$1.9 million and \$2.0 million, respectively.

Additionally, as a result of the TCFC merger, the Company acquired Junior Subordinated Debt Securities which had an outstanding principal balance of \$12.4 million. The debt balance of \$11.0 million at September 30, 2024 was presented net of a fair value adjustment of \$1.3 million. In addition, the Company acquired 4.75% fixed-to-floating rate subordinated notes with a carrying value of \$19.5 million at September 30, 2024. The notes aggregate balance of \$18.8 million at September 30, 2024 was presented net of fair value adjustment of \$700 thousand.

## Stockholders' Equity

| <i>(\$ in thousands, except per share amounts)</i> | <b>September 30, 2024</b> | December 31, 2023 | \$ Change        | % Change      |
|----------------------------------------------------|---------------------------|-------------------|------------------|---------------|
| Common Stock at par of \$0.01                      | <b>\$ 333</b>             | \$ 332            | \$ 1             | 0.30 %        |
| Additional paid in capital                         | <b>357,580</b>            | 356,007           | 1,573            | 0.44 %        |
| Retained earnings                                  | <b>180,884</b>            | 162,290           | 18,594           | 11.46 %       |
| Accumulated other comprehensive loss               | <b>(5,526)</b>            | (7,494)           | 1,968            | (26.26)%      |
| <b>Total Stockholders' Equity</b>                  | <b>\$ 533,271</b>         | <b>\$ 511,135</b> | <b>\$ 22,136</b> | <b>4.33 %</b> |

Total stockholders' equity increased \$22.1 million, or 4.33%, to \$533.3 million at September 30, 2024 when compared to December 31, 2023, primarily due to \$30.6 million of net income, partially offset by dividends paid of \$12.0 million.

## Liquidity and Capital Resources

Liquidity is our ability to meet cash demands as they arise. Cash needs may come from loan demand, deposit withdrawals or acquisition opportunities. Potential obligations, resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers, are other factors affecting our liquidity needs. Many of these obligations and commitments are expected to expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position.

The Company's principal sources of liquidity are cash on hand and dividends received from the Bank. The Bank's most liquid assets are cash, cash equivalents and federal funds sold. The levels of such assets are dependent on the Bank's operating, financing and investment activities at any given time. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows. Customer deposits are considered the primary source of funds supporting the Bank's lending and investment activities.

Based on management's going concern evaluation, we believe that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the Company's or the Bank's ability to continue as a going concern, within one year of the date of the issuance of the financial statements.

The Bank's principal sources of funds for investment and operations are net income, deposits, sales of loans, borrowings, principal and interest payments on loans, principal and interest received on investment securities and proceeds from the maturity and sale of investment securities. The Bank's principal funding commitments are for the origination or purchase of loans, the purchase of securities and the payment of maturing deposits.

The Bank's most liquid assets are cash, cash equivalents and federal funds sold. The levels of such assets are dependent on the Bank's operating, financing and investment activities at any given time. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows.

Liquidity is provided by access to funding sources, which include core depositors and brokered deposits. Other sources of funds include our ability to borrow, such as purchasing federal funds from correspondent banks, sales of securities under agreements to repurchase and advances from the FHLB of Atlanta. The Bank uses wholesale funding (brokered deposits and other sources of funds) to supplement funding when loan growth exceeds core deposit growth and for asset-liability management purposes.

We derive liquidity through increased customer deposits, non-reinvestment of the cash flow from the investment portfolio, loan repayments, borrowings and income from earning assets. As seen in the Consolidated Statements of Cash Flows, the net decrease in cash and cash equivalents was \$188.8 million for the first nine months of 2024 compared to an increase of \$53.2 million for the first nine months of 2023. The decrease in cash and cash equivalents in the first nine months of 2024 was mainly due to the decrease of \$474.8 million in interest-bearing deposits, partially offset by an increase of \$313.4 million in noninterest-bearing deposits.

To the extent that deposits are not adequate to fund customer loan demand, liquidity needs can be met in the short-term fund markets. At September 30, 2024, the Bank had approximately \$1.12 billion of available liquidity including: \$183.6 million in cash and cash equivalents, \$321.2 million in unpledged securities, \$742.4 million in secured borrowing capacity at the FHLB of Atlanta offset by FHLB advances and letter of credit of \$50.0 million and \$81.1 million, respectively. The Bank has arrangements with other correspondent banks whereby it has \$95.0 million available in federal funds lines of credit and a reverse repurchase agreement available to meet any short-term needs which may not otherwise be funded by the Bank's portfolio of readily marketable investments that can be converted to cash. Through the FHLB of Atlanta, the Bank had available lendable collateral of approximately \$742.4 million and \$745.1 million at September 30, 2024 and December 31, 2023, respectively. The Bank has pledged, under a blanket lien, all qualifying residential and commercial real estate loans under borrowing agreements with the FHLB of Atlanta.

The Bank and the Company are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank and the Company to maintain minimum ratios of common equity Tier 1, Tier 1, and total capital as a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 12.50%. The Bank and Company are also required to maintain capital at a minimum level based on quarterly average assets, which is known as the leverage ratio. The Bank was deemed "well capitalized" under applicable regulatory capital requirements at September 30, 2024.

The Bank and Company were in compliance with all applicable regulatory capital requirements to which they were subject, and the Bank was classified as “well capitalized” for purposes of the prompt corrective action regulations. The following tables present the applicable capital ratios for the Company and the Bank as of September 30, 2024 and December 31, 2023.

| <b>September 30, 2024</b> | <b>Tier 1 leverage ratio</b> | <b>Common Equity Tier 1 ratio</b> | <b>Tier 1 risk-based capital ratio</b> | <b>Total risk-based capital ratio</b> |
|---------------------------|------------------------------|-----------------------------------|----------------------------------------|---------------------------------------|
| Shore Bancshares, Inc.    | <b>8.31 %</b>                | <b>9.27 %</b>                     | <b>9.89 %</b>                          | <b>12.04 %</b>                        |
| Shore United Bank         | <b>8.90 %</b>                | <b>10.60 %</b>                    | <b>10.60 %</b>                         | <b>11.84 %</b>                        |
| <b>December 31, 2023</b>  | <b>Tier 1 leverage ratio</b> | <b>Common Equity Tier 1 ratio</b> | <b>Tier 1 risk-based capital ratio</b> | <b>Total risk-based capital ratio</b> |
| Shore Bancshares, Inc.    | 7.75 %                       | 8.69 %                            | 9.32 %                                 | 11.49 %                               |
| Shore United Bank         | 8.33 %                       | 10.02 %                           | 10.02 %                                | 11.27 %                               |

On October 30, 2024, the Company announced that its Board of Directors declared a cash dividend of \$0.12 per share, payable on November 29, 2024, to holders of record of shares of common stock as of November 12, 2024.

For information on risks relating to liquidity, see Item 1A. “Risk Factors - Liquidity Risk,” as presented in the Company's 2023 Annual Report.

The Company provides banking services to customers who do business in the cannabis industry. While the Company is providing banking services to customers that are engaged in the growing, processing, and sales of cannabis in a manner that complies with applicable state law, such customers engaged in those activities currently violate Federal laws. The Company may be deemed to be aiding and abetting illegal activities through the services that it provides to these customers. While we are not aware of any instance of a federally-insured financial institution being subject to such aiding and abetting liability, the strict enforcement of Federal laws regarding cannabis would likely result in the Company’s inability to continue to provide banking services to these customers and the Company could have legal action taken against it by the Federal government, including imprisonment and fines. There is an uncertainty of the potential impact to the Company’s Consolidated Financial Statements if the Federal government takes actions against the Company. As of September 30, 2024, the Company had not accrued an amount for the potential impact of any such actions.

Following is a summary of the level of business activities with our cannabis industry customers:

- Deposit and loan balances at September 30, 2024 were approximately \$134.0 million, or 2.6% of total deposits, and \$75.1 million, or 1.6% of total gross loans, respectively.
- Interest income and noninterest income for the nine months ended September 30, 2024, were approximately \$2.9 million and \$813 thousand, respectively.

## USE OF NON-GAAP FINANCIAL MEASURES

Statements in the MD&A include non-GAAP financial measures and should be read along with the accompanying tables, which provide a reconciliation of non-GAAP financial measures to GAAP financial measures. The Company's management uses these non-GAAP financial measures and believes that non-GAAP financial measures provide additional useful information that allows readers to evaluate the ongoing performance of the Company. Non-GAAP financial measures should not be considered as an alternative to any measure of performance or financial condition as promulgated under GAAP, and investors should consider the Company's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the Company. Non-GAAP financial measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the results or financial condition as reported under GAAP. See Non-GAAP reconciliation schedules that immediately follow:

### RECONCILIATION OF NON-GAAP MEASURES (UNAUDITED)

**Reconciliation of GAAP total assets, common equity, common equity to assets and book value to non-GAAP tangible assets, tangible common equity, tangible common equity to tangible assets and tangible book value.**

This Quarterly Report on Form 10-Q, including the accompanying financial statement tables, contains financial information determined by methods other than in accordance with GAAP. This financial information includes certain performance measures, which exclude intangible assets. These non-GAAP measures are included because the Company believes they may provide useful supplemental information for evaluating the underlying performance trends of the Company.

| <i>(\$ in thousands, except per share amounts)</i> | <b>September 30, 2024</b> | <b>December 31, 2023</b> | <b>September 30, 2023</b> |
|----------------------------------------------------|---------------------------|--------------------------|---------------------------|
| Total assets                                       | \$ 5,917,704              | \$ 6,010,918             | \$ 5,705,372              |
| Less: intangible assets                            |                           |                          |                           |
| Goodwill                                           | 63,266                    | 63,266                   | 63,266                    |
| Core deposit intangibles                           | 40,609                    | 48,090                   | 50,685                    |
| Total intangible assets                            | 103,875                   | 111,356                  | 113,951                   |
| Tangible assets                                    | \$ 5,813,829              | \$ 5,899,562             | \$ 5,591,421              |
| Total common equity                                | \$ 533,271                | \$ 511,135               | \$ 501,578                |
| Less: intangible assets                            | 103,875                   | 111,356                  | 113,951                   |
| Tangible common equity                             | \$ 429,396                | \$ 399,779               | \$ 387,627                |
| Common shares outstanding at end of period         | 33,326,772                | 33,161,532               | 19,907,290                |
| Common equity to assets                            | 9.01 %                    | 8.50 %                   | 8.79 %                    |
| Tangible common equity to tangible assets          | 7.39 %                    | 6.78 %                   | 6.93 %                    |
| Common book value per share                        | \$ 16.00                  | \$ 15.41                 | \$ 25.20                  |
| Tangible common book value per share               | \$ 12.88                  | \$ 12.06                 | \$ 19.47                  |

### Return on Average Common Equity (“ROACE”)

The ROACE is a financial ratio that measures the profitability of a company in relation to the average stockholders' equity. This financial metric is expressed in the form of a percentage which is equal to net income after tax divided by the average stockholders' equity for a specific period of time.

| (\$ in thousands)               | Three Months Ended September 30, |            | Nine Months Ended September 30, |            |
|---------------------------------|----------------------------------|------------|---------------------------------|------------|
|                                 | 2024                             | 2023       | 2024                            | 2023       |
| Net income (loss) (as reported) | \$ 11,189                        | \$ (9,737) | \$ 30,607                       | \$ 738     |
| ROACE                           | 8.41 %                           | (7.25)%    | 7.84 %                          | 0.24 %     |
| Average Equity                  | \$ 529,155                       | \$ 533,114 | \$ 521,564                      | \$ 419,801 |

### Return on Average Tangible Common Equity (“ROATCE”)

ROATCE is computed by dividing net earnings applicable to common stockholders by average tangible common shareholders' equity. Management believes that ROATCE is meaningful because it measures the performance of a business consistently, whether acquired or internally developed. ROATCE is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

| (\$ in thousands)                                                | Three Months Ended September 30, |            | Nine Months Ended September 30, |            |
|------------------------------------------------------------------|----------------------------------|------------|---------------------------------|------------|
|                                                                  | 2024                             | 2023       | 2024                            | 2023       |
| Net income (loss) (as reported)                                  | \$ 11,189                        | \$ (9,737) | \$ 30,607                       | \$ 738     |
| Merger and acquisition costs (net of tax) <sup>(1)</sup>         | —                                | 9,828      | —                               | 12,398     |
| Core deposit intangible amortization (net of tax) <sup>(1)</sup> | 1,746                            | 1,741      | 5,646                           | 2,597      |
| Net earnings applicable to common stockholders                   | \$ 12,935                        | \$ 1,832   | \$ 36,253                       | \$ 15,733  |
| ROATCE                                                           | 12.14 %                          | 1.74 %     | 11.70 %                         | 6.27 %     |
| Average equity                                                   | \$ 529,155                       | \$ 533,114 | \$ 521,564                      | \$ 419,801 |
| Less: Average goodwill and core deposit intangible               | (105,136)                        | (115,604)  | (107,623)                       | (84,300)   |
| Average Tangible Common Equity                                   | \$ 424,019                       | \$ 417,510 | \$ 413,941                      | \$ 335,501 |

(1) The Bank utilized a tax rate of 26% for the nine months ended September 30, 2023. The Company's effective tax rate was (329.12)% for the nine months ended September 30, 2023, and was impacted by nondeductible merger related costs incurred.

### **Item 3 – Quantitative and Qualitative Disclosures about Market Risk.**

Our primary market risk is interest rate fluctuation, and management has procedures in place to evaluate and mitigate this risk. This risk and these procedures are discussed in Part II, Item 7A of the 2023 Annual Report under the caption “Quantitative and Qualitative Disclosures About Market Risk”. Management recognizes that recent changes in interest rates have had an impact on the Company’s market risk. The procedures used to evaluate and mitigate these risks remain unchanged, and we continue to monitor our actual and simulated sensitivity positions since December 31, 2023.

### **Item 4 – Controls and Procedures.**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files under the Securities Exchange Act of 1934, as amended (“Exchange Act”) with the SEC, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in those rules and forms, and that such information is accumulated and communicated to management, including Shore Bancshares, Inc.’s principal executive officer (“PEO”) and its principal financial officer (“PFO”), as appropriate, to allow for timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of these disclosure controls and procedures as of September 30, 2024 was carried out under the supervision and with the participation of management, including the PEO and the PFO. Based on that evaluation, the Company’s management, including the PEO and the PFO, concluded that our disclosure controls and procedures were not effective at the reasonable assurance level at September 30, 2024 due to the material weakness in the Company’s internal control over financial reporting described below.

#### **Material Weaknesses in Internal Control Over Financial Reporting**

Management assessed the Company’s system of internal control over financial reporting as of September 30, 2024. This assessment was conducted based on the Committee of Sponsoring Organizations (“COSO”) of the Treadway Commission “Internal Control – Integrated Framework (2013).” Based on this assessment, management has concluded that the Company’s internal control over financial reporting was not effective as of September 30, 2024 due to the material weaknesses identified below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Management previously disclosed a material weakness in relation to deferred income taxes discussed in Part I, Item 4 of the Company’s Form 10-Q/A for the quarter ended September 30, 2023, which has been fully remediated as reported in Part I, Item 4 of the Company’s Form 10-Q for the quarter ended March 31, 2024.

Management previously disclosed a material weakness caused by improperly designed preventative controls and insufficient monitoring controls of the online credit card account opening process, which resulted in a material fraud loss, as discussed in Part I, Item 4 of the Company’s Form 10-Q for the quarter ended March 31, 2024. As described below, management expects the remediation of the online credit card account opening material weakness will be completed prior to the end of 2024.

Management previously disclosed a material weakness associated with ineffective input review controls relating to specific aspects of the Company’s ACL model discussed in Part II, Item 9A of the 2023 Annual Report. As described below, management continues to follow its remediation plan with respect to the review of controls related to the allowance for credit losses and expects the material weakness will be fully remediated by the end of 2024.

#### **Remediation Plan to Address the Material Weaknesses**

In response to the material weaknesses identified above, the Company is in the process of implementing changes to its internal control over financial reporting, with oversight of the Audit Committee.

Specifically in relation to the material weakness identified related to the online credit card account opening process, remediation began immediately upon detection on April 1, 2024, by completely closing the online application portal and suspending the opening of all new credit card accounts using the automated online account opening application hosted by the Company’s third party credit card processor.

The Company reviewed all accounts opened on or after February 1, 2024, and closed those deemed to be fraudulent including all accounts/cards opened on or after March 28, 2024, to ensure no additional loss to the Bank. The Company is evaluating whether to sell and exit the credit card issuer program. We expect that the remediation of the online credit card account opening material weakness will be completed prior to the end of 2024.

Specifically in relation to the allowance for credit losses, management has continued to follow the remediation plan outlined in the 2023 Annual Report. According to the plan management compiled a detailed inventory of significant inputs to the allowance for credit losses calculation and, reevaluating the relevant SOX control design and operation to ensure all significant inputs to the allowance for credit losses calculation are recorded timely and accurately. In addition, management also conducted a detailed data audit to ensure the completeness and accuracy of select inputs to the allowance for credit losses calculation. We expect that the allowance for credit losses material weakness will be fully remediated by the end of 2024.

Management will consider the material weaknesses remediated once the applicable controls have operated for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

#### **Changes in Internal Control Over Financial Reporting**

Except as described above, there were no additional changes in the Company's internal control over financial reporting (as such term is defined by Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the third quarter of 2024 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1 – Legal Proceedings**

From time to time the Company may become involved in legal proceedings. At the present time, there are no proceedings which the Company believes will have a material adverse impact on the financial condition or earnings of the Company.

### **Item 1A – Risk Factors**

There have been no material changes to the risk factors as previously disclosed under Item 1A in our 2023 Annual Report, our Quarterly Report on Form 10-Q for the first quarter of 2024 and those referenced in other reports on file with the SEC.

### **Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds**

There were no repurchases or unregistered sales of the Company's common stock, par value \$0.01 per share, during the quarter-to-date period ended September 30, 2024.

### **Item 3 – Defaults Upon Senior Securities**

None.

### **Item 4 – Mine Safety Disclosures**

Not applicable.

### **Item 5 – Other Information**

#### **Rule 10b5-1 Trading Plans**

During the quarter ended September 30, 2024, no officer or director of the Company adopted or terminated any contract, instruction, or written plan for the purchase or sale of securities of the Company's common stock that is intended to satisfy the affirmative defense conditions of Securities Exchange Act Rule 10b5-1(c) or any non-Rule 10b5-1 trading arrangement as defined in 17 CFR § 229.408(c).

**Item 6 – Exhibits.**

| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                                                                                                              |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1                   | <a href="#"><u>Agreement and Plan of Merger, dated as of December 14, 2022, between Shore Bancshares, Inc. and The Community Financial Corporation (incorporated by reference to Exhibit 2.1 of the Company’s Form 8-K filed on December 14, 2022)</u></a>      |
| 3.1(i)                | <a href="#"><u>Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Company’s Form 8-K filed on December 14, 2000).</u></a>                                                                                          |
| 3.1(ii)               | <a href="#"><u>Articles of the Amendment of Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Company’s Form 8-K filed on July 3, 2023).</u></a>                                                                  |
| 3.1(iii)              | <a href="#"><u>Articles Supplementary relating to the Fixed Rate Cumulative Perpetual Preferred Stock Series A (incorporated by reference to Exhibit 4.1 of the Company’s Form 8-K filed on January 13, 2009).</u></a>                                          |
| 3.1(iv)               | <a href="#"><u>Articles Supplementary relating to the reclassification of the Fixed Rate Cumulative Perpetual Preferred Stock Series A, as common stock (incorporated by reference to Exhibit 3.1(i) of the Company’s Form 8-K filed on June 17, 2009).</u></a> |
| 3.2                   | <a href="#"><u>Second Amended and Restated By-Laws, as amended (incorporated by reference to Exhibit 3.2 to the Company’s Form 10-Q filed August 9, 2024).</u></a>                                                                                              |
| 4.1                   | <a href="#"><u>Description of Registrant’s Securities (incorporated by reference to Exhibit 4.1 to the Company’s Form 10-K filed March 15, 2024).</u></a>                                                                                                       |
| 4.2                   | <a href="#"><u>Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the Company’s Form S-3 filed on June 25, 2010).</u></a>                                                                                                            |
| 31.1                  | <a href="#"><u>Certifications of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith).</u></a>                                                                                                                    |
| 31.2                  | <a href="#"><u>Certifications of the Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith).</u></a>                                                                                                                   |
| 32                    | <a href="#"><u>Certification pursuant to Section 906 of the Sarbanes-Oxley Act (furnished herewith).</u></a>                                                                                                                                                    |
| 101                   | Inline Interactive Data File.                                                                                                                                                                                                                                   |
| 101.INS               | Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).                                                                                          |
| 101.SCH               | Inline XBRL Taxonomy Extension Schema (filed herewith).                                                                                                                                                                                                         |
| 101.CAL               | Inline XBRL Taxonomy Extension Calculation Linkbase (filed herewith).                                                                                                                                                                                           |
| 101.DEF               | Inline XBRL Taxonomy Extension Definition Linkbase (filed herewith).                                                                                                                                                                                            |
| 101.LAB               | Inline XBRL Taxonomy Extension Label Linkbase (filed herewith).                                                                                                                                                                                                 |
| 101.PRE               | Inline XBRL Taxonomy Extension Presentation Linkbase (filed herewith).                                                                                                                                                                                          |
| 104                   | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).                                                                                                                                                                       |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**SHORE BANCSHARES, INC.**

Date: November 7, 2024

By: /s/ James M. Burke

James M. Burke  
President & Chief Executive Officer  
(Principal Executive Officer)

Date: November 7, 2024

By: /s/ Todd L. Capitani

Todd L. Capitani  
Executive Vice President & Chief Financial Officer  
(Principal Financial Officer)

**Certifications of the Principal Executive Officer  
Pursuant to Securities Exchange Act Rules 13a-1 and 15d-14  
As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, James M. Burke, certify that:

1. I have reviewed this report on Form 10-Q of Shore Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2024

By: /s/ James M. Burke

James M. Burke

President & Chief Executive Officer

(Principal Executive Officer)

**Certifications of the Principal Accounting Officer**  
**Pursuant to Securities Exchange Act Rules 13a-1 and 15d-14**  
**As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Todd L. Capitani, certify that:

1. I have reviewed this report on Form 10-Q of Shore Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2024

By: /s/ Todd L. Capitani

Todd L. Capitani

Executive Vice President & Chief Financial Officer  
(Principal Financial Officer)

**Certification of Periodic Report**  
**Pursuant to 18 U.S.C. Section 1350**  
**As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to, and for purposes only of, 18 U.S.C. § 1350, the undersigned hereby certify that (i) the Quarterly Report of Shore Bancshares, Inc. on Form 10-Q for the Quarter ended September 30, 2024 filed with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Shore Bancshares, Inc.

Date: November 7, 2024

/s/ James M. Burke

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James M. Burke  
President & Chief Executive Officer  
(Principal Executive Officer)

Date: November 7, 2024

/s/ Todd L. Capitani

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Todd L. Capitani  
Executive Vice President & Chief Financial Officer  
(Principal Financial Officer)