QUEENSTOWN BANCORP OF MARYLAND, INC.

Queenstown
Bank

2017
ANNUAL REPORT

QUEENSTOWN BANCORP OF MARYLAND INC. AND SUBSIDIARY
FINANCIAL PERFORMANCE SUMMARY & RATIOS

In thousands, Except Per Share Data	2017	2016	2015	2014	2013
PROFITABILITY					
Net interest income	$ 18,122	$ 17,959	$ 17,927	$ 17,014	$ 16,194
Noninterest income	1,102	1,160	1,192	1,211	1,299
Net gain (loss) on sales of other real estate owned	167	(38)	(136)	(300)	(997)
Securities gains	-	-	22	476	-
Noninterest expenses	9,590	9,633	9,579	9,468	9,458
Provisions for credit losses	600	990	1,241	3,000	3,900
Income before taxes	9,201	8,458	8,185	5,933	3,138
Income tax expense before deferred tax writedown	3,556	3,242	3,076	2,231	1,102
Net income before deferred tax writedown	**5,645**	**5,216**	**5,109**	**3,702**	**2,036**
Deferred tax writedown	**400**	**-**	**-**	**-**	**-**
Net income	5,245	5,216	5,109	3,702	2,036
Return on average assets excluding deferred tax writedown	**1.18%**	**1.13%**	**1.15%**	**0.83%**	**0.45%**
Return on average equity excluding deferred tax writedown	**9.76%**	**9.58%**	**10.09%**	**7.84%**	**4.54%**
Return on average assets	1.10%	1.13%	1.15%	0.83%	0.45%
Return on average equity	9.06%	9.58%	10.09%	7.84%	4.54%
Net interest margin	3.96%	4.08%	4.29%	4.09%	3.90%
*Efficiency ratio (excluding other real estate gains(losses))	49.58%	49.95%	49.44%	51.95%	53.69%
Basic earnings per share before deferred tax writedown	**$ 4.52**	**$ 4.14**	**$ 4.06**	**$ 2.94**	**$ 1.62**
Basic earnings per share	$ 4.20	$ 4.14	$ 4.06	$ 2.94	$ 1.62
Dividends per share	$ 1.25	$ 1.15	$ 1.00	$ 0.60	$ 0.40
BALANCE SHEET					
Loans	$ 377,627	$ 386,044	$ 393,672	$ 383,135	$ 376,462
Allowance for loan losses	5,297	5,910	5,908	6,035	5,647
Loans, net of allowance for loan losses	372,330	380,134	387,764	377,100	370,815
Interest bearing deposits with banks	59,088	49,134	29,906	24,366	32,708
Total assets	464,719	462,685	447,126	438,092	441,651
Deposits	404,552	405,341	393,525	388,213	395,131
Stockholders' equity	58,075	55,500	51,847	48,091	45,158
Shares outstanding	1,226,125	1,259,330	1,259,330	1,259,330	1,259,330
Book value per share	$ 47.36	$ 44.07	$ 41.17	$ 38.19	$ 35.89
Loans / Deposits	93.34%	95.24%	100.04%	98.69%	95.28%
Allowance for loan losses / Loans	1.40%	1.53%	1.50%	1.58%	1.50%
REGULATORY CAPITAL RATIOS					
QUEENSTOWN BANK					
Tier I leverage (avg. equity / avg. assets) ratio	12.15%	11.76%	11.47%	10.77%	9.94%
Common equity risk based	17.45%	16.05%	14.89%	14.11%	13.43%
Tier I risk-based capital ratio	17.45%	16.05%	14.89%	14.11%	13.43%
Total risk based capital ratio	18.71%	17.30%	16.14%	15.37%	14.68%
QUEENSTOWN BANCORP					
Tier I leverage (avg. equity / avg. assets) ratio	12.15%	11.77%	11.48%	10.78%	9.95%
Common equity risk based	17.46%	16.05%	14.89%	14.12%	13.44%
Tier I risk based capital ratio	17.46%	16.05%	14.89%	14.12%	13.44%
Total risk based capital ratio	18.71%	17.31%	16.15%	15.38%	14.69%

*Efficiency ratio: total noninterest expenses excluding other real estate gains (losses) divided by tax equivalent net interest income plus noninterest income

Queenstown Bancorp of Maryland, Inc.

To Fellow Stockholders:

"There is nothing wrong with **change**...if it is in the right direction."
Winston Churchill

"A year of change" – that is how we would describe Queenstown Bank in 2017. The Bank went through a number of changes in 2017 but we believe that these changes are taking the Bank in the right direction to ensure success in the future. The Bank saw the retirement of J. Thomas (Tommy) Rhodes, Jr., our long-time leader and fixture in the Queenstown community. Tommy spent 42 years with the Bank, the last 25 as the President and Chief Executive Officer. Tommy set the standard for how a community bank operates within its community and his daily presence will be missed. With Tommy's retirement, the Board enlisted the services of Kevin B. Cashen as the 14th President and CEO of the Bank. Kevin joins the bank with significant banking experience and brings a community focus to the job. In addition to Tommy's retirement, we saw the retirement of several other long- term associates including Stephanie Morris, John Ludwig and Judy Vera. All helped to build the Bank to where it is today and their contributions will be missed.

The Bank will continue to focus on serving the community and maintaining its outstanding reputation for customer service. At the same time, the Bank is preparing for the future with investments in the people, facilities and technologies to compete in the ever-changing banking market. In 2017, the Bank enhanced the on-line banking platform with the addition of Mobile Capture, an enhancement to our Mobiliti product. Planning has begun to replace our fleet of ATMs and to modernize our branch network. The Bank is very excited about 2018 and beyond.

Continued strong earnings enabled the Company to increase its dividend again in 2017 to a total of $1.25 per share, an increase of 9% over 2016. Stockholders' equity increased $2.6 million to $58.1 million at December 31, 2017. The increase is comprised primarily of net income less cash dividends and share repurchases of $2.5 million. For the year ended December 31, 2017, the Bank saw a slight increase in its net income at $5.25 million. Net income per common share increased from $4.14 in 2016, to $4.20 in 2017. Net income for 2017 included a one-time write-down of net deferred tax assets of $400 thousand, as a result of the new tax law that reduced our 2018 and beyond federal corporate tax rate from 34% to 21%. Excluding the deferred tax write-down, net income was $5.65 million, an 8.24% increase over the net income of $5.22 million for 2016.

The Bank continued to see improvement in its asset quality in 2017. Provisions for credit losses were $600 thousand for 2017, down $330 thousand from 2016. Criticized loans have been reduced from $18.8 million at December 31, 2016 to $10.8 million at December 31, 2017. The allowance for loan losses represents 49% of criticized loans at year end 2017, compared to 31% at year-end 2016. Total assets increased slightly, from $463 million at year end 2016, to $465 million at year end 2017. Competitive pressures for loan production and portfolio retention resulted in loan balances of $377.6 million at December 31, 2017, compared to $386 million at December 31, 2016. Despite three Federal Reserve rate hikes, our portfolio loan yield fell 2 basis points from 5.14% for 2016, to 5.12% for 2017. The lower balances and slightly lower yield resulted in a decrease in loan interest income of $371 thousand for 2017 compared to 2016. The Federal Reserve rate hikes combined with core deposit growth produced an increase of $532 thousand in interest income on interest bearing deposits with banks for 2017 compared to 2016.

Total deposits at December 31, 2017 were $404.5 million, a decrease of $800 thousand, from $405.3 million at December 31, 2016. The mix of our deposits improved significantly, as demand and non-maturity interest bearing balances grew $13.5 million. This significant core deposit growth produced a lower cost of funds for interest bearing deposits. The cost of total interest-bearing deposits decreased from .67% for year-end 2016, to .66% for year-end 2017. Non-maturity transaction and savings accounts comprised 43.3% of interest bearing deposit totals at December 31, 2017, compared to 40% at December 31, 2016. The Bank continues to maintain very strong capital ratios. All Bank capital ratios exceed the regulatory capital definition of “well capitalized”. For the Bank, the Tier I ratio increased 140 basis points, from 16.05% to 17.45% and the total capital ratio increased 141 basis points, from 17.30% to 18.71%. For the Company, the Tier I ratio increased 141 basis points, from 16.05% to 17.46% and the total capital ratio increased 140 basis points, from 17.31% to 18.71%.

The Bank is very well positioned for continued improvement in the coming years. We believe that the market will remain strong through 2018, although we will see a rise in interest rates as the Federal Reserve continues to raise rates. The Bank is committed to continuing to serve the mid-shore community with the products and services that have contributed to its success in the past. The Bank is also committed to its investment in the future to maintain its competitive edge and deliver the required products and services necessary in today’s banking market. Our continued success is built on the commitment of our dedicated employees, the experience of our relationship managers, our commitment to outstanding customer service, our committed Board of Directors and most of all, you, the stockholders, customers and committed neighbors.

We appreciate your support and welcome your referrals as we deepen our contribution to the community. Please feel free to contact us at 410-827-8881 should you have any comments or questions.

Yours truly,

Kevin B. Cashen
President & CEO

Patrick E. Thompson
Chairman of the Board

2017

ANNUAL REPORT

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This financial report summarizes the most significant financial reports for our banking operation. The audited financial statements with all requisite footnotes are available on our website queenstownbank.com. If you do not have access to the internet and desire a copy of the audited financial statements please contact us at 410-827-8881.

SUMMARY FINANCIAL RESULTS

For the year ended December 31, 2017 net income was $5.25 million, compared to net income of $5.22 million for the year ended December 31, 2016. Net income per common share increased from $4.14 in 2016, to $4.20 in 2017. Net income for 2017 included a one time writedown of net deferred tax assets of $400 thousand, as a result of the new tax law that reduced our 2018 and beyond federal corporate tax rate from 34% to 21%. Excluding the deferred tax writedown, net income was $5.65 million, an 8.24% increase over the net income of $5.22 million for 2016.

Net interest income

Net interest income increased from $17.96 million for 2016, to $18.12 million for 2017. Growth of nonmaturity core deposits produced lower funding costs on interest bearing deposits. Funding costs on interest bearing deposits were reduced from .67% for 2016, to .66% for 2017.

Competitive pressures for loan production and portfolio retention resulted in loan balances of $377.6 million at December 31, 2017, compared to $386 million at December 31, 2016. Despite three Federal Reserve rate hikes, our portfolio loan yield fell 2 basis points from 5.14% for 2016, to 5.12% for 2017. The lower balances and slightly lower yield resulted in a decrease in loan interest income of $371 thousand for 2017 compared to 2016. The Federal Reserve rate hikes combined with core deposit growth produced an increase of $532 thousand in interest income on interest bearing deposits with banks for 2017 compared to 2016.

Provisions for credit losses and allowance for loan losses

Provisions for credit losses were $600 thousand for 2017, compared to $990 thousand for 2016. (See Table 3: Allowance for Loan Losses)

Criticized loans have been reduced from $18.8 million at December 31, 2016 to $10.8 million at December 31, 2017. The allowance for loan losses represents 49% of criticized loans at year end 2017, compared to 31% at year end 2016. (See Table 5: Criticized Loans)

Noninterest income

Noninterest income, excluding other real estate owned gains (losses), was $1.1 million for 2017 and 2016. Service charges on deposit accounts increased $42 thousand, from $579 thousand in 2016, to $621 thousand in 2017. Other income was $481 thousand for 2017, compared to $581 thousand for 2016.

Noninterest expenses

Noninterest expenses decreased $43 thousand for 2017, from $9,633 thousand in 2016, to $9,590 thousand for 2017. FDIC insurance premiums were reduced from $502 thousand for 2016, to $189 thousand for 2017. Other real estate carrying costs were reduced from $246 thousand for 2016, to $126 thousand for 2017.

Income taxes

Income tax provisions are primarily adjusted for non-taxable income before applying applicable federal and state income tax rates. Included in income tax expense for 2017 was a $400 writedown of our net deferred tax assets, resulting from the passage of the new tax law in late December of 2017. The new tax law reduced the federal corporate tax rate from 34% to 21%, thereby reducing the benefits of future deferred tax deductions. Exclusive of the deferred tax writedown, our effective tax rate was 38.7% for 2017 and 38.3% for 2016.

FINANCIAL CONDITION

Total assets increased slightly, from $463 million at year end 2016, to $465 million at year end 2017. The loan portfolio decreased from $386 million at December 31, 2016, to $377.6 million at December 31, 2017. Increases in short term interest bearing deposits with banks will provide for future loan growth as prudent opportunities arise. (See Queenstown Bancorp of Maryland, Inc. and Subsidiary Consolidated Balance Sheets Page 1 and Table 1 Average Balances and Net Interest Income Analysis)

Deposits

Total deposits at December 31, 2017 were $404.5 million, an decrease of $.8 million, from $405.3 million at December 31, 2015. The mix of our deposits improved significantly, as demand and non-maturity interest bearing balances grew $13.5 million. This significant core deposit growth produced a lower cost of funds for interest bearing deposits. The cost of total interest bearing deposits decreased from .67% for year end 2016, to .66% for year end 2017. Non-maturity transaction and savings accounts comprised 43.3% of interest bearing deposit totals at December 31, 2017, compared to 40% at December 31, 2016. (See Table 6: Deposits).

Capital levels

Stockholders' equity increased $2.6 million, from $55.5 million at December 31, 2016, to $58.1 million at December 31, 2017. The increase is comprised primarily of net income less cash dividends and share repurchases of $2.5 million. The Bank and Company's total qualifying capital ratios have increased over the 2016 year end ratios. For the Company, the Tier I ratio increased 141 basis points, from 16.05% to 17.46%. The total capital ratio increased 140 basis points, from 17.31% to 18.71%. The common equity leverage ratio increased 38 basis points, from 11.77% to 12.15%. (See Table 7: Stockholders' Equity)

For the Bank, the Tier I ratio increased 140 basis points, from 16.05% to 17.45%. The total capital ratio increased 141 basis points, from 17.30% to 18.71%. The common equity leverage ratio increased 39 basis points, from 11.76% to 12.15%. All Bank capital ratios exceed the regulatory capital definition of well capitalized. (See Table 7: Stockholders' Equity)

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	December 31	
	2017	**2016**
ASSETS		
Cash and due from banks	$ 4,703	6,103
Interest bearing deposits with banks	59,088	49,134
Total cash and cash equivalents	63,791	55,237
Securities available-for-sale (at fair value)	12,356	10,521
Federal Home Loan Bank stock (at cost)	430	416
Loans	377,627	386,044
Less allowance for loan losses	(5,297)	(5,910)
Loans, net	372,330	380,134
Premises and equipment, net	5,360	5,556
Bank owned life insurance	5,964	5,825
Other real estate	1,287	1,308
Deferred income taxes	964	1,443
Accrued interest receivable	1,497	1,449
Prepaid expenses	316	322
Other assets	424	474
TOTAL ASSETS	$464,719	462,685
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	$ 94,405	88,021
Interest bearing deposits	310,147	317,320
Total deposits	404,552	405,341
Accrued expenses and other liabilities	2,092	1,844
Total liabilities	406,644	407,185
Common stock - $10 par value; 10,000,000 shares authorized; 1,226,125 shares issued at December 31, 2017; 1,259,330 shares issued at December 31, 2016	12,261	12,593
Surplus	154	139
Retained earnings	45,727	42,846
Accumulated other comprehensive loss	(67)	(78)
Total stockholders' equity	58,075	55,500
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$464,719	462,685

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share information)

	Years Ended		
	2017	**2016**	**2015**
INTEREST INCOME:			
Interest and fees on loans	$ 19,227	19,598	19,771
Interest and dividends on investment securities	252	229	292
Other interest income	801	269	99
Total interest income	20,280	20,096	20,162
INTEREST EXPENSE:			
Interest on deposits	2,158	2,137	2,235
Net interest income	18,122	17,959	17,927
Provisions for loan losses	600	990	1,241
Net interest income after provisions for loan losses	17,522	16,969	16,686
NONINTEREST INCOME:			
Service charges on deposit accounts	621	579	614
Other income	481	581	578
Net gain (loss) on sales of other real estate	167	(38)	(136)
Securities gains	-	-	22
Total noninterest income	1,269	1,122	1,078
NONINTEREST EXPENSES:			
Salaries and employee benefits	6,051	5,831	5,658
FDIC insurance premiums	189	502	571
Other real estate expenses	126	246	390
Data processing expenses	602	617	598
Occupancy expense of bank premises	628	610	647
Equipment expenses	347	322	313
Other expenses	1,647	1,505	1,402
Total noninterest expenses	9,590	9,633	9,579
Income before income taxes	9,201	8,458	8,185
Income tax expense	3,956	3,242	3,076
Net income	$ 5,245	5,216	5,109
Basic and diluted net income per share	$ 4.20	4.14	4.06
Basic weighted average shares outstanding	1,249,663	1,259,330	1,259,330
Diluted weighted average shares outstanding	1,249,852	1,259,330	1,259,330

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

	Years Ended		
	2017	**2016**	**2015**
Net income	$ 5,245	5,216	5,109
Other comprehensive income (loss), before tax:			
Securities available for sale:			
Unrealized holding gains (losses) arising during the period	36	(188)	(126)
Reclassification adjustment for gains (losses) included in net income	-	-	(30)
Other comprehensive income (loss), before tax	36	(188)	(156)
Income tax effect	(14)	74	62
Other comprehensive (loss), net of tax	22	(114)	(94)
Total comprehensive income	$ 5,267	5,102	5,015

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2017, 2016 and 2015

(Dollars in thousands, except per share information)

	Common Stock			Retained	Accumulated Other Comprehensive	
	Shares	Par Value	Surplus	Earnings	Income (Loss)	Total
Balances at January 1, 2015	1,259,330	$ 12,593	139	35,229	130	48,091
Net Income	-	-	-	5,109	-	5,109
Other comprehensive income (loss), net of tax	-	-	-	-	(94)	(94)
Cash dividends ($1.00 per share)	-	-	-	(1,259)	-	(1,259)
Balances at December 31, 2015	1,259,330	12,593	139	39,079	36	51,847
Net Income	-	-	-	5,216	-	5,216
Other comprehensive (loss), net of tax	-	-	-	-	(114)	(114)
Cash dividends ($1.15 per share)	-	-	-	(1,449)	-	(1,449)
Balances at December 31, 2016	1,259,330	12,593	139	42,846	(78)	55,500
Net Income	-	-	-	5,245	-	5,245
Other comprehensive (loss), net of tax	-	-	-	-	22	22
Reclassification of remaining tax effects on deferred tax assets on securities available for sale	-	-	-	11	(11)	-
Stock repurchases	(33,205)	(332)		(830)	-	(1,162)
Stock option compensation	-	-	15	-	-	15
Cash dividends ($1.25 per share)	-	-	-	(1,545)	-	(1,545)
Balances at December 31, 2017	1,226,125	$ 12,261	154	45,727	(67)	58,075

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Years Ended		
	2017	2016	2015
OPERATING ACTIVITIES:			
Net Income	$ 5,245	5,216	5,109
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization on securities	90	75	50
Depreciation and amortization	376	364	362
Gains on sales of securities	-	-	(22)
Net (gain) loss on sales of other real estate	(167)	38	136
Provision for loan losses	600	990	1,241
Deferred tax (benefit) expense	459	(373)	17
Stock option compenstion	15	-	-
Net changes in:			
Accrued interest receivable	(48)	(192)	64
Accrued expenses and other liabilities	248	90	(34)
Prepaid expenses	6	(168)	116
Other operating activities	107	(186)	731
Net cash provided by operating activities	6,931	5,854	7,770
INVESTING ACTIVITES:			
Purchases of securities available-for-sale	(4,830)	(3,479)	(1,154)
Proceeds from sales of securities available-for-sale	-	-	824
Proceeds from calls and maturities of securities available-for-sale	500	795	50
Prinicipal payments received on securities available-for-sale	2,444	1,414	1,224
Net decrease (increase) in loans	5,689	5,172	(13,096)
Purchases of FHLB stock	(14)	(8)	-
Proceeds from redemption of FHLB stock	-	-	3
Purchases of premises and equipment	(180)	(226)	(92)
Purchases and improvements of other real estate	(32)	-	-
Proceeds from sales of other real estate	1,531	1,369	2,204
Net cash provided (used) by investing activities	5,108	5,037	(10,037)
FINANCING ACTIVITIES:			
Net(decrease) increase in deposits	(789)	11,816	5,313
Purchases of common stock	(1,151)	-	-
Dividends paid	(1,545)	(1,449)	(1,259)
Net cash (used) provided by financing activities	(3,485)	10,367	4,054
Net increase in cash and cash equivalents	8,554	21,258	1,787
Cash and cash equivalents at beginning of year	55,237	33,979	32,192
Cash and cash equivalents at end of year	$ 63,791	55,237	33,979
Supplemental disclosures:			
Interest payments	$ 2,185	2,141	2,294
Income tax payments	3,497	3,695	3,029
Noncash investing and financing activities:			
Loan charge-offs	1,553	1,155	1,614
Transfers to other real estate	1,311	1,301	945

TABLE 1: AVERAGE BALANCES AND NET INTEREST INCOME ANALYSIS

Taxable Equivalent Basis - In Thousands (1)	Years Ended December 31 2017 Average Balance	2017 Interest Income/ Expense	2017 Average Yield/ Rate	2016 Average Balance	2016 Interest Income/ Expense	2016 Average Yield/ Rate	2015 Average Balance	2015 Interest Income/ Expense	2015 Average Yield/ Rate
EARNING ASSETS									
Loans (2)	$ 377,730	19,337	5.12%	$ 382,262	19,662	5.14%	$ 385,322	19,931	5.17%
Securities – taxable (3)	11,503	259	2.25%	9,932	232	2.34%	10,023	302	3.01%
Interest bearing deposits with banks and federal funds sold	71,488	799	1.12%	49,702	269	0.54%	26,612	99	0.37%
Total earning assets	460,721	20,395	4.43%	441,896	20,163	4.56%	421,957	20,332	4.82%
NON-EARNING ASSETS									
Cash and due from banks	$ 2,205			$ 2,186			$ 2,662		
Premises and equipment, net	5,445			5,627			5,845		
All other assets, net	15,619			16,637			18,169		
Less: allowance for loan losses	(5,819)			(6,058)			(6,037)		
Total assets	478,171			460,288			442,596		
INTEREST-BEARING LIABILITIES									
Savings and time deposits	$ 327,028	2,158	0.66%	$ 316,769	2,137	0.67%	$ 301,955	2,235	0.74%
OTHER LIABILITIES AND STOCKHOLDERS' EQUITY									
Demand deposits	$ 91,276			$ 87,189			$ 88,174		
Other liabilities	2,008			1,861			1,854		
Stockholders' equity	57,859			54,469			50,613		
Total liabilities and stockholders' equity	478,171			460,288			442,596		
Net interest income and net interest margin (4)		18,237	3.96%		18,026	4.08%		18,097	4.29%
Interest rate spread (5)			3.77%			3.89%			4.08%

(1) The taxable equivalent basis is computed using 34% federal and applicable state tax rates.

(2) The average loan balances exclude nonaccrual loans.

(3) The average balances for debt and equity securities exclude the effect of their mark-to-market adjustment, if any.

(4) Net interest margin is computed by dividing net interest income by total earning assets.

(5) Interest rate spread equals the earning asset yield minus the interest-bearing liability rate.

TABLE 2: LOANS

At December 31, 2017 and 2016, loans were as follows:

	2017	2016
Real estate:		
Construction and land development	$ 20,699	32,918
Secured by farmland	38,491	37,582
Commercial	102,536	98,501
Residential	189,231	191,071
Commercial and agricultural	18,777	18,312
Consumer	7,893	7,660
Total	$ 377,627	386,044

A summary of current, past due, and nonaccrual loans as of December 31, 2017 and 2016 was as follows:

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Total
As of December 31, 2017					
Real estate:					
Construction and land development loans	$ 19,814	77	-	808	20,699
Secured by farmland	$ 38,206	285	-	-	38,491
Commercial	$ 99,377	1,445	1,212	502	102,536
Residential	$ 182,479	4,126	484	2,142	189,231
Commercial and agricultural	$ 18,207	508	62	-	18,777
Consumer	$ 7,760	133	-	-	7,893
Total	$ 365,843	6,574	1,758	3,452	377,627
Percentage of loan portfolio	96.9%	1.7%	0.5%	0.9%	100%
As of December 31, 2016					
Real estate:					
Construction and land development loans	$ 31,596	52	-	1,270	32,918
Secured by farmland	37,139	-	443	-	37,582
Commercial	94,961	2,973	88	479	98,501
Residential	184,314	3,689	262	2,806	191,071
Commercial and agricultural	18,224	85	-	3	18,312
Consumer	7,574	86	-	-	7,660
Total	$ 373,808	6,885	793	4,558	386,044
Percentage of loan portfolio	96.8%	1.8%	0.2%	1.2%	100%

TABLE 3: ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the year ended December 31, 2017 and 2016 were as follows:

	Real estate construction	Real estate residential	Real estate farmland and commercial	Commercial and agriculture	Consumer	Total
As of December 31, 2017						
Beginning Balance	$ 1,466	$ 2,256	$ 1,835	$ 256	$ 97	5,910
Provision for loan losses			600			600
Net charge-offs:						
Charge-offs	(28)	(242)	(1,230)	-	(51)	(1,551)
Recoveries	136	104	3	49	46	338
Net charge-offs	108	(138)	(1,227)	49	(5)	(1,213)
Ending balance	$ 1,574	2,118	1,208	305	92	5,297
As of December 31, 2016						
Beginning Balance	$ 1,664	1,948	1,814	368	114	5,908
Provision for loan losses	-	754	236	-	-	990
Net charge-offs:						
Charge-offs	(264)	(489)	(223)	(120)	(59)	(1,155)
Recoveries	66	43	8	8	42	167
Net charge-offs	(198)	(446)	(215)	(112)	(17)	(988)
Ending balance	$ 1,466	2,256	1,835	256	97	5,910

Although the above allocation is performed, the allowance for loan losses is general in nature and is available to absorb losses from any loan type.

TABLE 4: NONPERFORMING ASSETS

In Thousands	As of December 31 2017	2016
Nonaccrual loans	$ 3,452	4,558
Accruing mortgage loans 90 days or more past due	1,758	793
Total nonperforming loans	5,210	5,351
Other real estate acquired through loan foreclosures	1,287	1,308
Total nonperforming assets	$ 6,497	6,659
Tier I capital	$ 58,113	55,538
Percentage of nonperforming assets to Tier I capital	11.18%	11.99%
Allowance for loan losses	$ 5,297	5,910
Allowance for loan losses to total nonperforming loans	101.7%	110.4%

TABLE 5: CRITICIZED LOANS

The following table summarizes the loan risk ratings applied to the Company's real estate mortgages and commercial loans as of December 31, 2017 and 2016. Criticized loans are considered inadequately protected by the current paying capacity of the borrower or of the collateral pledged, if any. These loans have weaknesses that may jeopardize the liquidation of the debt. Loans not meeting the definition of criticized are considered pass rated loans.

	Real estate construction	Real estate residential	Real estate farmland and commercial	Commercial and agriculture
As of December 31, 2017				
Pass	$ 19,413	183,290	137,657	18,567
Criticized accrual	174	4,103	2,868	210
Criticized nonaccrual	1,112	1,838	502	-
Total	$ 20,699	189,231	141,027	18,777
As of December 31, 2016				
Pass	$ 30,789	183,193	127,484	18,140
Criticized accrual	859	5,072	8,120	169
Criticized nonaccrual	1,270	2,806	479	3
Total	$ 32,918	191,071	136,083	18,312

	2017	2016
Criticized accrual loans	$ 7,355	14,220
Criticized nonaccrual loans	3,452	4,558
Total criticized loans	$ 10,807	18,778
Allowance for loan losses	$ 5,297	5,910
Tier I capital	58,113	55,538
Totals	$ 63,410	61,448
Total criticized loans to the allowance for loan losses plus Tier I capital	17.0%	30.6%

TABLE 6: DEPOSITS

A breakdown of interest bearing deposits at December 31, 2017 and 2016, by type of account were as follows:

	2017	2016
Savings and money market accounts	$ 93,905	89,173
Interest bearing demand accounts	40,344	38,022
Time deposits of less than $100,000	74,245	77,984
Time deposits of $100,000 through $250,000	67,491	72,007
Time deposits of more than $250,000	34,162	40,134
Total interest bearing deposits	$ 310,147	317,320

At December 31, 2017, the scheduled maturities of time deposits were as follows:

2018	$ 76,883
2019	52,763
2020	19,552
2021	17,757
2022	8,943

Interest on deposits for the years ended December 31, 2017, 2016 and 2015 consisted of the following:

	2017	2016	2015
Savings and money market	$ 153	151	142
Interest bearing demand accounts	69	49	28
Time deposits of $100,000 or more	1,289	1,300	1,388
Other time deposits	647	637	677
Total interest on deposits	$ 2,158	2,137	2,235

TABLE 7: STOCKHOLDERS' EQUITY

The Company and the Bank are subject to various regulatory capital requirements. 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 Company's and the Bank's financial statements. Regulatory non-objection may be required to pay certain dividends. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory capital practices. The Company's 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 the Bank to maintain amounts and ratios (as set forth in the following table) of total and Tier 1 Capital (as defined in the regulations) to risk-weighted assets (as defined). As of December 31, 2017, the capital levels of the Company and the Bank exceed all capital adequacy requirements to which they are subject.

As of December 31, 2017, the most recent notification from the Bank's primary regulators categorized the Bank as well capitalized under the prompt corrective action regulations. To be categorized as well capitalized, a bank must maintain a minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since the last notifications that management believes have changed the Bank's category. Actual capital amounts and ratios are presented in the following table for the Company and the Bank.

	Actual		For Capital	To Be Well Capitalized Under Prompt Corrective
	Amount	Ratio	Adequacy Purposes	Action Provisions
As of December 31, 2017				
Total capital (to risk weighted assets):				
Company (consolidated)	$ 62,320	18.71%	8%	
Bank	62,291	18.71%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	58,142	17.46%	6%	
Bank	58,113	17.45%	6%	8%
Common equity tier I				
Company (consolidated)	58,142	17.46%	4.50%	
Bank	58,113	17.45%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	58,142	12.15%	4%	
Bank	58,113	12.15%	4%	5%
As of December 31, 2016				
Total capital (to risk weighted assets):				
Company (consolidated)	$ 59,926	17.31%	8%	
Bank	59,886	17.30%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	55,578	16.05%	6%	
Bank	55,538	16.05%	6%	8%
Common equity tier I				
Company (consolidated)	55,578	16.05%	4.50%	
Bank	55,538	16.05%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	55,578	11.77%	4%	
Bank	55,538	11.76%	4%	5%

Queenstown Bank of Maryland

Branch Information

Main Office
7101 Main Street
P.O. Box 120
Queenstown, MD 21658
Phone: 410-827-8881
Fax: 410-827-8190
Branch Manager: JoEllen Calloway

Grasonville Branch
3701 Main Street
P.O. Box 138
Grasonville, MD 21638
Phone: 410-827-6101
Fax: 410-827-4916
Branch Manager: Patricia Murchake

Chester Branch
1423 Main Street
P.O. Box 239
Chester, MD 21619
Phone: 410-643-2258
Fax: 410-643-7694
Branch Manager: Kathy Kendall

Benton's Crossing Branch
101 Main Street
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Stevensville, MD 21666
Phone: 410-604-0881
Fax: 410-604-0883
Branch Manager: Diane Xander

Centreville Branch
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Centreville, MD 21617
Phone: 410-758-8747
Fax: 410-758-8767
Branch Manager: Karen Dean

Easton Branch
274 North Washington Street
P.O. Box 1899
Easton, MD 21601
Phone: 410-819-8686
Fax: 410-819-5813
Branch Manager: Stacey Hollingsworth

Ridgely Branch
204 A East 6th Street
P.O. Box 1098
Ridgely, MD 21660
Phone: 410-634-2071
Fax: 410-634-2459
Branch Manager: Cynthia Alt

Church Hill Branch
1005 Sudlersville Rd
P.O. Box 269
Church Hill, MD 21623
Phone: 410-556-6417
Fax: 410-556-6479
Branch Manager: Karen Clough

Officers

Patrick E. Thompson	Chairman of the Board
T. Douglas Pierson	Vice Chairman of the Board
Kevin B. Cashen	President/CEO
James P. Shaw	Senior Vice President/CFO
Peggy E. Lewis	Senior Vice President/CCBIA
C. Franklin Russum	Senior Vice President
Tracy Whitby-Fairall	Senior Vice President/COO
Christina Wilkins	Senior Vice President
Brooke Horney	Senior Vice President
Jamie Dulin	Senior Vice President
JoEllen Calloway	Vice President
Karen Dean	Vice President
Patricia Tarr	Vice President
Katie Anderson	Vice President
Heather Jarrell	Vice President
Michael Lucas	Vice President
Rose Kleckner	Vice President
Kathryn Clark	Vice President
Diane Xander	Assistant Vice President
Karen Clough	Assistant Vice President
Tammy Taylor	Assistant Vice President
Heather Dodd	Assistant Vice President
Patricia Murchake	Assistant Vice President
Kathleen Kendall	Assistant Vice President
Thomas Tucker	Assistant Vice President

Queenstown Bancorp of Maryland, Inc. & Queenstown Bank of Maryland

Directors

Back row from left: James R. Friel, III, Kevin B. Cashen, Chad M. Helfenbein
Center row from left: Patrick E. Thompson, T. Douglas Pierson
Front row from left: Tracy T. Schulz, Wheeler R. Baker, J. Thomas Rhodes, Jr., Wm. Thomas Davis, Jr.

History

Queenstown Bank of Maryland is located in the town of Queenstown, in the State of Maryland. Queenstown Bank of Maryland was incorporated April 19, 1899, and officially opened for business on July 1, 1899. We are currently the second oldest locally established bank in Queen Anne's County. Originally it was known as Queenstown Savings Bank of Queen Anne's County, the name was changed to Queenstown Bank of Maryland by the actions of the Maryland State Legislature in 1910.

Presidents

DeCoursey W. Thom	Founder – 1899
Dr. Charles Cockey	1899 – 1904
William C. McConnor	1904 – 1919
Eugene L. Dudley	1919 – 1925
W. E. King	1925 – 1927
H. B. W. Mitchell	1928 – 1931
S. E. W. Friel, Sr.	1931
Dr. Norman R. Hitch	1932 – 1939
Thomas Marsalis	1940 – 1956
Horace M. Morgan	1957 – 1960
James R. Friel	1960 – 1983
Albert V. Stant	1983 – 1992
J. Thomas Rhodes, Jr.	1992 – 2017
Kevin B. Cashen	2017 – Present

Queenstown Bank
of Maryland

ESTABLISHED 1899

Member
FDIC