

**QUEENSTOWN BANCORP
OF MARYLAND, INC.**



QUEENSTOWN
— BANK —

Just the bank you need.™

2020
ANNUAL REPORT

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

In thousands, Except Per Share Data	2020	2019	2018	2017	2016
PROFITABILITY					
Net interest income	\$ 18,168	19,148	18,901	18,122	17,959
Noninterest income	1,394	1,536	1,349	1,102	1,160
Net gain (loss) on sales of other real estate owned	8	51	53	167	(38)
Securities gains	-	-	-	-	-
Noninterest expenses	10,738	10,493	10,096	9,590	9,633
Provisions for credit losses	1,600	-	300	600	990
Income before taxes	7,232	10,242	9,907	9,201	8,458
Income tax expense before deferred tax writedown	1,849	2,722	2,679	3,556	3,242
Net income before deferred tax writedown	5,383	7,520	7,228	5,645	5,216
Deferred tax writedown	-	-	-	400	-
Net income	5,383	7,520	7,228	5,245	5,216
Return on average assets	1.01%	1.61%	1.53%	1.10%	1.13%
Return on average equity	7.88%	11.69%	12.00%	9.06%	9.58%
Net interest margin	3.55%	4.30%	4.16%	3.96%	4.08%
*Efficiency ratio (excluding other real estate gains(losses))	53.69%	50.24%	49.75%	49.58%	49.95%
Basic earnings per share before deferred tax writedown	\$ 4.50	6.31	5.99	4.52	4.14
Basic earnings per share	\$ 4.50	6.31	5.99	4.20	4.14
Dividends per share	\$ 2.50	2.75	2.25	1.25	1.15
BALANCE SHEET					
U.S. S.B.A. Paycheck Protection Program Loans	\$ 15,019	-	-	-	-
Loans-other	386,661	395,909	381,897	377,627	386,044
Total Loans	401,680	395,909	381,897	377,627	386,044
Allowance for loan losses	7,170	5,752	5,966	5,297	5,910
Loans, net of allowance for loan losses	394,510	390,157	375,931	372,330	380,134
Interest bearing deposits with banks	69,897	40,935	46,652	59,088	49,134
Securities available for sale	81,941	15,327	15,542	12,356	10,521
Total assets	576,977	473,122	465,011	464,719	462,685
Deposits	505,564	404,913	401,766	404,552	405,341
Stockholders' equity	68,316	65,614	60,948	58,075	55,500
Shares outstanding	1,195,786	1,192,281	1,188,081	1,226,125	1,259,330
Book value per share	\$ 57.13	55.03	51.30	47.36	44.07
Loans / Deposits	79.45%	97.78%	95.05%	93.34%	95.24%
Allowance for loan losses / Loans	1.79%	1.45%	1.56%	1.40%	1.53%
REGULATORY CAPITAL RATIOS					
QUEENSTOWN BANK					
Tier I leverage (avg. equity / avg. assets) ratio	11.89%	13.88%	12.95%	12.15%	11.76%
Common equity risk based	18.37%	18.01%	17.38%	17.45%	16.05%
Tier I risk-based capital ratio	18.37%	18.01%	17.38%	17.45%	16.05%
Total risk based capital ratio	19.64%	19.26%	18.64%	18.71%	17.30%
QUEENSTOWN BANCORP					
Tier I leverage (avg. equity / avg. assets) ratio	11.92%	13.89%	12.95%	12.15%	11.77%
Common equity risk based	18.41%	18.02%	17.39%	17.46%	16.05%
Tier I risk based capital ratio	18.41%	18.02%	17.39%	17.46%	16.05%
Total risk based capital ratio	19.67%	19.27%	18.64%	18.71%	17.31%

*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:

"The reward for work well done is the opportunity to do more."

-Jonas Salk

In April 1955, Jonas Salk introduced the polio vaccine to the world, and, within 25 years, polio was eliminated in the United States. His efforts to develop the vaccine took over 8 years and included a "trial" with over 1.8 million children. In 2020, we experienced a virus that dominated the world stage and continues to have major implications for the world we live in. Fortunately, we have been able to develop several vaccines for COVID-19 in less than one year and we are well on our way to gaining an upper hand on this devastating virus. Jonas Salk believed his reward for his extraordinary work was to continue to focus on the future and the opportunity to do more. The Salk Institute continues to address some of the most difficult medical challenges of our time, including COVID-19.

The COVID-19 virus created significant challenges for the Bank in 2020. We had to focus not only on our financial performance but on the health and well-being of our colleagues and customers alike. We believe that our staff performed in an extraordinary manner throughout this period and worked tirelessly to meet the needs of our community. The Bank has been open for business everyday during this pandemic. At times, our branch lobbies were closed but our drive-thru windows were always open, and customers always had the opportunity to make an appointment for business that needed personal attention within the branch. Another significant initiative was the Paycheck Protection Program ("PPP") administered by the Small Business Administration. The PPP program was introduced with little time to prepare and the Bank rallied its staff to meet the needs of its business customers who were in desperate need of this lifeline from the Federal Government. We had employees work around the clock during certain periods to make sure the loans were being processed and funds were reaching the community. We processed 363 loans for over \$18.6 million in Round 1 of the program and continue to work with those in need through Round 2. We accept that our "reward for this work well done is the opportunity to do more". We will continue to be there for our community and do our best to help all navigate through this difficult time.

While the pandemic has monopolized much of our time over the past year, we continue to make investments in our future. We have made significant progress in our quest to enhance our digital platform and business products and services, most of which will be introduced in 2021. In addition, we have expanded our footprint by opening a Loan Production Office ("LPO") in Cambridge, Maryland.

Net income for the year end of 2020 was \$5.4 million, a decrease of \$2.1 million from the same period in 2019, a 28% decrease. These earnings resulted in a 1.01% Return on Average Assets and 7.88% Return on Average Equity. Net income per share decreased from \$6.31 to \$4.50 per share in 2020. Net interest income decreased \$980 thousand to \$18.2 million for the year end of 2020. The provision for loan losses was \$1.6 million for 2020. Stockholders' equity at December 31, 2020 increased by \$2.7 million to \$68.3 million from December 31, 2019. The Bank remains very well capitalized with the ratio of common equity to risk-based total assets increasing from 18.01% at December 31, 2019 to 18.37% at December 31, 2020. Book value per share was \$57.13 at December 31, 2020, up \$2.10 from December 31, 2019, representing an increase of 3.81%. The dividend paid in the fourth quarter was \$2.00 per share, bringing the total dividends paid in 2020 to \$2.50 per share, compared to the 2019 total dividends of \$2.75 per share.

The current outlook for 2021 is consistent with our performance in 2020. Most economists are projecting a good second half of the year provided we can make significant progress with the vaccination programs around the country and keep on track with the improving trends with the virus. We expect that interest rates will continue at their historically low levels throughout 2021 and beyond. This will continue to put pressure on the financial performance of the Bank but we believe we are well positioned to navigate through this difficult time and remain a stable influence on our community.

We appreciate your continued support and welcome your feedback. Please feel free to refer us a friend or acquaintance who is looking for the kind of local bank that you have found here at Queenstown Bank. Also, please feel free to contact us should you have an interest in buying or selling stock in Queenstown Bancorp, Inc. We can be reached at 410-827-8881.

Yours truly,



Kevin B. Cashen
President & CEO



Patrick E. Thompson
Chairman of the Board

2020

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, 2020 net income was \$5.38 million, compared to net income of \$7.52 million for the year ended December 31, 2019. Net income per common share decreased from \$6.31 for 2019, to \$4.50 for 2020, a decrease of 29%. Dividends per share were \$2.50 per share for 2020, compared to \$2.75 per share for 2019.

Net interest income

Net interest income decreased from \$19.1 million for 2019, to \$18.2 million for 2020. The yield on earning assets decreased from 4.85% for 2019, to 4.07% for 2020. Federal Reserve Banks rate cuts of 1.75% to the federal funds rate, late in the first quarter of 2020 in response to the deep recession resulting from the COVID 19 pandemic, lead to sharp downward pressure on yields on nearly all Bank asset classes. Interest bearing deposits costs remained the same at .82% for 2019 and 2020. Interest rate reductions were primarily limited to maturing certificates of deposit, so these rate cuts take longer to run through the funding side of the balance sheet. Growth of lower cost non-maturity deposits and lower rates on the repricing of maturing certificates of deposit will likely produce lower funding costs in 2021.

Provisions for loan losses and allowance for loan losses

The concern over possible loan loss impacts, from the COVID 19 pandemic lead recession, resulted in loan loss provisions of \$1.6 million for 2020. There were no loan loss provisions for 2019. (See Table 3: Allowance for Loan Losses)

Net loan losses were \$182 thousand for 2020, compared to loan losses of \$214 thousand for 2019. So far, credit quality impacts from the COVID 19 recession have been minimal. Payment deferrals were granted on loans totaling \$77 million, with repayments now re-established on \$75.5 million of these loans.

Noninterest income

Noninterest income, excluding other real estate owned gains, decreased \$142 thousand, to \$1.4 million for 2020. Service charges on deposit accounts decreased \$192 thousand, from \$594 thousand for 2019, to \$402 thousand for 2020. Other income was \$992 thousand for 2020, compared to \$942 thousand for 2019. Interchange fee income on debit card transactions and income on bank owned life insurance policies account for the majority of this increase.

Noninterest expenses

Noninterest expenses increased \$300 thousand, from \$10.5 million for 2019, to \$10.8 million for 2020. Our efficiency ratio, the cost of producing \$1 of revenue, was \$.54 for 2020 compared to \$.50 for 2019. Our efficiency ratio of \$.54 compares favorably to our FDIC peer group efficiency ratio of \$.63.

Income taxes

Income tax provisions are primarily adjusted for non-taxable income before applying applicable federal and state income tax rates. Income tax expense was \$1.8 million for 2020 and \$2.7 million for 2019. The effective tax rate was 26% for 2020 compared to 27% for 2019.

FINANCIAL CONDITION

Total assets were \$577 million at year end 2020, compared to \$473 million at year end 2019. Deposits grew by \$101 million in 2020. This significant increase in deposits has resulted from a sizable increase in the rate of savings throughout the economy as well as the fiscal stimulus provided by the S.B.A. Paycheck Protection Program (PPP). During 2020, the Bank originated \$18 million in PPP loans and processed \$3 million in PPP forgiveness applications. Remaining asset growth has largely been invested in investment securities and overnight deposits in other banks until our core lending activities improve. (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, 2020 were \$506 million, an increase of \$101 million, from \$405 million at December 31, 2019. The mix of our deposits continues to shift towards lower cost non-maturity deposits, as demand and non-maturity interest bearing balances grew \$91 million. This non-maturity deposit growth was 90% of total deposit growth. The cost of total interest bearing deposits remained the same at .82% for 2020 and 2019. Non-maturity transaction and savings accounts comprised 69% of total deposits at December 31, 2020, compared to 64% at December 31, 2019. (See Table 6: Deposits).

Capital levels

Stockholders' equity increased \$2.7 million, from \$65.6 million at December 31, 2019, to \$68.3 million at December 31, 2020. The increase is comprised primarily of net income less cash dividends of \$2.4 million. For the Company, the Tier I ratio increased 39 basis points, from 18.02% to 18.41%. The total capital ratio increased 40 basis points, from 19.27% to 19.67%. The common equity leverage ratio decreased 197 basis points, from 13.89% to 11.92%. (See Table 7: Stockholders' Equity)

For the Bank, the Tier I ratio increased 36 basis points, from 18.01% to 18.37%. The total capital ratio increased 38 basis points, from 19.26% to 19.64%. The common equity leverage ratio decreased 199 basis points, from 13.88% to 11.89%. 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	
	2020	2019
ASSETS		
Cash and due from banks	\$ 6,603	5,371
Interest bearing deposits with banks	69,897	40,935
Total cash and cash equivalents	76,500	46,306
Securities available-for-sale (at fair value)	81,941	15,327
Federal Home Loan Bank stock (at cost)	439	432
Loans	401,680	395,909
Less allowance for loan losses	(7,170)	(5,752)
Loans, net	394,510	390,157
Premises and equipment, net	6,346	5,799
Bank owned life insurance	11,819	11,472
Other real estate	-	89
Deferred income taxes	2,420	1,163
Accrued interest receivable	2,240	1,590
Prepaid expenses	329	297
Other assets	433	490
TOTAL ASSETS	\$ 576,977	473,122
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	\$ 150,727	105,530
Interest bearing deposits	354,837	299,383
Total deposits	505,564	404,913
Accrued expenses and other liabilities	3,097	2,595
Total liabilities	508,661	407,508
 Common stock - \$10 par value; shares authorized 10,000,000, shares issued and outstanding 1,195,786 and 1,192,281 , respectively	 11,958	 11,923
Additional paid in capital	460	309
Retained earnings	55,762	53,368
Accumulated other comprehensive income	136	14
Total stockholders' equity	68,316	65,614
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 576,977	473,122

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

(Dollars in thousands, except per share information)

	Years Ended		
	2020	2019	2018
INTEREST INCOME:			
Interest and fees on loans	\$ 19,837	20,284	19,458
Interest and dividends on investment securities	566	435	376
Other interest income	485	884	1,224
Total interest income	20,888	21,603	21,058
INTEREST EXPENSE:			
Interest on deposits	2,720	2,455	2,157
Net interest income	18,168	19,148	18,901
Provision for loan losses	1,600	-	300
Net interest income after provision for loan losses	16,568	19,148	18,601
NONINTEREST INCOME:			
Service charges on deposit accounts	402	594	634
Other income	992	942	715
Net gain on sales of other real estate	8	51	53
Total noninterest income	1,402	1,587	1,402
NONINTEREST EXPENSES:			
Salaries and employee benefits	6,695	6,573	6,207
Data processing and electronic banking expenses	987	1,047	865
Occupancy expense	622	638	707
Equipment expenses	415	351	345
FDIC insurance premiums	110	62	137
Other real estate expenses	8	19	141
Other expenses	1,901	1,803	1,694
Total noninterest expenses	10,738	10,493	10,096
Income before income taxes	7,232	10,242	9,907
Income tax expense	1,849	2,722	2,679
Net income	\$ 5,383	7,520	7,228
Basic net income per common share	\$ 4.50	6.31	5.99
Diluted net income per common share	\$ 4.47	6.28	5.98
Basic weighted average common shares outstanding	1,195,322	1,191,168	1,205,830
Diluted weighted average common shares outstanding	1,205,044	1,197,659	1,208,487

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

(Dollars in thousands)

	Years Ended		
	2020	2019	2018
Net income	\$ 5,383	7,520	7,228
Other comprehensive income (loss), before tax:			
Securities available for sale:			
Unrealized holding gains (losses) arising during the period	169	356	(244)
Other comprehensive income (loss), before tax	169	356	(244)
Income tax effect	(47)	(98)	67
Other comprehensive income (loss), net of tax	122	258	(177)
Total comprehensive income	<u>\$ 5,505</u>	<u>7,778</u>	<u>7,051</u>

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

For the Years Ended December 31, 2020, 2019 and 2018

(Dollars in thousands, except per share information)

	<u>Common Stock</u>		Additional paid -in capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Par Value				
Balances at January 1, 2018	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	1,188,081	11,881	184	49,127	(244)	60,948
Net Income	-	-	-	7,520	-	7,520
Other comprehensive (loss), net of tax	-	-	-	-	258	258
Stock options exercised	4,200	42	106	-	-	148
Stock option compensation	-	-	19	-	-	19
Cash dividends (\$2.75 per share)	-	-	-	(3,279)	-	(3,279)
Balances at December 31, 2019	1,192,281	11,923	309	53,368	14	65,614
Net Income	-	-	-	5,383	-	5,383
Other comprehensive income, net of tax	-	-	-	-	122	122
Stock options exercised	3,505	35	120	-	-	155
Stock option compensation	-	-	31	-	-	31
Cash dividends (\$2.50 per share)	-	-	-	(2,989)	-	(2,989)
Balances at December 31, 2020	1,195,786	\$ 11,958	460	55,762	136	68,316

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

(Dollars in thousands)

	Years Ended		
	2020	2019	2018
OPERATING ACTIVITIES:			
Net Income	\$ 5,383	7,520	7,228
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization on securities	236	45	67
Depreciation and amortization	395	372	368
Net (gain) loss on sales of other real estate	(8)	(51)	(53)
Provision for loan losses	1,600	-	300
Deferred tax expense (benefit)	(1,304)	355	(585)
Stock option compensation	31	19	19
Net changes in:			
Accrued interest receivable	(650)	38	(131)
Accrued expenses and other liabilities	502	298	205
Prepaid expenses	(32)	36	(17)
Other operating activities	392	17	432
Net cash provided by operating activities	<u>6,545</u>	<u>8,649</u>	<u>7,833</u>
INVESTING ACTIVITIES:			
Purchases of securities available-for-sale	(73,589)	(2,327)	(4,968)
Proceeds from calls and maturities of securities available-for-sale	2,450	1,000	-
Principal payments received on securities available-for-sale	4,458	1,854	1,471
Net (increase) decrease in loans	(6,635)	(14,982)	(4,435)
Purchases of FHLB stock	(7)	-	(2)
Purchases of bank owned life insurance	-	-	(5,000)
Purchases of premises and equipment	(942)	(710)	(469)
Proceeds from sales of other real estate	97	279	1,289
Net cash (used) provided by investing activities	<u>(74,168)</u>	<u>(14,886)</u>	<u>(12,114)</u>
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	100,651	3,147	(2,786)
Purchases of common stock	-	-	(1,540)
Stock options exercised	155	148	16
Dividends paid	(2,989)	(3,279)	(2,673)
Net cash (used) provided by financing activities	<u>97,817</u>	<u>16</u>	<u>(6,983)</u>
Net increase (decrease) in cash and cash equivalents	30,194	(6,221)	(11,264)
Cash and cash equivalents at beginning of year	46,306	52,527	63,791
Cash and cash equivalents at end of year	<u>\$ 76,500</u>	<u>46,306</u>	<u>52,527</u>
Supplemental disclosures:			
Interest payments	\$ 2,747	2,435	2,121
Income tax payments	3,043	2,503	3,173
Noncash investing and financing activities:			
Transfers to other real estate	-	266	-

TABLE 1: AVERAGE BALANCES AND NET INTEREST INCOME ANALYSIS

Taxable Equivalent Basis - In Thousands (1)	Years Ended December 31								
	2020			2019			2018		
	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)	\$ 398,398	19,866	4.99%	\$ 388,259	20,313	5.23%	\$ 373,442	19,493	5.22%
Securities (3)	32,941	583	1.77%	15,306	440	2.87%	14,779	383	2.59%
Interest bearing deposits									
with banks and federal funds sold	83,058	485	0.58%	42,212	884	2.09%	67,343	1,224	1.82%
Total earning assets	514,397	20,934	4.07%	445,777	21,637	4.85%	455,564	21,100	4.63%
NON-EARNING ASSETS									
Cash and due from banks	\$ 2,897			\$ 2,678			\$ 2,224		
Premises and equipment, net	5,870			5,627			5,306		
All other assets, net	18,180			18,343			14,729		
Less: allowance for loan losses	(6,136)			(5,913)			(5,684)		
Total assets	535,208			466,512			472,139		
INTEREST-BEARING LIABILITIES									
Savings and time deposits	\$ 332,770	2,720	0.82%	\$ 298,501	2,455	0.82%	\$ 312,304	2,157	0.69%
OTHER LIABILITIES AND STOCKHOLDERS' EQUITY									
Demand deposits	\$ 131,293			\$ 101,504			\$ 97,530		
Other liabilities	2,835			2,185			2,044		
Stockholders' equity	68,310			64,322			60,261		
Total liabilities and stockholders' equity	535,208			466,512			472,139		
Net interest income and net interest margin (4)		18,214	3.54%		19,182	4.30%		18,943	4.16%
Interest rate spread (5)			3.25%			4.03%			3.94%

(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: SECURITIES

The amortized cost, gross unrealized gains and losses, and fair values of securities are as follows:

	December 31, 2020			
	Amortized Cost	Gross Unrealized	Gross Unrealized	Fair Value
		Gains	Losses	
Available-for-sale				
U.S. government agencies	\$ 10,126	1	51	10,076
U.S. government sponsored agencies	2,500	-	3	2,497
Residential mortgage-backed	45,617	241	159	45,699
Obligations of states and political subdivisions	23,509	229	69	23,669
Totals	<u>\$ 81,752</u>	<u>471</u>	<u>282</u>	<u>81,941</u>

	December 31, 2019			
	Amortized Cost	Gross Unrealized	Gross Unrealized	Fair Value
		Gains	Losses	
Available-for-sale				
U.S government agencies	\$ 2,864	3	5	2,862
U.S. government sponsored agencies	2,000	-	-	2,000
Residential mortgage-backed	9,992	71	55	10,008
Obligations of states and political subdivisions	452	5	-	457
Totals	<u>\$ 15,308</u>	<u>79</u>	<u>60</u>	<u>15,327</u>

TABLE 3: LOANS

At December 31, 2020 and 2019 loans were as follows:

	2020	2019
Real estate:		
Construction and land development	\$ 30,602	30,011
Secured by farmland	34,028	36,192
Commercial	123,378	119,378
Residential	178,022	185,586
Commercial and agricultural	13,916	17,590
U.S. S.B.A. Paycheck Protection Program Loans	15,019	-
Consumer	6,715	7,152
Total	<u>\$ 401,680</u>	<u>395,909</u>

A summary of current, past due, and nonaccrual loans as of December 31, 2020 and 2019 was as follows:

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Total
As of December 31, 2020					
Real estate:					
Construction and land development loans	\$ 30,602	-	-	-	30,602
Secured by farmland	33,170	283	-	575	34,028
Commercial	122,158	327	-	893	123,378
Residential	175,771	995	696	560	178,022
Commercial and agricultural	13,876	40	-	-	13,916
U.S. S.B.A. Paycheck Protection Program Loans	15,019	-	-	-	15,019
Consumer	6,679	36	-	-	6,715
Total	<u>\$ 397,275</u>	<u>1,681</u>	<u>696</u>	<u>2,028</u>	<u>401,680</u>
Percentage of loan portfolio	98.9%	0.4%	0.2%	0.5%	100%
As of December 31, 2019					
Real estate:					
Construction and land development loans	\$ 29,337	-	674	-	30,011
Secured by farmland	31,910	3,512	-	770	36,192
Commercial	117,920	137	-	1,321	119,378
Residential	182,020	2,280	633	653	185,586
Commercial and agricultural	17,518	51	21	-	17,590
Consumer	7,073	79	-	-	7,152
Total	<u>\$ 385,778</u>	<u>6,059</u>	<u>1,328</u>	<u>2,744</u>	<u>395,909</u>
Percentage of loan portfolio	97.4%	1.5%	0.3%	0.7%	100%

TABLE 4: ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the year ended December 31, 2020 and 2019 were as follows:

As of December 31, 2020	
Beginning Balance	\$ 5,752
Provision for loan losses	1,600
Net charge-offs:	
Charge-offs	(358)
Recoveries	176
Net (charge-offs) recoveries	<u>(182)</u>
Ending balance	<u>\$ 7,170</u>
As of December 31, 2019	
Beginning Balance	\$ 5,966
Provision for loan losses	-
Net charge-offs:	
Charge-offs	(346)
Recoveries	132
Net recoveries (charge-offs)	<u>(214)</u>
Ending balance	<u>\$ 5,752</u>

TABLE 5: NONPERFORMING ASSETS

In Thousands	As of December 31	
	2020	2019
Nonaccrual loans	\$ 2,028	2,744
Accruing loans 90 days or more past due	696	1,328
Total nonperforming loans	<u>2,724</u>	<u>4,072</u>
Other real estate acquired through loan foreclosures	-	89
Total nonperforming assets	<u>\$ 2,724</u>	<u>4,161</u>
Tier I capital	\$ 67,998	65,572
Percentage of nonperforming assets to Tier I capital	4.01%	6.35%
Allowance for loan losses	\$ 7,170	5,752
Allowance for loan losses to total nonperforming loans	263.2%	141.3%

TABLE 6: 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, 2020 and 2019. 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 commercial and farmland	Commercial and agriculture	Totals
As of December 31, 2020					
Pass	\$ 29,814	174,924	151,758	13,666	370,162
Criticized accrual	788	2,538	4,180	250	7,756
Criticized nonaccrual	-	560	1,468	-	2,028
Total	\$ 30,602	178,022	157,406	13,916	379,946
As of December 31, 2019					
Pass	\$ 29,291	182,454	149,921	17,103	378,769
Criticized accrual	720	2,479	3,558	487	7,244
Criticized nonaccrual	-	653	2,091	-	2,744
Total	\$ 30,011	185,586	155,570	17,590	388,757

	2020	2019
Criticized accrual loans	\$ 7,756	7,244
Criticized nonaccrual loans	2,028	2,744
Total criticized loans	\$ 9,784	9,988
Allowance for loan losses	\$ 7,170	5,752
Tier I capital	67,998	65,572
Totals	\$ 75,168	71,324
Total criticized loans to the allowance for loan losses plus Tier I capital	13.0%	14.0%

TABLE 7: DEPOSITS

A breakdown of interest bearing deposits at December 31, 2020 and 2019 by type of account were as follows:

	2020	2019
Savings and money market	\$ 131,014	102,457
Interest bearing demand	66,987	49,335
Time deposits through \$ 250,000	119,102	119,956
Time deposits of more than \$250,000	37,734	27,635
Total interest bearing deposits	<u>\$ 354,837</u>	<u>299,383</u>

At December 31, 2020, the scheduled maturities of time deposits were as follows:

2021	\$ 81,418
2022	58,805
2023	5,549
2024	4,129
2025	6,935
	<u>\$ 156,836</u>

Interest on deposits for the years ended December 31, 2020, 2019 and 2018 consisted of the following:

	2020	2019	2018
Savings and money market	\$ 197	166	167
Interest bearing demand	253	186	122
Time deposits more than \$ 250,000	583	472	575
Other time deposits	1,687	1,631	1,293
Total interest on deposits	<u>\$ 2,720</u>	<u>2,455</u>	<u>2,157</u>

TABLE 8: 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, 2020, the capital levels of the Company and the Bank exceed all capital adequacy requirements to which they are subject.

As of December 31, 2020, 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, 2020				
Total capital (to risk weighted assets):				
Company (consolidated)	\$ 72,841	19.67%	8%	
Bank	72,655	19.64%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	68,180	18.41%	6%	
Bank	67,998	18.37%	6%	8%
Common equity tier I				
Company (consolidated)	68,180	18.41%	4.50%	
Bank	67,998	18.37%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	68,180	11.92%	4%	
Bank	67,998	11.89%	4%	5%
As of December 31, 2019				
Total capital (to risk weighted assets):				
Company (consolidated)	\$ 70,166	19.27%	8%	
Bank	70,138	19.26%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	65,600	18.02%	6%	
Bank	65,572	18.01%	6%	8%
Common equity tier I				
Company (consolidated)	65,600	18.02%	4.50%	
Bank	65,572	18.01%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	65,600	13.89%	4%	
Bank	65,572	13.88%	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: Brian Feltz
Benton's Crossing Branch 101 Main Street P.O. Box 1035 Stevensville, MD 21666 Phone: 410-604-0881 Fax: 410-604-0883 Branch Manager: Dora Torres	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: Kathy Kendall	Cambridge Loan Office 108 Dorchester Ave Cambridge, MD 21613 Phone: 410-819-6759 Loan Officer: Timothy McCarter

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/CRO
C. Franklin Russum	Senior Vice President
Tracy Whitby-Fairall	Senior Vice President/COO
Christina Wilkins	Senior Vice President
Brooke Horney	Senior Vice President/CCO
Jessica Fox	Senior Vice President
Deanna Lintz	Senior Vice President
Kathryn Clark	Vice President
Michael Lucas	Vice President
Heather Jarrell	Vice President
Gene Spear	Vice President
Karen Dean	Vice President
Rose Kleckner	Vice President
JoEllen Calloway	Vice President
Teresa Hood	Vice President
Cynthia Alt	Assistant Vice President
Brittany Bordley	Assistant Vice President
Linda Chance	Assistant Vice President
Alyssa Martin	Assistant Vice President
Karen Clough	Assistant Vice President
Lori Smith	Assistant Vice President
Heather Dodd	Assistant Vice President
Kathleen Kendall	Assistant Vice President
Patricia Murchake	Assistant Vice President
Warren Phillips	Assistant Vice President
Holly Rhodes	Assistant Vice President
James W. Willey	Assistant Vice President

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

Directors

Kevin B. Cashen
Bernard "Andy" Cheezum, Jr.
Wm. Thomas Davis, Jr.
James R. Friel, III
Chad M. Helfenbein
J. Thomas Rhodes, Jr.
Tracy T. Schulz
Patrick E. Thompson

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