

**QUEENSTOWN BANCORP
OF MARYLAND, INC.**



QUEENSTOWN
— **BANK** —

Just the bank you need.™

2018
ANNUAL REPORT

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

In thousands, Except Per Share Data	2018	2017	2016	2015	2014
PROFITABILITY					
Net interest income	\$ 18,901	\$ 18,122	\$ 17,959	\$ 17,927	\$ 17,014
Noninterest income	1,206	1,102	1,160	1,192	1,211
Net gain (loss) on sales of other real estate owned	53	167	(38)	(136)	(300)
Securities gains	-	-	-	22	476
Noninterest expenses	9,953	9,590	9,633	9,579	9,468
Provisions for credit losses	300	600	990	1,241	3,000
Income before taxes	9,907	9,201	8,458	8,185	5,933
Income tax expense before deferred tax writedown	2,679	3,556	3,242	3,076	2,231
Net income before deferred tax writedown	7,228	5,645	5,216	5,109	3,702
Deferred tax writedown	-	400	-	-	-
Net income	7,228	5,245	5,216	5,109	3,702
Return on average assets	1.53%	1.10%	1.13%	1.15%	0.83%
Return on average equity	12.00%	9.06%	9.58%	10.09%	7.84%
Net interest margin	4.16%	3.96%	4.08%	4.29%	4.09%
*Efficiency ratio (excluding other real estate gains(losses))	49.40%	49.58%	49.95%	49.44%	51.95%
Basic earnings per share before deferred tax writedown	\$ 5.99	\$ 4.52	\$ 4.14	\$ 4.06	\$ 2.94
Basic earnings per share	\$ 5.99	\$ 4.20	\$ 4.14	\$ 4.06	\$ 2.94
Dividends per share	\$ 2.25	\$ 1.25	\$ 1.15	\$ 1.00	\$ 0.60
BALANCE SHEET					
Loans	\$ 381,897	\$ 377,627	\$ 386,044	\$ 393,672	\$ 383,135
Allowance for loan losses	5,966	5,297	5,910	5,908	6,035
Loans, net of allowance for loan losses	375,931	372,330	380,134	387,764	377,100
Interest bearing deposits with banks	46,652	59,088	49,134	29,906	24,366
Total assets	465,011	464,719	462,685	447,126	438,092
Deposits	401,766	404,552	405,341	393,525	388,213
Stockholders' equity	60,948	58,075	55,500	51,847	48,091
Shares outstanding	1,188,081	1,226,125	1,259,330	1,259,330	1,259,330
Book value per share	\$ 51.30	\$ 47.36	\$ 44.07	\$ 41.17	\$ 38.19
Loans / Deposits	95.05%	93.34%	95.24%	100.04%	98.69%
Allowance for loan losses / Loans	1.56%	1.40%	1.53%	1.50%	1.58%
REGULATORY CAPITAL RATIOS					
QUEENSTOWN BANK					
Tier I leverage (avg. equity / avg. assets) ratio	12.95%	12.15%	11.76%	11.47%	10.77%
Common equity risk based	17.38%	17.45%	16.05%	14.89%	14.11%
Tier I risk-based capital ratio	17.38%	17.45%	16.05%	14.89%	14.11%
Total risk based capital ratio	18.64%	18.71%	17.30%	16.14%	15.37%
QUEENSTOWN BANCORP					
Tier I leverage (avg. equity / avg. assets) ratio	12.95%	12.15%	11.77%	11.48%	10.78%
Common equity risk based	17.39%	17.46%	16.05%	14.89%	14.12%
Tier I risk based capital ratio	17.39%	17.46%	16.05%	14.89%	14.12%
Total risk based capital ratio	18.64%	18.71%	17.31%	16.15%	15.38%

*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:

“True progress quietly and persistently moves along without notice.”

-St. Francis of Assisi

While 2017 was a year of change for the Bank, 2018 was a year of progress. Much of this progress, however, may be subtle as the Bank continues to push to prepare itself for the future while remaining focused on its customers and community. The Bank truly understands that progress cannot be made at the expense of these two vital components of a successful local community bank. The subtle progress includes such projects as infrastructure/systems upgrades, purchases of new technologies, updating of policies and procedures and hiring new people who will help prepare us for the future. Some progress has been much more visible such as our new logo and signage. The new logo was designed to give the Bank a fresher, more “current” feel and all the feedback to date has been very positive. At the same time, we added two new LED signs that helps us to keep our customers current on the Bank’s products and services as well as events in the community.

On the financial front, the Bank and Holding Company had an outstanding year in 2018. We continued to see growth in Net Income, Equity and Book Value and saw improvement in our Return on Average Equity (ROAE) and Return on Average Assets (ROAA). We saw growth in our core deposits and modest growth in our loan portfolio. Net income for 2018 was \$7.228 million, an increase of \$1.983 million from 2017, a 37.8% increase. These earnings resulted in a 1.53% ROAA and 12% ROAE. Net income per share increased from \$4.20 to \$5.99 per share in 2018. Net interest income increased \$779 thousand to \$18.901 million for 2018. The provision for loan losses was \$300 thousand for 2018, compared to \$600 thousand for 2017. The Company continues to maintain a very attractive Efficiency Ratio, the industry standard for effective expense control, at 49%. Stockholders' equity at December 31, 2018 increased by \$2.87 million to \$61 million from December 31, 2017. The Bank remains very well capitalized with the ratio of common equity to assets increasing from 12.15% at December 31, 2017 to 12.95% at December 31, 2018. Book value per share was \$51.30 at December 31, 2018, up \$3.94 from December 31, 2017, representing an increase of 8.31%.

Because of this strong performance, we were able to reward our shareholders with an increased dividend in 2018, increasing it from \$1.25 per share in 2017 to \$2.25 for 2018.

As we look forward to 2019, we have a positive outlook about the strength of our community and the position of the Bank. The Bank is well positioned for growth in the coming year, the overall economy is performing well and interest rates have stabilized – all positive signs for the banking sector. In addition, we are continuing with our investments in the Bank to prepare it for the future. We will complete our ATM upgrade project, invest in our branch facilities, introduce new deposit products, and enhance our digital banking platform. This outlook is not completely free of some concern about the economic and political environment in which we live. Factors that are out of our control, and the control of our customers, can have a great impact on our market, whether it be interest rates, tariff challenges, an economic slowdown or weather. While the Bank’s credit quality remains satisfactory, we are monitoring the portfolio closely as 2018 was a very difficult year for many of those in our community who were impacted by some of these factors.

We will continue to quietly and persistently make progress in 2019 so that we can serve our community far into the future with great products and services. In 2019, the Bank will also celebrate its 120th year of serving the upper shore community from its original location on Main Street in Queenstown as well as its other seven locations. We plan to continue to do this with a smile on our face, an extended hand and a willingness to commit to being the finest community bank on the shore.

We appreciate your continued support and welcome your feedback. Please feel free to refer us to a friend or acquaintance who is looking for the kind of local bank that you have found here at Queenstown Bank. Please feel free to contact us at 410-827-8881.

Yours truly,



Kevin B. Cashen
President & CEO



Patrick E. Thompson
Chairman of the Board

2018

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, 2018 net income was \$7.23 million, compared to net income of \$5.25 million for the year ended December 31, 2017. Net income per common share increased from \$4.20 for 2017, to \$5.99 for 2018, an increase of 43%. The significant increase in net income combined with our strong capital position resulted in a dividend per share increase of \$1, from \$1.25 per share for 2017, to \$2.25 per share for 2018.

Net interest income

Net interest income increased from \$18.1 million for 2017, to \$18.9 million for 2018. The yield on earning assets increased from 4.43% for 2017, to 4.63% for 2018. Interest bearing deposits costs rose slightly from .66% for 2017, to .69% for 2018. Growth of lower cost non-maturity deposits reduced the funding dependency on higher cost certificates of deposit.

Provisions for loan losses and allowance for loan losses

Provisions for loan losses were \$300 thousand for 2018, compared to \$600 thousand for 2017. (See Table 3: Allowance for Loan Losses)

Net recoveries of loans charged-off were \$369 thousand for 2018, compared to net charge-offs of \$1.2 million for 2017. This significant improvement in our loan loss performance lead to the reduction in loan loss provisions.

Noninterest income

Noninterest income, excluding other real estate owned gains (losses), was \$1.2 million for 2018 and \$1.1 million for 2017. Service charges on deposit accounts increased \$13 thousand, from \$621 thousand for 2017, to \$634 thousand for 2018. Other income was \$572 thousand for 2018, compared to \$481 thousand for 2017.

Noninterest expenses

Noninterest expenses increased \$363 thousand for 2018, from \$9.59 million for 2017, to \$9.91 million for 2018. Our efficiency ratio, the cost of producing \$1 of revenue, improved slightly from \$.50 for 2017 to \$.49 for 2018. Our efficiency ratio of \$.49 is significantly lower than our FDIC peer group efficiency ratio of \$.64.

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 thousand writedown of our net deferred tax assets, resulting from the passage of the new tax law in 2017. The new tax law reduced the federal corporate tax rate from 34% to 21%, thereby reducing the benefits of future deferred tax deductions. The impact of the new corporate tax rates resulted in a reduction of income tax expense of \$1.3 million, from \$4 million for 2017 to \$2.7 million for 2018.

FINANCIAL CONDITION

Total assets were \$465 million at year end 2017 and year end 2018. The loan portfolio increased from \$377.6 million at December 31, 2017, to \$381.9 million at December 31, 2018. Liquidity remains strong with \$47 million in short term interest bearing deposits with banks that 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, 2018 were \$401.8 million, a decrease of \$2.7 million, from \$404.5 million at December 31, 2017. The mix of our deposits improved significantly, as demand and non-maturity interest bearing balances grew \$15.3 million. This significant core deposit growth contributed to a very modest increase in the cost of funds for interest bearing deposits. The cost of total interest bearing deposits increased from .66% for year end 2017, to .69% for year end 2018. Non-maturity transaction and savings accounts comprised 61% of total deposits at December 31, 2018, compared to 56% at December 31, 2017. (See Table 6: Deposits).

Capital levels

Stockholders' equity increased \$2.8 million, from \$58.1 million at December 31, 2017, to \$60.9 million at December 31, 2018. The increase is comprised primarily of net income less cash dividends and share repurchases of \$3 million. For the Company, the Tier I ratio decreased 7 basis points, from 17.46% to 17.39%. The total capital ratio decreased 7 basis points, from 18.71% to 18.64%. The common equity leverage ratio increased 80 basis points, from 12.15% to 12.95%. (See Table 7: Stockholders' Equity)

For the Bank, the Tier I ratio decreased 7 basis points, from 17.45% to 17.38%. The total capital ratio decreased 7 basis points, from 18.71% to 18.64%. The common equity leverage ratio increased 80 basis points, from 12.15% to 12.95%. 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	
	2018	2017
ASSETS		
Cash and due from banks	\$ 5,875	4,703
Interest bearing deposits with banks	46,652	59,088
Total cash and cash equivalents	52,527	63,791
Securities available-for-sale (at fair value)	15,542	12,356
Federal Home Loan Bank stock (at cost)	432	430
Loans	381,897	377,627
Less allowance for loan losses	(5,966)	(5,297)
Loans, net	375,931	372,330
Premises and equipment, net	5,461	5,360
Bank owned life insurance	11,141	5,964
Other real estate	50	1,287
Deferred income taxes	1,616	964
Accrued interest receivable	1,628	1,497
Prepaid expenses	333	316
Other assets	350	424
TOTAL ASSETS	\$465,011	464,719
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	\$104,778	94,405
Interest bearing deposits	296,988	310,147
Total deposits	401,766	404,552
Accrued expenses and other liabilities	2,297	2,092
Total liabilities	404,063	406,644
 Common stock - \$10 par value; 10,000,000 shares authorized; 1,188,081 shares issued at December 31, 2018; 1,226,125 shares issued at December 31, 2017	11,881	12,261
Surplus	184	154
Retained earnings	49,127	45,727
Accumulated other comprehensive loss	(244)	(67)
Total stockholders' equity	60,948	58,075
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$465,011	464,719

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

(Dollars in thousands, except per share information)

	Years Ended		
	2018	2017	2016
INTEREST INCOME:			
Interest and fees on loans	\$ 19,458	19,227	19,598
Interest and dividends on investment securities	376	252	229
Other interest income	1,224	801	269
Total interest income	<u>21,058</u>	<u>20,280</u>	<u>20,096</u>
INTEREST EXPENSE:			
Interest on deposits	<u>2,157</u>	<u>2,158</u>	<u>2,137</u>
Net interest income	18,901	18,122	17,959
Provisions for loan losses	300	600	990
Net interest income after provisions for loan losses	<u>18,601</u>	<u>17,522</u>	<u>16,969</u>
NONINTEREST INCOME:			
Service charges on deposit accounts	634	621	579
Other income	572	481	581
Net gain (loss) on sales of other real estate	53	167	(38)
Total noninterest income	<u>1,259</u>	<u>1,269</u>	<u>1,122</u>
NONINTEREST EXPENSES:			
Salaries and employee benefits	6,207	6,051	5,831
FDIC insurance premiums	137	189	502
Other real estate expenses	141	126	246
Data processing expenses	688	602	617
Occupancy expense of bank premises	707	628	610
Equipment expenses	345	347	322
Other expenses	1,728	1,647	1,505
Total noninterest expenses	<u>9,953</u>	<u>9,590</u>	<u>9,633</u>
Income before income taxes	9,907	9,201	8,458
Income tax expense	2,679	3,956	3,242
Net income	<u>\$ 7,228</u>	<u>5,245</u>	<u>5,216</u>
Basic net income per common share	\$ 5.99	4.20	4.14
Diluted net income per common share	\$ 5.98	4.20	4.14
Basic weighted average common shares outstanding	1,205,830	1,249,663	1,259,330
Diluted weighted average common shares outstanding	1,208,487	1,249,852	1,259,330

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

(Dollars in thousands)

	Years Ended		
	2018	2017	2016
Net income	\$ 7,228	5,245	5,216
Other comprehensive income (loss), before tax:			
Securities available for sale:			
Unrealized holding gains (losses) arising during the period	(244)	36	(188)
Other comprehensive income (loss), before tax	(244)	36	(188)
Income tax effect	67	(14)	74
Other comprehensive income (loss), net of tax	(177)	22	(114)
Total comprehensive income	<u>\$ 7,051</u>	<u>5,267</u>	<u>5,102</u>

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

For the Years Ended December 31, 2018, 2017 and 2016

(Dollars in thousands, except per share information)

	<u>Common Stock</u>		Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Par Value				
Balances at January 1, 2016	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 income, 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
Net Income	-	-	-	7,228	-	7,228
Other comprehensive (loss), net of tax	-	-	-	-	(177)	(177)
Stock repurchases	(38,514)	(385)	-	(1,155)	-	(1,540)
Stock options exercised	470	5	11	-	-	16
Stock option compensation	-	-	19	-	-	19
Cash dividends (\$2.25 per share)	-	-	-	(2,673)	-	(2,673)
Balances at December 31, 2018	<u>1,188,081</u>	<u>\$ 11,881</u>	<u>184</u>	<u>49,127</u>	<u>(244)</u>	<u>60,948</u>

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Years Ended		
	2018	2017	2016
OPERATING ACTIVITIES:			
Net Income	\$ 7,228	5,245	5,216
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization on securities	67	90	75
Depreciation and amortization	368	376	364
Gains on sales of securities	-	-	-
Net (gain) loss on sales of other real estate	(53)	(167)	38
Provision for loan losses	300	600	990
Deferred tax (benefit) expense	(585)	455	(373)
Stock option compensation	19	15	-
Net changes in:			
Accrued interest receivable	(131)	(48)	(192)
Accrued expenses and other liabilities	205	248	90
Prepaid expenses	(17)	6	(168)
Other operating activities	432	111	(186)
Net cash provided by operating activities	<u>7,833</u>	<u>6,931</u>	<u>5,854</u>
INVESTING ACTIVITIES:			
Purchases of securities available-for-sale	(4,968)	(4,830)	(3,479)
Proceeds from sales of securities available-for-sale	-	-	-
Proceeds from calls and maturities of securities available-for-sale	-	500	795
Principal payments received on securities available-for-sale	1,471	2,444	1,414
Net (increase) decrease in loans	(4,435)	5,689	5,172
Purchases of FHLB stock	(2)	(14)	(8)
Purchases of bank owned life insurance	(5,000)	-	-
Purchases of premises and equipment	(469)	(180)	(226)
Purchases and improvements of other real estate	-	(32)	-
Proceeds from sales of other real estate	1,289	1,531	1,369
Net cash (used) provided by investing activities	<u>(12,114)</u>	<u>5,108</u>	<u>5,037</u>
FINANCING ACTIVITIES:			
Net (decrease) increase in deposits	(2,786)	(789)	11,816
Purchases of common stock	(1,540)	(1,151)	-
Stock options exercised	16	-	-
Dividends paid	(2,673)	(1,545)	(1,449)
Net cash (used) provided by financing activities	<u>(6,983)</u>	<u>(3,485)</u>	<u>10,367</u>
Net (decrease) increase in cash and cash equivalents	(11,264)	8,554	21,258
Cash and cash equivalents at beginning of year	63,791	55,237	33,979
Cash and cash equivalents at end of year	<u>\$ 52,527</u>	<u>63,791</u>	<u>55,237</u>
Supplemental disclosures:			
Interest payments	\$ 2,121	2,185	2,141
Income tax payments	3,173	3,497	3,695
Noncash investing and financing activities:			
Loan charge-offs	\$ 165	1,553	1,155
Transfers to other real estate	-	1,311	1,301

TABLE 1: AVERAGE BALANCES AND NET INTEREST INCOME ANALYSIS

Taxable Equivalent Basis - In Thousands (1)	Years Ended December 31								
	2018			2017			2016		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
EARNING ASSETS									
Loans (2)	\$ 373,442	19,493	5.22%	\$ 377,730	19,337	5.12%	\$ 382,262	19,662	5.14%
Securities – taxable (3)	14,779	383	2.59%	11,503	259	2.25%	9,932	232	2.34%
Interest bearing deposits									
with banks and federal funds sold	67,343	1,224	1.82%	71,488	799	1.12%	49,702	269	0.54%
Total earning assets	455,564	21,100	4.63%	460,721	20,395	4.43%	441,896	20,163	4.56%
NON-EARNING ASSETS									
Cash and due from banks	\$ 2,224			\$ 2,205			\$ 2,186		
Premises and equipment, net	5,306			5,445			5,627		
All other assets, net	14,729			15,619			16,637		
Less: allowance for loan losses	(5,684)			(5,819)			(6,058)		
Total assets	472,139			478,171			460,288		
INTEREST-BEARING LIABILITIES									
Savings and time deposits	\$ 312,304	2,157	0.69%	\$ 327,028	2,158	0.66%	\$ 316,769	2,137	0.67%
OTHER LIABILITIES AND STOCKHOLDERS' EQUITY									
Demand deposits	\$ 97,530			\$ 91,276			\$ 87,189		
Other liabilities	2,044			2,008			1,861		
Stockholders' equity	60,261			57,859			54,469		
Total liabilities and stockholders' equity	472,139			478,171			460,288		
Net interest income and net interest margin (4)		18,943	4.16%		18,237	3.96%		18,026	4.08%
Interest rate spread (5)			3.94%			3.77%			3.89%

(1) The taxable equivalent basis is computed using applicable federal and 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 liabilities yield.

TABLE 2: LOANS

At December 31, 2018 and 2017 loans were as follows:

	2018	2017
Real estate:		
Construction and land development	\$ 23,763	20,699
Secured by farmland	38,265	38,491
Commercial	114,768	102,536
Residential	177,873	189,231
Commercial and agricultural	19,624	18,777
Consumer	7,604	7,893
Total	<u>\$ 381,897</u>	<u>377,627</u>

A summary of current, past due, and nonaccrual loans as of December 31, 2018 and 2017 was as follows:

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Total
As of December 31, 2018					
Real estate:					
Construction and land development loans	\$ 23,731	-	-	32	23,763
Secured by farmland	35,763	1,475	229	798	38,265
Commercial	113,465	955	-	348	114,768
Residential	174,899	1,299	183	1,492	177,873
Commercial and agricultural	18,967	106	551	-	19,624
Consumer	7,574	30	-	-	7,604
Total	<u>\$ 374,399</u>	<u>3,865</u>	<u>963</u>	<u>2,670</u>	<u>381,897</u>
Percentage of loan portfolio	98.0%	1.0%	0.3%	0.7%	100%
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	<u>\$ 365,843</u>	<u>6,574</u>	<u>1,758</u>	<u>3,452</u>	<u>377,627</u>
Percentage of loan portfolio	96.9%	1.7%	0.5%	0.9%	100%

TABLE 3: ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the year ended December 31, 2018 and 2017 were as follows:

	Real estate construction	Real estate residential	Real estate farmland and commercial	Commercial and agriculture	Consumer	Total
As of December 31, 2018						
Beginning Balance	\$ 504	\$ 1,291	\$ 2,995	\$ 464	\$ 43	5,297
Provision for loan losses	-	(557)	857	-	-	300
Net charge-offs:						
Charge-offs	-	(52)	(5)	(66)	(42)	(165)
Recoveries	38	323	106	38	29	534
Net recoveries (charge-offs)	38	271	101	(28)	(13)	369
Ending balance	\$ 542	1,005	3,953	436	30	5,966
As of December 31, 2017						
Beginning Balance	\$ 822	2,493	2,238	307	50	5,910
Provision for loan losses	(426)	(1,064)	1,984	108	(2)	600
Net charge-offs:						
Charge-offs	(28)	(242)	(1,230)	-	(51)	(1,551)
Recoveries	136	104	3	49	46	338
Net recoveries (charge-offs)	108	(138)	(1,227)	49	(5)	(1,213)
Ending balance	\$ 504	1,291	2,995	464	43	5,297

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	
	2018	2017
Nonaccrual loans	\$ 2,670	3,452
Accruing mortgage loans 90 days or more past due	963	1,758
Total nonperforming loans	3,633	5,210
Other real estate acquired through loan foreclosures	50	1,287
Total nonperforming assets	\$ 3,683	6,497
Tier I capital	\$ 61,163	58,113
Percentage of nonperforming assets to Tier I capital	6.02%	11.18%
Allowance for loan losses	\$ 5,966	5,297
Allowance for loan losses to total nonperforming loans	164.2%	101.7%

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, 2018 and 2017. 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, 2018				
Pass	\$ 23,543	173,038	146,455	18,988
Criticized accrual	188	3,343	5,432	636
Criticized nonaccrual	32	1,492	1,146	-
Total	\$ 23,763	177,873	153,033	19,624
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

	2018	2017
Criticized accrual loans	\$ 9,599	7,355
Criticized nonaccrual loans	2,670	3,452
Total criticized loans	\$ 12,269	10,807
Allowance for loan losses	\$ 5,966	5,297
Tier I capital	61,163	58,113
Totals	\$ 67,129	63,410
Total criticized loans to the allowance for loan losses plus Tier I capital	18.3%	17.0%

TABLE 6: DEPOSITS

A breakdown of interest bearing deposits at December 31, 2018 and 2017 by type of account were as follows:

	2018	2017
Savings and money market accounts	\$ 100,754	93,905
Interest bearing demand accounts	38,443	40,344
Time deposits of less than \$100,000	66,463	74,245
Time deposits of \$100,000 through \$250,000	60,178	67,491
Time deposits of more than \$250,000	31,150	34,162
Total interest bearing deposits	<u>\$ 296,988</u>	<u>310,147</u>

At December 31, 2018, the scheduled maturities of time deposits were as follows:

2019	\$ 64,799
2020	60,929
2021	13,079
2022	15,680
2023	3,304

Interest on deposits for the years ended December 31, 2018, 2017 and 2016 consisted of the following:

	2018	2017	2016
Savings and money market	\$ 167	153	151
Interest bearing demand accounts	122	69	49
Time deposits more than \$100,000	1,139	1,289	1,300
Other time deposits	729	647	637
Total interest on deposits	<u>\$ 2,157</u>	<u>2,158</u>	<u>2,137</u>

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, 2018, the capital levels of the Company and the Bank exceed all capital adequacy requirements to which they are subject.

As of December 31, 2018, 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
	Amount	Ratio	Adequacy Purposes	Under Prompt Corrective Action Provisions
As of December 31, 2018				
Total capital (to risk weighted assets):				
Company (consolidated)	\$ 65,611	18.64%	8%	
Bank	65,582	18.64%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	61,192	17.39%	6%	
Bank	61,163	17.38%	6%	8%
Common equity tier I				
Company (consolidated)	61,192	17.39%	4.50%	
Bank	61,163	17.38%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	61,192	12.95%	4%	
Bank	61,163	12.95%	4%	5%
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%

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: Lori Smith	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 P.O. Box 1035 Stevensville, MD 21666 Phone: 410-604-0881 Fax: 410-604-0883 Branch Manager: Diane Xander	Centreville Branch 115 Coursevall Drive P.O. Box 177 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: Heather Dodd
Ridgely Branch 204 A East 6 th 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
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
Jessica Fox	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
Tammy Taylor	Vice President
Diane Xander	Assistant Vice President
Karen Clough	Assistant Vice President
Heather Dodd	Assistant Vice President
Patricia Murchake	Assistant Vice President
Kathleen Kendall	Assistant Vice President
Thomas Tucker	Assistant Vice President
Warren Phillips	Assistant Vice President
Cynthia Alt	Assistant Vice President
James W. Willey	Assistant Vice President
Ronald Cannon	Assistant Vice President

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



Back row from left: Tracy T. Schulz, James R. Friel, III
Second row from left: Bernard "Andy" Cheezum, Jr., T. Douglas Pierson
Center row from left: Chad M. Helfenbein, Wheeler R. Baker, Kevin B. Cashen, Patrick E. Thompson,
Front row from left: 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**