

SHORE BANCSHARES INC  
Form PRE 14A  
March 02, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**Shore Bancshares, Inc.**

**(Name of Registrant as Specified in its Charter)**

**(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)**

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(4) Date Filed:

28969 Information Lane

Easton, Maryland 21601

Dear Fellow Shareholder:

It is my pleasure to invite you to join us at the Annual Meeting of Shareholders (our “Annual Meeting”) of Shore Bancshares, Inc. (the “Company”) to be held at **The Tidewater Inn, 101 East Dover Street, Easton, Maryland 21601** at 11:00 a.m., local time, on Wednesday, April 27, 2016.

In order to simply and effectively explain the matters to be addressed at our Annual Meeting, we have included a Proxy Statement Summary starting on page 1 that highlights the detailed information included in the Proxy Statement. We have also included a Compensation Discussion and Analysis that begins on page 22, which discusses how our executives’ pay is linked to our performance and clearly explains our executive compensation philosophy and practices. We, together with our Board of Directors (the “Board”), feel that it is important to provide you with the information you are looking for in a way that is easy to understand.

At this year’s meeting, we will vote on the election of four Class I directors to serve for a three-year term ending at the 2019 annual meeting of shareholders, the election of two Class II directors to serve for a one-year term ending at the 2017 annual meeting of shareholders, the election of one Class III director to serve for a two-year term ending at the 2018 annual meeting of shareholders, the ratification of the appointment of Stegman & Company as the Company’s independent registered public accounting firm, the adoption of a non-binding advisory resolution approving the compensation of the Company’s named executive officers and the approval of the Shore Bancshares, Inc. 2016 Stock and Incentive Compensation Plan. In addition, we will transact any other business that may properly come before the Annual Meeting and at any adjournments or postponements thereof. The Board is not aware of any other business that will be presented for consideration at the Annual Meeting.

We are distributing our proxy materials to shareholders via the internet under the “Notice and Access” rules of the U.S. Securities and Exchange Commission. We believe this expedites shareholders’ receipt of proxy materials, lowers the annual meeting costs and conserves natural resources. As a result, we are mailing to many shareholders a Notice of Internet Availability of Proxy Materials (“Notice”), rather than a paper copy of the Proxy Statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. The Notice contains instructions on how to access the proxy materials online, vote online and obtain, if desired, a paper copy of our proxy materials.

Your vote is very important. I encourage you to sign and return your proxy card, or use telephone or Internet voting prior to the meeting, so that your shares of common stock will be represented and voted at the Annual Meeting even if you cannot attend.

March , 2016

Sincerely,

Lloyd L. “Scott” Beatty, Jr.  
President and Chief Executive Officer

**Important Notice Regarding the Availability of Proxy Materials for the 2016 Annual Meeting of Shareholders to be Held on April 27, 2016:**

**Our Proxy Statement, form of Proxy, the 2015 Annual Report, and our Annual Report on Form 10-K for the year ended December 31, 2015, are available on the Internet at [www.proxyvote.com](http://www.proxyvote.com) and on our corporate website at [www.shorebancshares.com](http://www.shorebancshares.com) under the “Governance Documents” link.**

**Information on this website, other than the Proxy Statement, is not a part of the enclosed Proxy Statement**

**28969 Information Lane, Easton, Maryland 21601**

## **NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

Notice is hereby given that the Annual Meeting of Shareholders (our “Annual Meeting”) of Shore Bancshares, Inc. (the “Company”) will be held at **The Tidewater Inn, 101 East Dover Street, Easton, Maryland 21601** at 11:00 a.m., local time, on Wednesday, April 27, 2016, for the following purposes:

1. To elect four Class I directors to serve for a three-year term ending at the 2019 annual meeting of shareholders, two Class II directors to serve for a one-year term ending at the 2017 annual meeting of shareholders and one Class III director to serve for a two-year term ending at the 2018 annual meeting of shareholders.
2. To ratify the appointment of Stegman & Company as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2016.
3. To adopt a non-binding advisory resolution approving the compensation of the Company’s named executive officers.
4. To approve the Shore Bancshares, Inc. 2016 Stock and Incentive Compensation Plan.

The Board of Directors (the “Board”) is not aware of any other business that will be presented for consideration at the Annual Meeting. If any other matters should be properly presented at the Annual Meeting or any adjournments or postponements of the Annual Meeting for action by shareholders, the persons named in the form of proxy will vote the proxy in accordance with their best judgment on that matter.

The Board recommends that you vote “FOR” each of the director nominees and “FOR” each of the other proposals.

Only shareholders of record as of the close of business on March 7, 2016 are entitled to receive notice of, to attend and to vote at the Annual Meeting. If you are a beneficial owner as of that date, you will receive communications from your broker, bank or other nominee about the Annual Meeting and how to direct the vote of your shares, and you are welcome to attend the Annual Meeting, all as described in more detail in the Proxy Statement Summary section of the attached Proxy Statement.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to Be Held on April 27, 2016.** The Proxy Statement, form of Proxy, the 2015 Annual Report, and our Annual Report on Form 10-K for the year ended December 31, 2015, are available on the Internet at [www.proxyvote.com](http://www.proxyvote.com) and on our corporate website at [www.shorebancshares.com](http://www.shorebancshares.com) under the “Governance Documents” link.

By Order of the Board of Directors,

W. David Morse

Secretary and General Counsel

March , 2016

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PROXY STATEMENT SUMMARY

This summary highlights information about Shore Bancshares, Inc. (the “Company,” “we,” “our” or “us”) and certain information contained elsewhere in this proxy statement (“Proxy Statement”) for the Shore Bancshares, Inc. 2016 Annual Meeting of Shareholders (the “2016 Annual Meeting” or the “Meeting”). This summary does not contain all of the information that you should consider in voting your shares, and you should read the entire Proxy Statement carefully before voting.

2016 ANNUAL MEETING OF SHAREHOLDERS

<b><i>Time and Date</i></b>	<b><i>Record Date</i></b>
11:00 a. m., April 27, 2016	March 7, 2016
<b><i>Place</i></b>	<b><i>Number of Common Shares</i></b>
The Tidewater Inn 101 East Dover Street Easton, Maryland 21601	<b><i>Eligible to Vote at the Meeting as of the Record Date</i></b> [            ]

VOTING MATTERS AND BOARD RECOMMENDATIONS

	<b>Board Vote Recommendation</b>	<b>Page Reference</b>
<b>Proposal 1 – Election Directors</b>	<b>FOR each nominee</b>	<b>7</b>
<b>Proposal 2 – Ratification of the Appointment of the Independent Registered Public Accounting Firm</b>	<b>FOR</b>	<b>41</b>
<b>Proposal 3 – Advisory Vote on the Compensation of our Named Executive Officers</b>	<b>FOR</b>	<b>42</b>
<b>Proposal 4 – Approval of the Shore Bancshares, Inc. 2016 Stock and Incentive Compensation Plan</b>	<b>FOR</b>	<b>43</b>

2015 BUSINESS PERFORMANCE HIGHLIGHTS

The Company reported net income of \$7.11 million or \$0.56 per diluted common share for fiscal year 2015, compared to a net income of \$5.05 million or \$0.46 per diluted common share for fiscal year 2014.

Total assets were \$1.135 billion at December 31, 2015, a \$34.7 million, or 3.2%, increase when compared to the \$1.100 billion at December 31, 2014. The increase in total assets was mainly the result of significant loan growth.

On May 7, 2015, The Talbot Bank of Easton, Maryland (“Talbot Bank”), the Company’s wholly-owned bank subsidiary, announced that the Federal Deposit Insurance Corporation (the “FDIC”) and the Maryland Commissioner of Financial Regulation (the “Commissioner”) had terminated the Consent Order (the “Order”) that Talbot Bank entered into on May 24, 2013.

Effective as of July 1, 2015, the Company appointed Donna J. Stevens as the Company’s Chief Operating Officer. Ms. Stevens has been employed by the Company in various officer capacities since 1997.

On August 5, 2015, the Company announced that its Board of Directors (the “Board”) declared the first quarterly common stock dividend to shareholders since February 2, 2012.

## CORPORATE GOVERNANCE HIGHLIGHTS

We are committed to maintaining good corporate governance as a critical component of our success in driving sustained shareholder value. Our Board continually monitors emerging best practices in governance to best serve the interest of our shareholders, including:

**Active shareholder engagement**  
**Transparent public policy engagement**  
**Long-standing commitment to sustainability**  
**Independent Board**  
**Independent Lead Director**  
**Independent Board Committees**  
**Executive sessions of independent directors held at each regularly scheduled Board meeting**  
**Stock ownership guidelines for directors and executive officers**

## DIRECTOR NOMINEE HIGHLIGHTS

### **Class I Directors (three year term ending 2019):**

Christopher F. Spurry – see profile on pg. 8

Frank E. Mason, III – see profile on pg. 8

Jeffery E. Thompson – see profile on pg. 9

John H. Wilson – see profile on pg. 9

### **Class II Director (one year term ending 2017):**

Clyde V. Kelly, III – see profile on pg. 9

David A. Fike – see profile on pg. 10

### **Class III Directors (two year term ending 2018):**

R. Michael Clemmer, Jr. – see profile on pg. 10



## FREQUENTLY ASKED QUESTIONS

### **1. What is the Notice of Internet Availability of Proxy Materials that I received in the mail and why am I receiving it?**

In accordance with rules adopted by the Securities and Exchange Commission (the “SEC”), except for shareholders who have requested otherwise, we have generally mailed to our shareholders a Notice of Internet Availability of Proxy Materials (the “Notice of Internet Availability”). The Notice of Internet Availability provides instructions either for accessing our proxy materials, including this Proxy Statement and the 2015 Annual Report, which includes our annual report on Form 10-K for the year ended December 31, 2015 (the “2015 Annual Report”), at the website address referred to in the Notice of Internet Availability, or for requesting printed copies of the proxy materials by mail or electronically by e-mail. If you would like to receive a paper or e-mail copy of our proxy materials either for this 2016 Annual Meeting or for all future meetings, you should follow the instructions for requesting such materials included in the Notice of Internet Availability we mailed to you.

Our Board provided the Notice of Internet Availability and is making the proxy materials available to you in connection with our 2016 Annual Meeting, which will take place on April 27, 2016. As a shareholder, you are invited to attend the 2016 Annual Meeting and are entitled to, and requested to, vote on the proposals described in this Proxy Statement.

### **2. What information is contained in the Proxy Statement?**

This Proxy Statement describes the proposals to be voted on at the 2016 Annual Meeting, the voting process, compensation of our directors and executive officers, and certain other required information.

### **3. How can I access the Company’s proxy materials electronically?**

The Proxy Statement, form of proxy and 2015 Annual Report are available at [www.proxyvote.com](http://www.proxyvote.com) and on our corporate website at [www.shorebancshares.com](http://www.shorebancshares.com) under the “Governance Documents” link.

### **4. What does it mean if I receive more than one Notice of Internet Availability or set of the proxy materials?**

It means your shares are registered differently or are in more than one account. Please provide voting instructions for each account for which you have received a Notice of Internet Availability or set of proxy materials.

**5. Who is soliciting my vote pursuant to this Proxy Statement?**

Our Board is soliciting your vote at the 2016 Annual Meeting.

**6. Who is entitled to vote?**

Only shareholders of record at the close of business on March 7, 2016 (the "Record Date") are entitled to notice of and to vote at the 2016 Annual Meeting.

**7. How many shares are eligible to be voted?**

As of the Record Date, we had \_\_\_\_\_ shares of common stock, par value \$.01 per share ("Common Stock") outstanding. Each outstanding share of our Common Stock will entitle its holder to one vote on each of the director nominees to be elected and one vote on each other matter to be voted on at the 2016 Annual Meeting.

**8. What am I voting on?**

You are voting on the following matters:

election of four Class I directors to serve for a three-year term ending at the 2019 annual meeting of shareholders, two Class II directors to serve for a one-year term ending at the 2017 annual meeting of shareholders and one Class III director to serve for a two-year term ending at the 2018 annual meeting of shareholders (Proposal 1);

ratification of the appointment of Stegman & Company as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2016 (Proposal 2);

advisory approval of the compensation of our named executive officers (Proposal 3); and

approval of the Shore Bancshares, Inc. 2016 Stock and Incentive Compensation Plan (Proposal 4).

#### **9. How does our Board recommend that I vote?**

Our Board recommends that shareholders vote their shares as follows:

“FOR” each director nominee;

“FOR” the ratification of the appointment of Stegman & Company as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2016;

“FOR” the approval of the compensation of our named executive officers; and

“FOR” the approval of the Shore Bancshares, Inc. 2016 Stock and Incentive Compensation Plan.

#### **10. How can I cast my vote? Must I attend the Annual Meeting to do so?**

If you are a shareholder of record, you may vote at the 2016 Annual Meeting on April 27, 2016, or you may direct how your shares are voted without attending the 2016 Annual Meeting in one of the other following ways:

**Internet.** You can submit a proxy over the Internet to vote your shares at the 2016 Annual Meeting by following the instructions provided either in the Notice of Internet Availability or on the proxy card or voting instruction form you



received if you requested and received a printed set of the proxy materials.

**Telephone.** If you requested and received a printed set of the proxy materials, you can submit a proxy over the telephone to vote your shares at the 2016 Annual Meeting by following the instructions provided on the proxy card or voting instruction form enclosed with the proxy materials you received. If you received a Notice of Internet Availability only, you can submit a proxy over the telephone to vote your shares by following the instructions at the Internet website address referred to in the Notice of Internet Availability.

**Mail.** If you requested and received a printed set of the proxy materials, you can submit a proxy by mail to vote your shares at the Annual Meeting by completing, signing and returning the proxy card or voting instruction form enclosed with the proxy materials you received.

Whichever method of voting you use, the proxies identified on the proxy card will vote the shares of which you are the shareholder of record in accordance with your instructions. If you submit a proxy card properly voted and returned through available channels without giving specific voting instructions, the proxies will vote the shares as recommended by our Board.

**11. How may a shareholder nominate someone at the Annual Meeting to be a director or bring any other business before the Annual Meeting?**

The Company's Amended and Restated By-Laws, as amended (the "Bylaws") require advance notice to the Company if a shareholder intends to nominate someone for election as a director or to bring other business before the Meeting. Such a notice may be made only by a shareholder of record within the time period established in the Bylaws. See "Shareholder Proposals for the 2017 Annual Meeting" beginning on page 43.

**12. How do I request electronic or printed copies of this and future proxy materials?**

You may request and consent to delivery of electronic or printed copies of future proxy statements, annual reports and other shareholder communications by:

visiting [www.proxyvote.com](http://www.proxyvote.com), or

calling **1-800-579-1639**, or

sending an email to [sendmaterial@proxyvote.com](mailto:sendmaterial@proxyvote.com).

When requesting copies of proxy materials and other shareholder communications, you should have available the control number located on the Notice of Internet Availability or proxy card or, if shares are held in the name of a broker, bank or other nominee, the voting instruction form.

**13. What happens if my shares are held in street name?**

If you have selected a broker, bank, or other intermediary to hold your shares of Common Stock, rather than having the shares directly registered in your name with our transfer agent, you will receive separate instructions directly from your broker, bank, or other intermediary in order to vote your shares. If you, as the beneficial owner of the shares of Common Stock, do not submit voting instructions to the organization that holds your shares, that organization may still be permitted to vote your shares. In general, under The Nasdaq Stock Market Rules (the "Nasdaq Rules"), the organization that holds your shares of Common Stock may generally vote on routine matters. Proposal 2, the approval and appointment of the Company's independent auditor, Stegman & Company, is a routine matter. However, absent specific instructions from beneficial owners, brokers may not vote for non-routine matters. Proposal 1, the election of directors, Proposal 3, the advisory approval of the compensation of our named executive officers, and Proposal 4, the approval of the Shore Bancshares, Inc. 2016 Stock and Incentive Compensation Plan are non-routine matters. Therefore, there may be broker non-votes with respect to Proposals 1, 3 and 4. Accordingly, we urge you to vote by following the instructions provided by your broker, bank, or other intermediary.

Please note that if your shares are held in street name and you wish to attend and vote your shares at the Annual Meeting, you must first obtain a legal proxy from your broker, bank, or other intermediary that is the holder of record of your shares and bring it with you to the Annual Meeting. Otherwise you will not be permitted to vote in person at the Annual Meeting.

**14. What steps can I take if I want to revoke my proxy?**

Any shareholder giving a proxy may revoke it at any time by submission of a later dated proxy, subsequent Internet or telephonic proxy, or by written notice delivered to Lloyd L. Beatty, Jr., President and Chief Executive Officer (“CEO”) of the Company, at the Company’s address listed above or at the meeting. Shareholders entitled to vote at the Annual Meeting who attend may revoke any proxy previously granted and vote in person at the Annual Meeting by written ballot. Unless so revoked, the shares represented by such proxies will be voted at the Annual Meeting and all adjournments or postponements of the Annual Meeting.

All properly executed proxies received pursuant to this solicitation will be voted as directed by the shareholder on the proxy. If no direction is given, the proxy will be voted FOR ALL NOMINEES named in Proposal 1, FOR the ratification of the appointment of Stegman & Company as the Company’s independent registered public accounting firm, as described in Proposal 2, FOR the adoption of the resolution approving the compensation of the named executive officers, as described in Proposal 3 and FOR the approval of the Shore Bancshares, Inc. 2016 Stock and Incentive Compensation Plan, as described in Proposal 4.

**15. How are the votes tabulated?**

Broadridge will tabulate all votes which are received prior to the date of the Annual Meeting. We have appointed Camille Pecorak as Inspector of Election of the Annual Meeting and to receive Broadridge’s tabulation, to tabulate all other votes, and to certify the voting results. We intend to publish the final voting results in a Current Report on Form 8-K to be filed with the SEC within four business days of the Annual Meeting.

**16. Who pays the cost of this solicitation?**

We will pay the cost of this solicitation. In addition, arrangements may be made with brokerage houses and other custodians, nominees, and fiduciaries to send proxies and proxy material to their principals. Solicitation of proxies may be made by mail, telephone, personal interviews or by other means by our officers and employees who will not be additionally compensated therefor.

## PROPOSAL 1: ELECTION OF DIRECTORS

### Classification of the Company's Directors

The number of directors constituting our Board is currently set at 9. In accordance with the terms of the Company's Amended and Restated Articles of Incorporation, as supplemented (the "Charter"), our Board is divided into three classes, Class I, Class II and Class III, with each class serving staggered three-year terms as follows:

The Class I directors are Frank E. Mason, III, Christopher F. Spurry and John H. Wilson, and their terms will expire at the 2016 Annual Meeting;

The Class II directors are Blenda W. Armistead, David W. Moore and W. Moorhead Vermilye, and their terms will expire at the annual meeting of shareholders to be held in 2017; and

The Class III directors are David J. Bates, Lloyd L. Beatty, Jr. and James A. Judge, and their terms will expire at the annual meeting of shareholders to be held in 2018.

### Election Procedures; Term of Office

At each annual meeting of shareholders, or special meeting in lieu thereof, upon the expiration of the term of a class of directors, the successors to such directors will be elected to serve from the time of election and qualification until the third annual meeting following his or her election and the election and qualification of his or her successor. Any change in the Board resulting from an increase or decrease in the number of directors will be distributed by the Board among the three classes so that, as nearly as possible, each class will consist of one-third of the directors.

### Nominees for Election

Our Board has approved the nomination of Frank E. Mason, III, Christopher F. Spurry and John H. Wilson for re-election as Class I directors. In addition, our Board has determined to increase the size of the Board to 13 members. In order that the three classes of directors are as equal in number as possible, the four new nominees have been distributed among the director classes as follows: Jeffery E. Thompson has been nominated as a Class I director to serve for a three-year term ending at the 2019 annual meeting of shareholders, David A. Fike and Clyde V. Kelly, III

have been nominated as Class II directors to serve for a one-year term ending at the 2017 annual meeting of shareholders, and R. Michael Clemmer, Jr. has been nominated as a Class III director to serve for a two-year term ending at the 2018 annual meeting of shareholders.

Information about the principal occupations, business experience and qualifications of these nominees is provided below under the heading “Qualifications of 2016 Director Nominees and Continuing Directors.”

QUALIFICATIONS OF 2016 DIRECTOR NOMINEES AND CONTINUING DIRECTORS

**Class I Director Nominees:**

**Christopher F. Spurry**

Mr. Spurry has been Chairman of the Board since 2006. He has served as a director of the Talbot Bank since 1995, and he served as a director of The Felton Bank, our wholly-owned bank subsidiary that merged into CNB on January 1, 2011 (“Felton Bank”), between September 2009 and December 31, 2010. He currently serves on both the Compensation Committee and the Executive Committee.

**Age:** 68

Mr. Spurry is the founder and former owner of Spurry & Associates, Inc., a manufacturer’s representative firm that has represented manufacturing companies in the commercial/institutional foodservice and refrigeration equipment industry in the Mid-Atlantic region for over 32 years. The firm provides sales, marketing, applications engineering, and project management services. In

**Director Since:** 2004

September of 2015, Mr. Spurry sold Spurry & Associates, Inc. He currently serves as Executive Vice President of Spurry-Curren and Associates, Inc. In 1985, Mr. Spurry founded Charter Distributing, Inc., which he sold in 1996 after 11 profitable years. Over the past 15 years, Mr. Spurry successfully completed seven real estate investment, redevelopment, or subdivision projects as managing member, investor and owner of Spurry-Morgan, LLC and Spurry-Commercial, LLC. In nominating

**Committees:** Compensation; Executive

Mr. Spurry, the Nominating Committee considered as important factors his executive and business experience, his real estate experience, and his extensive experience on bank boards, which the Nominating Committee believes combine to yield valuable insight in the areas of management, communications, best practices, appreciation of risk, governance, and strategic planning.

**Frank E. Mason, III**

Mr. Mason is the President and Chief Executive Officer of JASCO Incorporated, a manufacturer and distributor of analytical instrumentation for the scientific research community, a position he has held since 2004. JASCO Incorporated, which is a subsidiary of JASCO Corporation located in Tokyo, Japan, operates throughout North and South America. Prior to becoming President and Chief Executive Officer, Mr. Mason served as JASCO Incorporated’s Chief Operations Officer from 1996

**Director Since:** 2011

to 2004 and as its Sales Director for North America from 1987 to 1995. Mr. Mason has a Bachelor of Arts degree from the University of Maryland, College Park, and a MBA from Johns Hopkins University. In nominating Mr. Mason, the Nominating Committee considered as important factors Mr. Mason’s experience in leading a large corporation, his financial and operational knowledge.

**Committees:** Executive (Chair); Audit;

Governance & Planning





**Jeffrey E.  
Thompson**

**Age:** 60

**Director of  
CNB Since:**  
2005

Mr. Thompson has been a director of CNB, a wholly-owned bank subsidiary of the Company, since 2005 and has served as legal counsel for CNB since 1986. Mr. Thompson is currently serving as Vice-Chair of the CNB Board of Directors and Chairman of the Executive and Governance Committee. Mr. Thompson is a managing partner for the law firm of Thompson & Richard, LLP, located in Centreville, Maryland. The law firm has a concentration in all matters pertaining to commercial and residential real estate, estates and trust. The law firm owns and operates a title insurance agency, Chesapeake Title Group. In nominating Mr. Thompson, the Nominating Committee considered as important factors Mr. Thompson's qualifications as legal counsel, his expertise in real estate law, and his extensive service on CNB's board.

**John H. Wilson**

**Age:** 70

**Director Since:**  
2009

**Committees:**  
Governance &  
Planning;

Mr. Wilson serves as a director of The Avon-Dixon Agency, LLC, our wholly-owned insurance producer subsidiary ("Avon-Dixon"). Since 2006, Mr. Wilson has served as the President and Chief Executive Officer of Coastal South of Maryland, Inc., a land development and real estate consulting company. Mr. Wilson is also the owner/operator of the Chesapeake Bay Beach Club, a private events facility, and managing member of the Tidewater Inn, LLC, and the Inn at the Chesapeake Bay Beach Club. In nominating Mr. Wilson, the Nominating Committee considered as important factors Mr. Wilson's experience in the insurance industry, his experience in real estate development and operating businesses similar to our typical customers, and his familiarity with and involvement in one of our key market areas.

Compensation  
(Chair)

**Class II  
Director  
Nominees:**

**Clyde V. Kelly,  
III**

**Age:** 62

**Director of  
CNB Since:**  
2005

Mr. Kelly has been a director of CNB since 2005 and is currently serving as Chairman of the CNB Board of Directors. Mr. Kelly has been the President and General Manager of Kelly Distributors since 1987, a company that distributes Anheuser-Busch and craft brewery brands in Talbot, Queen Anne's, Caroline, Dorchester and Kent counties of Maryland. In nominating Mr. Kelly, the Nominating Committee considers as important factors his leadership of a large company, familiarity with an important market area in which we compete, and his 11-year experience on CNB's board which the Nominating Committee believes offers valuable management and operational knowledge.



**David A. Fike**

**Age:** 49

**Director of  
Talbot Bank  
Since:** 2012

Mr. Fike has been a director of Talbot Bank since 2012 and is currently the President and Publisher APG Media of Chesapeake responsible for eleven newspapers, three magazines, six websites, and five mobile apps covering nine counties in Maryland & Delaware. The print publications include a six-day daily, a three-day daily, and nine weekly newspapers, plus two monthly magazines and one semi-annual magazine. He has been with Chesapeake Publishing & Printing since 1992. During his career with the company, he held the positions of Retail Advertising Manager, Advertising Director, and Director of Advertising & Marketing, General Manager, Publisher, and Regional Vice President. Mr. Fike is the past President of the Maryland Delaware D.C. Press Association and Press Services, past Chairman of the Talbot County Chamber of Commerce and has served previously on the board of directors for Talbot Mentors, The United Fund of Talbot County, Cecil County Chamber of Commerce, and the Maryland Delaware D.C. Press Foundation. He currently serves as the President for Brighter Christmas Fund. Mr. Fike has a degree in Business Management from the University of Maryland, College Park. In nominating Mr. Fike, the Nominating and Governance Committee considered Mr. Fike's experience in communications, business management, and his community involvement in our key market area.

**Class III Director  
Nominee:**

**R. Michael  
Clemmer, Jr.**

**Age:** 48

**Director of  
Talbot Bank  
Since:** 2012

Mr. Clemmer has been a director of Talbot Bank since 2012. Mr. Clemmer is President of Salisbury, Inc., a company that designs and manufactures pewter, sterling silver and other metal giftware, a position he has held since 1991. In 1995, Mr. Clemmer founded Executive Decision, Inc. a corporate recognition company. Since 1992, Mr. Clemmer has been involved in the development, acquisition and renovation of industrial and commercial property. He is founder of Waterside Properties LLC, a property development and management company. Mr. Clemmer is a graduate of the University of Richmond and has been a resident of Talbot County since 1982. In nominating Mr. Clemmer, the Nominating Committee considered as important factors Mr. Clemmer's leadership capabilities, real estate development in our key market area, and his civic participation.

**CONTINUING  
DIRECTORS:**

**Brenda W.  
Armistead**

**Age:** 64

Ms. Armistead is a self-employed investor. Ms. Armistead has been a director of the Talbot Bank since 1992. Ms. Armistead served as the County Manager and Finance Officer of Talbot County, Maryland from 1982 to 1999 and has served on the boards of numerous community-based

**Director since:**  
2002

organizations within Talbot County and the Mid-Shore. Ms. Armistead received her MBA from the University of North Carolina in 1974. Ms. Armistead's qualifications to serve on our Board include her banking experience, her managerial, governance and financial expertise relating to her career in local government, and her familiarity with and involvement in one of our key market areas.

**Committees:**  
Governance &  
Planning(Chair);  
  
Audit; Executive

**David W. Bates**

Age: 69

**Director Since:** 2012 Since September 2014, Mr. Bates serves as Chairman & CEO of Xtone, Inc., a small privately held technology company located in Northern Virginia. He has a Master's Degree in economics and an MBA in finance and was employed by the World Bank Group headquartered in Washington, DC for 20 years. During that time he served 10 years as a specialist in project loan finance at International Finance Corporation, World Bank Group's private sector affiliate. Mr. Bates qualifications to serve on the Board include his experience in banking and finance as well as his experience in corporate governance matters gained through service on a number of private corporate and nonprofit boards.

**Committees:**  
Executive;  
Governance &

Planning; Risk  
Management  
(Chair)

**David W. Moore**

Age: 51

**Director Since:** 2014 Mr. Moore was a director of Felton Bank since 2001 and subsequently became a director of CNB after the merger of Felton Bank and CNB in 2010. Currently, Mr. Moore is the Chairman of the CNB Asset Liability Committee and is a member of CNB's Executive Committee. Mr. Moore has served as President and CEO of Milford Housing Development Corporation (MHDC) since 2004 and from 2000 to 2003 served as Deputy Director of MHDC. Mr. Moore received a Bachelor of Science degree in Business Management from California Coast University in 1998 and has been a licensed Home Inspector since 1994. He received his Associate's Degree in Construction Management from Delaware Technical and Community College in 1984. Mr. Moore's qualifications to serve on our Board include his experience in banking in both Delaware and Maryland as well as his expertise in the housing industry in our key market areas.

**Committees:**  
Compensation;  
Risk  
Management

**James A. Judge**

Age: 57

**Director Since:** 2009 Mr. Judge has been a director of CNB, a wholly-owned bank subsidiary of the Company, since 2005. Mr. Judge has been a certified public accountant for over 30 years and partner since 1985 with Anthony, Judge & Ware, LLC, an accounting and tax services company located in Chestertown, Maryland. In nominating Mr. Judge, the Nominating Committee considered as important factors Mr. Judge's qualifications as a certified public accountant, his expertise in the preparation and examination of financial statements, his familiarity with the banking business, and his experience in owning and operating his own business.

**Committees:**  
Audit (Chair);  
Risk

Management



**Lloyd L.  
Beatty, Jr.**

**Age:** 63

**Director  
Since:** 2000

**Committees:**  
Executive

Mr. Beatty has been a director of the Talbot Bank since 1992. He was elected to CNB's Board on April 30, 2015. On June 1 2013, Mr. Beatty was promoted to our Chief Executive Officer ("CEO") as well as continuing to serve as President. Since January 2011, Mr. Beatty has served as our President and Chief Operating Officer ("COO") and previously served as our Executive Vice President and COO since August 2007. Prior to that and since October 2004, Mr. Beatty has been employed by us in various executive level operating officer capacities. Prior to joining the Company, Mr. Beatty was the Chief Operating Officer of Darby Overseas Investments, LP, a global private equity firm, and President of Darby Advisors, Inc., a privately held family investment business, from 1998 to 2005. Mr. Beatty was also a practicing certified public accountant for 25 years and a principal in the accounting firm Beatty, Satchell & Company from 1977 to 1998. Mr. Beatty's qualifications to serve on our Board include his extensive financial knowledge and operational experience, as well as his familiarity with an important market area in which we compete, his experience with Talbot Bank, whose operations comprise a significant portion of our operations, and his experience in advising companies on financial and tax matters, merger and acquisition transactions, and insurance operations.

**W. Moorhead  
Vermilye**

**Age:** 75

**Director  
Since:** 2000

**Committees:**  
Risk  
Management

Mr. Vermilye has been a director of Talbot Bank since 1977, and he served as a director of Felton Bank between April 2004 and December 31, 2010. On June 1, 2013, Mr. Vermilye resigned as our CEO and became the Senior Business Development Officer of Talbot Bank. Mr. Vermilye served as our CEO from December 2000 until May 2013 and as our President from December 2000 until January 2011. From 1988 until July 2006, Mr. Vermilye served as the President and Chief Executive Officer of Talbot Bank. From 1970 to 1988, Mr. Vermilye was a Principal in Bartlett, Griffin & Vermilye Insurance Agency located in Easton, Maryland. Mr. Vermilye has served on the boards of numerous community-based organizations within Talbot County and the Mid-Shore during his career. Mr. Vermilye's qualifications to serve on our Board include his experience in banking and insurance, his familiarity with and involvement in one of our key market areas, and his understanding of and experience with the business and financial needs of our typical customer.

## EXECUTIVE OFFICERS WHO ARE NOT SERVING AS DIRECTORS

Below is information regarding each of our executive officers who are not directors of the Company, including their title, age and brief biography describing each executive officer's business experience.

<b>Name</b>	<b>Age</b>	<b>Position</b>
George S. Rapp	63	Vice President and Chief Financial Officer
Donna J. Stevens	52	Chief Operating Officer
Patrick M. Bilbrough	50	President and Chief Executive Officer of Talbot Bank
Edward C. Allen	68	President and Chief Executive Officer of CNB
Richard C. Trippe	53	President and Chief Executive Officer of Avon Dixon
W. David Morse	54	Secretary and General Counsel

George S. Rapp is our Vice President and Chief Financial Officer ("CFO"), positions he has held since February 20, 2013. Prior to joining the Company, from 2010 to 2012, Mr. Rapp served as the Chief Financial Officer and one of the four executive founders of World Currency USA in Marlton, NJ, a provider of foreign currency exchange services to financial institutions, where he was responsible for the financial operations, including raising capital to fund the start-up operation. Between 2005 and 2010, he served as the Chief Financial Officer of Harleysville National Corporation, a regional banking corporation in Harleysville, PA, where he managed all financial functions including controller, treasury and shareholder relations. Between 1980 and 2005, Mr. Rapp held a variety of roles with various financial institutions, including as Chief Financial Officer, Senior Vice President & Chief Accounting Officer, Chief Operations Officer and Controller.

Donna J. Stevens was appointed Chief Operating Officer ("COO") of the Company in July 2015. She served as the Company's Chief Operations Officer from July 2013 to July 2015. She has been employed by the Company in various officer capacities since 1997, including Senior Vice President, Senior Operations and Compliance Officer and Corporate Secretary for CNB, the Company's wholly-owned commercial bank subsidiary from February 2010 to June 2013. Her banking career began in 1980 as a Teller and progressed with four financial institutions in functions including retail branch and bank operations. Management responsibilities have included retail branch banking, loan operations and documentation, credit administration, bank operations, and compliance. Education includes and Associates Degree in Business Management, Maryland Banking School, ABA Compliance School and Stonier Graduate School of Banking. Professional affiliations include Maryland Banker's Association Regulatory Affairs Committee and Mid-Atlantic Regional Compliance group. Previous affiliations include past Chairman of the Maryland Banker's Leadership and Development Committee and member of the Government Relations Council.



Patrick M. Bilbrough was appointed President and CEO of the Talbot Bank on December 31, 2012. Mr. Bilbrough was previously Talbot Bank's Executive Vice President from May, 2011 when he started with the Company. Prior to his employment with Talbot Bank and since 2007, Mr. Bilbrough served as the Market Executive of PNC Bank, N.A., of Pittsburgh where he was responsible for the 11-county Delmarva Region. He was concurrently serving as a commercial banking team leader for a 5-county area. In 2004, he was named Executive Vice President of Mercantile Eastern Shore Bank and following six months as its Chief Financial Officer, he then served as Senior Lender and Senior Credit Officer prior to the acquisition of Mercantile by PNC in 2007. From 1995 to 2004, Mr. Bilbrough was with the Peoples Bank of Maryland, of Denton, where he had most recently been President and CEO after beginning as its CFO and Comptroller. Mr. Bilbrough graduated from Salisbury University. He is a Certified Public Accountant, a graduate of the RMA Advanced Commercial Lending School, and the Executive Challenge Course sponsored by GAP International, a leadership program for Fortune 500 executives. He serves on the Boards of Directors of the Benedictine School and Choptank Community Health Services. In addition, Mr. Bilbrough is a director of Choptank Transport, Inc., a nationwide 3<sup>rd</sup> party logistics provider.

Edward C. Allen was appointed CNB's President and Chief Executive Officer on September 30, 2014. Mr. Allen was previously CNB's Chief Financial Officer from October 25, 2011 when he started with the Company. Mr. Allen is a career banker with 40 years' experience in community banks. He has been CFO or COO of banks ranging in asset size from \$400mm to \$2.5 billion. He has a Bachelor of Science degree in accounting and an MBA in finance. Most of his career has been on the finance side of the business, although he was COO of a \$500mm bank for 12 years, focusing on IT, Branch Administration, HR, Compliance, and Facilities Management. He has extensive experience in budgeting, investment portfolio management and board presentations. He has been active in the past in civic affairs and is a member of the board of directors of Compass Regional Hospice (formerly Queen Anne's County Hospice).

Richard C. Trippe joined Avon-Dixon in 2011 as the President and CEO after a long career in the insurance industry. Mr. Trippe brought with him an extensive twenty-five year background having managed every aspect of the insurance business including sales, customer service, underwriting and training. After graduating from St. Mary's College of Maryland with a Bachelor of Arts in Economics in 1985, Mr. Trippe joined The Hartford Insurance Group, where he stayed for seventeen years. Upon leaving Hartford, Mr. Trippe worked for an independent agency in Baltimore County and afterwards ran a branch office for a national insurance wholesaler.

W. David Morse has served as Secretary and General Counsel for the Company since 2008. He began employment with the Talbot Bank in 1991. He received his Juris Doctorate from the University of Baltimore and his Bachelor of Arts degree from High Point College, NC.

## CORPORATE GOVERNANCE

### **Director Independence**

Pursuant to Rule 5605(b)(1) of the Nasdaq Rules, a majority of the members of the Board must be "independent directors" as that term is defined by Nasdaq Rule 5605(a)(2). In accordance with Nasdaq Rules, the Board considered transactions and relationships between each director or any member of his or her immediate family and the Company and its subsidiaries and affiliates. Our Board has determined that currently serving directors, Blenda W. Armistead, David J. Bates, James A. Judge, Frank E. Mason, III, Christopher F. Spurry, David W. Moore, and John H. Wilson are "independent directors" under the Nasdaq Rules and these independent directors constitute a majority of our Board. In addition, each of the new director nominees, Jeffrey E. Thompson, David A. Fike, Clyde V. Kelly, III and R. Michael Clemmer, Jr., are "independent" under Nasdaq Rules.

### **Board Leadership Structure and Executive Sessions**

Our Board currently separates the role of Chairman of the Board from the role of Chief Executive Officer. The Board's philosophy is and has been to fill the position of Chairman with an independent director. The foregoing structure is not mandated by any provision of law or our Charter or By-Laws, but the Board believes that this governance structure provides the best balance between the Board's independent authority to oversee our business and the Chief Executive Officer's management of our business on a day-to-day basis.

The duties of the Chairman include: (i) acting as a liaison and channel for communication between the independent directors and the Chief Executive Officer; (ii) providing leadership to ensure the Board works cohesively and independently and during times of crisis; (iii) advising the Chief Executive Officer as to the quality, quantity and timeliness of information from executive management to the independent directors; (iv) being available to consult with the Chief Executive Officer and other directors on corporate governance practices and policies; (v) coordinating the assessment of Board committee structure, organization and charters and evaluating the need for change, as well as committee membership; (vi) together with the Chair of the Nominating and Governance Committee, interviewing all Board candidates and making recommendations concerning such candidates; (vii) coordinating, developing the agenda and leading executive sessions of the independent directors and communicating the results thereof to the Chief Executive Officer; (viii) ensuring appropriate segregation of duties between Board members and management; (ix) suggesting agenda items for Board meetings; and (x) together with the Chair of the Compensation Committee, communicating the Board's evaluation of the performance of the Chief Executive Officer.

To further strengthen the oversight of the full Board, the Board's independent directors hold executive sessions at which only non-management directors are present. The executive sessions are scheduled in connection with regularly scheduled Board meetings. Additional executive sessions may be called by any of the independent directors as often as necessary. During fiscal 2015, the independent directors met six times in executive session without the presence of management.

For these reasons, the Board believes that our corporate governance structure is in the best interests of the Company and our shareholders at this time. The Board retains authority to modify this structure as it deems appropriate.

### **Board and Committee Oversight of Risk**

The Board is actively involved in overseeing our risk management through the work of its various committees and through the work of the boards of directors and committees of our subsidiaries, a number of which have Company directors as members. Each committee of the Board is responsible for evaluating certain risks and overseeing the management of such risks. The Compensation Committee is responsible for overseeing the management of risks relating to the Company's executive compensation plans and arrangements. The Audit Committee oversees the process by which senior management and the relevant departments assess and manage our exposure to, and management of, financial and operational risks. The Nominating and Governance Committee manages risks by setting criteria for nomination of director candidates, nominating qualified candidates, and establishing and periodically reviewing our governance policies. In addition, the Board implemented a comprehensive Enterprise Risk Management ("ERM") program during 2014. The entire Board is regularly informed about these risks and oversees the management of these risks and regularly reviews information regarding our operations and finances as well as its strategic direction. Pursuant to the Board's instruction, management regularly reports on applicable risks to the relevant committee or the full Board, as appropriate, with additional review or reporting on risks conducted as needed or as requested by the Board and its committees.

### **Business Conduct and Code of Ethics**

We have adopted a Code of Ethics, as amended, that applies to all of our directors, officers, and employees, including our principal executive officer, principal financial officer, principal accounting officer, or controller, or persons performing similar functions. The Code of Ethics provides fundamental ethical principles to which these individuals are expected to adhere. The Code of Ethics operates as a tool to help directors, officers, and employees understand and adhere to the high ethical standards required for employment by, or association with, the Company.

The Code of Ethics is available on our website at [www.shorebancshares.com](http://www.shorebancshares.com) under the "Governance Documents" link. Shareholders can also obtain a written copy of the Code of Ethics, free of charge, upon request to: W. David Morse, Secretary, Shore Bancshares, Inc., 18 E. Dover Street, Easton, Maryland 21601 or (410) 763-7800. Any future changes or amendments to the Code of Ethics and any waiver that applies to one of our senior financial officers or a member of the Board will be posted to our website.

### **Shareholder Communications and Annual Meeting Attendance**

Shareholders may communicate with our Board by contacting W. David Morse, Secretary, Shore Bancshares, Inc., 18 East Dover Street, Easton, Maryland 21601 or (410) 763-7800. All communications will be forwarded directly to the Chairman of the Board for consideration.

The Board members are not required to attend our annual meetings of shareholders. However, all directors are encouraged to attend every annual meeting of shareholders as we believe that the annual meeting is an opportunity for shareholders to communicate directly with directors. If you would like an opportunity to discuss issues directly with the members of the Board, please consider attending this year's Annual Meeting. At the 2015 annual meeting of shareholders, all directors (who were serving as such) were in attendance.

The term includes most financial transactions and arrangements, such as loans, guarantees and sales of property, and remuneration for services rendered (as an employee, consultant or otherwise) to the Company.

The Company and its subsidiaries have adopted policies and procedures to ensure compliance with the foregoing requirements.

## COMMITTEES OF THE BOARD OF DIRECTORS

	Executive	Audit	Compensation	Nominating & Governance	Risk Management
<b>Blenda W. Armstead</b>	X	X		<b>Chair</b>	
<b>David J. Bates</b>	X			X	<b>Chair</b>
<b>Lloyd L. Beatty, Jr.</b>	X				
<b>James A. Judge</b>		<b>Chair</b>			X
<b>Frank E. Mason, III</b>	<b>Chair</b>	X		X	
<b>David W. Moore</b>			X		X
<b>Christopher F. Spurry</b>	X		X		
<b>Moorhead W. Vermilye</b>					X
<b>John H Wilson</b>			<b>Chair</b>	X	
<b>Number of Meetings in 2015</b>	<b>2</b>	<b>4</b>	<b>2</b>	<b>3</b>	<b>4</b>

**Executive Committee**

Our Executive Committee consists of Frank E. Mason, *Chair*, Blenda W. Armstead, David J. Bates, Lloyd L. Beatty, Jr., and Christopher F. Spurry. The Executive Committee has the authority to exercise the powers of our Board in the management of the business and affairs of the Company, subject to any restrictions imposed by law and to subsequent revision or alteration of any such action by the Board. The Executive Committee met two times during fiscal year 2015.

**Audit Committee**

The current members of the Audit Committee are James A. Judge, *Chair*, Blenda W. Armstead and Frank E. Mason, III. Our Board has determined that each current member of the Audit Committee is “independent” and financially literate as required in the Audit Committee charter and as required by the rules and regulations promulgated by the SEC and The Nasdaq Stock Market. Our Audit Committee has adopted a charter, which is posted on our website at [www.shorebancshares.com](http://www.shorebancshares.com) under the “Governance Documents” link. The Audit Committee met four times during fiscal 2015.

The principal functions of the Audit Committee are to review the financial information to be provided to our shareholders and others, our financial reporting process, our system of internal controls, our independent auditors’ independence, our audit process and the process for monitoring compliance with laws and regulations. Under our

Audit Committee charter, the Audit Committee is solely responsible for hiring and firing the independent auditors and approving their fees and engagement terms; resolving any disagreement between the independent auditors and our management; and pre-approving all audit and non-audit services performed by the independent auditors, subject to a de minimis exception.

Our Board has determined that James A. Judge, Chairman of the Audit Committee, qualifies as an audit committee financial expert within the meaning of applicable SEC rules because he has the following attributes: (i) an understanding of generally accepted accounting principles and financial statements; (ii) the ability to assess the general application of such principles in connection with accounting for estimates, accruals and reserves; (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by our financial statements, and experience actively supervising one or more persons engaged in such activities; (iv) an understanding of internal control and procedures for financial reporting; and (v) an understanding of audit committee functions. Mr. Judge has acquired these attributes by means of having held various positions that provided relevant experience, as described in his biography above.

## **Compensation Committee**

The members of the Compensation Committee, all of whom are independent directors as that term is defined in the Nasdaq Rules, are John H. Wilson, *Chair*, David W. Moore and Christopher F. Spurry. The Compensation Committee has adopted a charter, which is posted on our website at [www.shorebancshares.com](http://www.shorebancshares.com) under the “Governance Documents” link. The Compensation Committee met two times during fiscal 2015.

The Compensation Committee is generally responsible for overseeing and, as appropriate, determining our director and executive officer compensation, recommending executive promotions to the full Board, providing assistance and recommendations with respect to our compensation policies and practices, and assisting with the administration of our compensation plans. The Compensation Committee determines executive compensation pursuant to the principles discussed in the section below entitled “Overview of Compensation Philosophy and Objectives” and determines director compensation by periodically reviewing the compensation practice of peer group institutions.

Pursuant to its charter, the Compensation Committee may retain or obtain the advice of a compensation consultant, legal counsel or other advisers as it deems necessary and appropriate to carry out its duties and, in connection with such retention of consultants, the Compensation Committee will consider the independence factors as required by the applicable rules of The Nasdaq Stock Market and the SEC. The Compensation Committee is directly responsible for the appointment, compensation and oversight of the work of any compensation consultant, legal counsel and other advisers retained by them. During fiscal 2015, the Compensation Committee engaged ChaseCompGroup, LLC to perform executive and director compensation market reviews.

## **Nominating and Governance Committee**

The members of the Nominating Committee, all of whom are independent directors as that term is defined in the Nasdaq Rules, are Blenda W. Armistead, *Chair*, David J. Bates, Frank E. Mason, III and John H. Wilson. The Nominating and Governance Committee has adopted a charter, which is posted on our website at [www.shorebancshares.com](http://www.shorebancshares.com) under the “Governance Documents” link. The Nominating and Governance Committee met three times during fiscal 2015.

The Nominating and Governance Committee is responsible for overseeing and, as appropriate, determining or making recommendations to the Board regarding membership and constitution of the Board and its role in overseeing our affairs. The Nominating and Governance Committee manages the process for evaluating the performance of the Board and for nominating candidates (including current Board members) for election by our shareholders after considering the appropriate skills and characteristics required for the Board, the current makeup of the Board, the results of the



evaluations and the wishes of the Board members to be re-nominated.

The Nominating and Governance Committee is responsible for assembling and maintaining a list of qualified candidates to fill vacancies on the Board, and it periodically reviews this list and researches the talent, skills, expertise, and general background of these candidates. The Nominating Committee will from time to time review and consider candidates recommended by shareholders. Shareholder recommendations should be submitted in writing to: Shore Bancshares, Inc., 18 East Dover Street, Easton, Maryland 21601, Attn: W. David Morse, Secretary; and must specify (i) the recommending shareholder's contact information, (ii) the class and number of shares of capital stock beneficially owned by the recommending shareholder, (iii) the name, address and credentials of the candidate for nomination, and (iv) the candidate's consent to be considered as a candidate.

Whether recommended by a shareholder or chosen independently by the Nominating and Governance Committee, a candidate will be selected for nomination based on his or her talents and the needs of the Board. The Nominating and Governance Committee does not have a formal policy pursuant to which it considers specific diversity criteria when selecting nominees, such as education, professional experience, skills, race or gender. Rather, the Nominating and Governance Committee's goal in selecting nominees is to identify persons who have business and other ties to the communities and industries we serve, and who have skills, education and other attributes that will meet the needs of the Board at that time and, generally, that are complimentary to the skills and attributes possessed by existing directors. When searching for and appointing directors to fill a particular committee position, the Nominating and Governance Committee searches for persons who will meet the independence standards required for those committees and who possess skills and attributes that will allow the committee to be effective. The Nominating and Governance Committee also strives to select individuals who it believes will work well with the other directors at the highest level of integrity and effectiveness.

A candidate, whether recommended by a shareholder or otherwise, will not be considered for nomination unless he or she is of good character and is willing to devote adequate time to Board duties. In assessing the qualifications of potential candidates, the Nominating and Governance Committee will also consider the candidate's experience, judgment, and civic and community relationships, and the diversity of backgrounds and experience among existing directors. Certain Board positions, such as Audit Committee membership, may require other special skills, expertise, or independence from the Company.

It should be noted that a shareholder recommendation is not a nomination, and there is no guarantee that a candidate recommended by a shareholder will be approved by the Nominating Committee or nominated by the Board. A shareholder who desires to nominate a candidate for election may do so only in accordance with Article II, Section 4 of our By-Laws which provides that directors may be nominated by shareholders by written request to the Secretary of the Company received not less than 120 days nor more than 180 days prior to the date fixed for the meeting. Additional time constraints are applicable in the cases of a change in shareholder meeting date or a special meeting called for the purpose of electing directors. As provided in the By-Laws, the notice of nomination must specify: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the number of shares of our capital stock owned by each proposed nominee; (d) the name and residence address of the notifying shareholder; (e) the number of shares of our capital stock owned by the notifying shareholder; (f) the consent in writing of the proposed nominee as to the proposed nominee's name being placed in nomination for director; (g) a description of all arrangements or understandings between such notifying shareholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such notifying shareholder; (h) a representation that such notifying shareholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice; and (i) all information relating to such proposed nominee that would be required to be disclosed by Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), assuming such provisions would be applicable to the solicitation of proxies for such proposed nominee.

## **Risk Management**

The members of the ERM Oversight Committee are David J. Bates, *Chair*, David W. Moore, James A. Judge and W. Moorhead Vermilye. To direct the ERM function, the ERM Oversight Committee is responsible for establishing and monitoring the volume and mix of our assets and funding sources. The ERM Oversight Committee's overall objective is to manage our liquidity, capital adequacy, growth, risk, and profitability goals. ERM will be the primary forum for discussion and analysis of our investment plans, lending plans, liability structure, and overall interest rate risk.

## **Board and Committee Meetings and Attendance**

Our Board held fifteen meetings during fiscal 2015. During fiscal 2015, the Board had five separately designated standing committees: the Executive Committee, the Audit Committee, the Nominating Committee, the Compensation Committee, and the ERM Oversight Committee.

In fiscal 2015, each incumbent director attended at least 75% of the aggregate of (1) the total number of meetings of the Board (held during the period for which that person served as a director) and (2) the total number of meetings held by all committees of the Board on which that person served (held during the period served).

## BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth information as of the Record Date relating to the beneficial ownership of the Common Stock by (i) each person or group known by us to own beneficially more than five (5%) of the outstanding shares of Common Stock; (ii) each of our directors and executive officers named in the Summary Compensation Table (such executive officers are referred to herein as the “Named Executive Officers”); and (iii) all of our directors and executive officers as a group; and includes all shares of Common Stock that may be acquired within 60 days of the Record Date. The address of each of the persons named below is the address of the Company except as otherwise indicated.

Name	Number of Shares Beneficially Owned	Percent of Class Beneficially Owned	
Directors, Nominees and Named Executive Officers			
Edward C. Allen	3,726	*	
Blenda W. Armistead	13,579	(1)	*
David J. Bates	2,503		*
Lloyd L. Beatty, Jr.	91,442	(2)	*
Patrick M. Bilbrough	13,613	(3)	*
Michael R. Clemmer, Jr.	1,850	(4)	
David A. Fike	318		
James A. Judge	8,083	(5)	*
Clyde V. Kelly	1,627		
Frank E. Mason, III	8,380		*
David W. Moore	2,295	(6)	*
George S. Rapp	16,716	(7)	*
Christopher F. Spurry	20,066	(8)	*
Jeffery E. Thompson	6,631		
Richard C. Trippe	7,410	(9)	*
W. Moorhead Vermilye	50,558	(10)	*
John H. Wilson	5,299	(11)	*
All Directors, Nominees and Executive Officers as a Group (17 Persons)	254,096	2.0	%
5% Shareholders			
Wellington Management Group., LLP			
280 Congress Street	1,163,834	9.2	%
Boston, Massachusetts 02210			
Maltese Capital Management, LLC			
150 East 52 <sup>nd</sup> Street, 30 <sup>th</sup> Floor	694,700	5.5	%
New York, New York 10022			
	640,477	5.1	%

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Basswood Capital Management, L.L.C.

645 Madison Ave. #10

New York, NY 10022

All 5% Shareholders as a Group

2,499,011

19.8

%

Total

2,753,107

21.8

%

\* Amount constitutes less than 1%.

Notes:

- Includes 1,305 shares held individually by Bruce C. Armistead; 2,532 shares held by Bruce C. Armistead under an
- (1) Individual Retirement Account arrangement; and 2,545 shares held by Bruce C. Armistead, as custodian for a minor child.
- (2) Includes 15,026 shares held jointly with Nancy W. Beatty; 855 shares held individually by Nancy W. Beatty; and exercisable options to acquire 35,180 shares.
- (3) Includes exercisable options to acquire 12,248 shares.
- (4) Includes 1,500 shares held jointly with Dina Clemmer and 350 shares held by Dina Clemmer, as custodian for a minor child.
- (5) Includes 5,740 shares held individually by Margaret B. Judge.
- (6) Includes 96 shares held jointly with Evelyn W. Moore.
- (7) Includes exercisable options to acquire 8,342 shares.
- (8) Includes 8,152 shares held jointly with Beverly B. Spurry; 300 shares held by Beverly B. Spurry under a SEP arrangement; and 747 shares held by Beverly B. Spurry under an Individual Retirement Account arrangement.
- (9) Includes exercisable options to acquire 7,260 shares.
- (10) Includes 2,958 shares held individually by Sarah W. Vermilye.
- (11) Includes 3,033 shares held jointly with Deidre K. Wilson.

## COMPENSATION OF NON-EMPLOYEE DIRECTORS

**Overview**

Our directors who are not also our employees or employees of our bank subsidiaries (*i.e.*, Talbot Bank or CNB), referred to as “outside directors,” receive fees for attending regular, special and committee meetings of the Board, as well as annual retainers. Outside directors who also serve on the boards of directors of Talbot Bank and CNB also receive fees for attending meetings of those boards and their committees, as well as retainers. These fees and other compensatory arrangements are discussed in detail below. On August 5, 2015, the Board approved a change in the form of annual retainers to permit outside directors to elect whether to receive their quarterly installments of the annual retainer in either cash or stock issued pursuant to the Shore Bancshares, Inc. 2006 Stock and Incentive Compensation Plan (the “2006 Equity Plan”).

The following table provides information about the compensation paid to or earned by our outside directors during 2015. Information regarding compensation paid to or earned by directors who are also Named Executive Officers is presented in the Summary Compensation Table that appears below in the section entitled “Compensation Discussion and Analysis.”

**Director Compensation Table**

Name	Fees earned or paid in cash (\$)	Fees earned or paid in restricted stock (\$ (4)	Stock awards (\$ (5)	Option awards (\$ (5)	Non-equity incentive plan compensation (\$)	Change in pension value and nonqualified deferred compensation earnings (\$)	All other compensation (\$ (6)	Total (\$)
Ms. Armistead	34,250 (1)		4,991	-	-	-	126	39,367
Mr. Bates	15,007	4,993	4,991	-	-	-	-	24,991
Mr. Judge	32,000 (2)		4,991	-	-	-	-	36,991
Mr. Mason	10,015	9,985	4,991	-	-	-	-	24,991
Mr. Moore	29,506 (2)	3,994	4,991	-	-	-	-	38,491
Mr. Spurry	40,050 (1)		4,991	-	-	-	141	45,182
Mr. Wilson	20,500 (3)		4,991	-	-	-	-	25,491

Notes:

- (1) Includes amounts earned for serving on the Boards of the Company and Talbot Bank.
- (2) Includes amounts earned for serving on the Boards of the Company and CNB.
- (3) Includes amounts earned for serving on the Boards of the Company and Avon-Dixon.
- (4) Includes amounts earned for serving on the Board of the Company in which the director elected to receive payment in the form of restricted stock.  
The amounts reflect the aggregate grant date fair value of stock and option awards computed in accordance with FASB ASC Topic 718, "Accounting for Stock Compensation" ("ASC 718"). See Note 12 to the consolidated audited
- (5) financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 regarding assumptions underlying valuation of equity awards. There were no outstanding awards at December 31, 2015.
- (6) For Mr. Spurry and Ms. Armistead, amounts include premiums of \$141 and \$126, respectively, paid by Talbot Bank for life insurance coverage.

### **Company Director Compensation**

During 2015, our outside directors received an annual retainer fee of \$20,000 per director and \$25,000 for directors who serve as committee chairpersons. The annual retainer is paid in four quarterly installments throughout the fiscal period in which the outside director serves. Effective for the third quarterly installment paid on September 30, 2015, the Board approved an amendment to the annual retainer to provide directors the option to elect to receive payment in the form of cash or restricted stock issued pursuant to the 2006 Equity Plan with immediate vesting.



All of our directors and the directors of our subsidiaries are eligible to participate in the 2006 Equity Plan, which is discussed below under the heading “Overview of Compensation Philosophy and Objectives” in the “Compensation Discussion and Analysis” section.

### **Minimum Stock Ownership Requirements**

On February 17, 2016, our Board approved and established minimum stock ownership requirements for the CEO, Directors and Named Executive Officers as follows:

CEO – minimum of 20,000 shares within 5 years of appointment;

Directors – minimum of 4,000 shares within 3 years of being elected; and

Named Executive Officers – minimum of 4,000 shares within 5 years of appointment.

### **Talbot Bank Board Compensation**

During 2015, our outside directors who served as directors of Talbot Bank (Mr. Spurry and Ms. Armistead) also received an annual retainer of \$5,000, plus \$200 per meeting attended. Talbot Bank paid these fees. Directors are compensated once for attending joint meetings of the Board and the board of directors of Talbot Bank.

### **CNB Board Compensation**

During 2015, our outside directors who served as directors of CNB (Mr. Judge and Mr. Moore) also received an annual retainer of \$10,000, plus \$100 for each meeting attended. These fees were paid by CNB. Directors are compensated once for attending joint meetings of the Board and the board of directors of CNB.

**Avon-Dixon Agency Board Compensation**

During 2015, Mr. Wilson served as a director of Avon-Dixon and received an additional \$500 for attending meetings of its board of directors. These fees were paid by Avon-Dixon.

COMPENSATION DISCUSSION AND ANALYSIS

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## Executive Summary

Our executive compensation program is designed to reward our senior management team not just for delivering short-term results but also for driving consistent sustainable growth, which is how we exceed customer expectations and produce positive returns for our shareholders. We believe that our compensation decisions reflect a balanced and responsible pay approach by tying pay outcomes over the short and long-term, while also considering the environment in which compensation decisions are made.

Shareholders have the opportunity, at the 2016 Annual Meeting, to vote to endorse or not endorse the compensation paid to the Company's Named Executive Officers, as disclosed pursuant to the SEC's compensation disclosure rules. The Compensation Committee and the Board believe that this Compensation Discussion and Analysis, and the compensation tables and narrative discussion that follow, support their recommendation to **approve** the shareholder advisory resolution for the following Named Executive Officers in 2015:

- Lloyd L. Beatty, Jr. – President and Chief Executive Officer
- George S. Rapp – Vice President and Chief Financial Officer
- Patrick M. Bilbrough – President and Chief Executive Officer of Talbot Bank
- Edward C. Allen – President and Chief Executive Officer of CNB
- Richard C. Trippe – President and Chief Executive Officer of Avon Dixon

## Compensation Philosophy

The primary objective of the Compensation Committee's approach is to provide competitive levels of compensation so that we may attract, retain and reward outstanding executive officers. In a highly competitive community banking marketplace, excellent leadership is essential. Our executive officers are expected to manage the business of the Company and its subsidiaries in a manner that promotes growth and profitability for the benefit of shareholders, while exceeding the requirements and service expectations of our customers. To that end, the Compensation Committee believes that:

- Key executives should have compensation opportunities at levels that are competitive with peer institutions;
- Total compensation should include "at risk" components that are linked to annual and long-term performance results; and
- Stock-based compensation should form a key component of total compensation as a means of linking senior management to the long-term performance of the Company and aligning their interests with those of shareholders.

## Say on Pay Results

At the 2015 annual meeting of shareholders, the Company's shareholders overwhelmingly adopted a non-binding resolution approving the compensation paid to our executive officers, as disclosed in the definitive proxy statement for that meeting pursuant to Item 402 of the SEC's Regulation S-K. The measure was approved by approximately 97.9% of all votes cast. The Compensation Committee and the Board consider this vote to be an endorsement of our compensation philosophy and practices, including our balance between cash and equity compensation. Both the Compensation Committee and the Board intend to periodically re-evaluate our executive compensation philosophy and practices in light of the Company's performance, needs and developments, including the outcome of future non-binding advisory votes by the Company's shareholders.

### **Role of Compensation Consultants**

The Compensation Committee's consultant regularly attends committee meetings and attends executive sessions as requested by the Compensation Committee's chair, Mr. Wilson. The Compensation Committee's consultant does not perform any services for the Company's management, without express approval from the Compensation Committee.

In 2015, the Compensation Committee directly engaged ChaseCompGroup, LLC to perform executive and director compensation market reviews. The Company paid fees totaling \$32,516 to ChaseCompGroup in 2015.

### **Compensation Consultant Independence**

In furtherance of maintaining the independence of the Compensation Committee's compensation consultant, the Compensation Committee has the sole authority to retain, terminate and obtain the advice of ChaseCompGroup, LLC, at the Company's expense. Further, as discussed above, the Compensation Committee's compensation consultant will not perform any services for Shore Bancshares management unless approved in advance by the Compensation Committee.

In connection with its engagement of ChaseCompGroup, LLC, the Compensation Committee considered various factors bearing upon ChaseCompGroup, LLC's independence including, but not limited to, the amount of fees received by ChaseCompGroup, LLC from the Company as a percentage of ChaseCompGroup's total revenue, ChaseCompGroup's policies and procedures designed to prevent conflicts of interest, and the existence of any business or personal relationship that could impact ChaseCompGroup's independence. After reviewing these and other factors, the Compensation Committee determined that ChaseCompGroup, LLC is independent and that its engagement does not present any conflicts of interest. ChaseCompGroup, LLC also determined that it was independent from management and confirmed this in a written statement delivered to the Chair of the Compensation Committee as shown below.

“ChaseCompGroup, LLC is independently owned and managed by Diana Chase. ChaseCompGroup, LLC is an independent compensation consulting firm as defined in NASDAQ's revised listing standards. Our firm does not market any other services or products to Shore Bancshares, nor do any of our consultants own SHBI stock. Our consultants do not have any current or previous personal relationships with management or directors at SHBI”.

### **Management's Role in the Executive Compensation Process**

Mr. Beatty, our President and Chief Executive Officer, as well as key members of our human resources function each help support the Compensation Committee's executive compensation process and regularly attend portions of committee meetings. As part of the executive compensation process, Mr. Beatty provides his perspective to the Compensation Committee regarding the performance of his Senior Leadership Team, which includes all of our Named Executive Officers and certain other senior officers of the Company. In accordance with NASDAQ rules, Mr. Beatty is not present when his compensation is being discussed or approved by the Compensation Committee and did not vote on executive compensation matters, and neither he nor other members of management attended executive sessions of the Compensation Committee.

## **Risk Considerations**

We believe that the design and objectives of our executive compensation program provide an appropriate balance of incentives for executives and avoid inappropriate risks. In this regard, our executive compensation program includes, among other things, the following design features:

- Balanced mix of fixed versus variable compensation and cash-based versus equity-based compensation;
- Variable compensation based on a variety of performance goals, including Company, business unit and individual performance goals;
- Compensation Committee discretion to lower annual incentive award amounts;
- Balanced mix of short-term and long-term incentives;
- Stock ownership requirements; and
- Clawback policy.



### **Compensation Peer Group and Benchmarking**

The Compensation Committee refers to executive compensation studies prepared by its independent consultants when it reviews and approves executive compensation. The studies reflect compensation levels and practices for executives holding comparable positions at peer group companies, which help the Compensation Committee set compensation at competitive levels. The Compensation Committee's primary selection criteria are industry (commercially focused banks), asset size, and geography. The Compensation Committee compares each executive officer's base salary, target total cash and target long-term incentive compensation value to amounts paid for similar positions at peer group companies.

The Compensation Committee believes that the market median is a useful reference point in helping to achieve the executive compensation program objectives. However, the Compensation Committee also considers other factors when setting compensation; and target total direct compensation for each executive may vary from the market median based on the factors the Compensation Committee considers relevant each year, including particular job responsibilities and scope, adjustments for individual skills and expertise, and internal pay equity.

The compensation peer group developed for the Company by ChaseCompGroup in 2015 is listed below.

Company City