QUEENSTOWN BANCORP OF MARYLAND, INC.

Queenstown Bank

Sure Banking on the Shore

2016 ANNUAL REPORT

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

In thousands, Except Per Share Data	2016	2015	2014	2013	2012
PROFITABILITY					
Net interest income	$ 17,959	$ 17,927	$ 17,014	$ 16,194	$ 15,997
Noninterest income	1,160	1,214	1,211	1,299	1,303
Securities gains	-	22	476	-	-
Noninterest expenses	9,671	9,715	9,768	10,455	9,590
Provisions for credit losses	990	1,241	3,000	3,900	6,203
Income before taxes	8,458	8,185	5,933	3,138	1,507
Income tax expense	3,242	3,076	2,231	1,102	447
Net income	5,216	5,109	3,702	2,036	1,060
Return on average assets	1.13%	1.15%	0.83%	0.45%	0.24%
Return on average equity	9.58%	10.09%	7.84%	4.54%	2.41%
Net interest margin	4.08%	4.29%	4.09%	3.90%	3.91%
*Efficiency ratio					
(excluding other real estate losses)	49.95%	49.44%	51.95%	53.69%	53.36%
Basic earnings per share	$ 4.14	$ 4.06	$ 2.94	$ 1.62	$ 0.84
Dividends per share	$ 1.15	$ 1.00	$ 0.60	$ 0.40	$ 0.25
BALANCE SHEET					
Loans	$ 386,044	$ 393,672	$ 383,135	$ 376,462	$ 372,210
Allowance for loan losses	5,910	5,908	6,035	5,647	4,684
Loans, net of allowance for loan losses	380,134	387,764	377,100	370,815	367,526
Interest bearing deposits with banks	49,134	29,906	24,366	32,708	36,727
Total assets	462,685	447,126	438,092	441,651	448,691
Deposits	405,341	393,525	388,213	395,131	403,476
Stockholders’ equity	55,500	51,847	48,091	45,158	43,990
Shares outstanding	1,259,330	1,259,330	1,259,330	1,259,330	1,262,370
Book value per share	$ 44.07	$ 41.17	$ 38.19	$ 35.89	$ 34.85
Loans / Deposits	95.24%	100.04%	98.69%	95.28%	92.25%
Allowance for loan losses / Loans	1.53%	1.50%	1.58%	1.50%	1.26%
REGULATORY CAPITAL RATIOS					
QUEENSTOWN BANK					
Tier I leverage (avg. equity / avg. assets) ratio	11.76%	11.47%	10.77%	9.94%	9.65%
Common equity risk based	16.05%	14.89%	14.11%	13.43%	12.65%
Tier I risk-based capital ratio	16.05%	14.89%	14.11%	13.43%	12.65%
Total risk based capital ratio	17.30%	16.14%	15.37%	14.68%	13.90%
QUEENSTOWN BANCORP					
Tier I leverage (avg. equity / avg. assets) ratio	11.77%	11.48%	10.78%	9.95%	9.66%
Common equity risk based	16.05%	14.89%	14.12%	13.44%	12.66%
Tier I risk based capital ratio	16.05%	14.89%	14.12%	13.44%	12.66%
Total risk based capital ratio	17.31%	16.15%	15.38%	14.69%	13.92%

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

Queenstown Bancorp of Maryland, Inc.

To Fellow Stockholders:

We are pleased to report continued strong financial results were achieved in 2016. During 2016, Queenstown Bancorp achieved increased core nonmaturity deposit balances, as well as increases in net income and dividends to stockholders. Continued progress in reductions of troubled assets and their related costs were a significant factor in our net income growth of 2016. Although competitive pricing pressures continue to make loan growth difficult, we believe our commitment to improved credit processes will continue to result in better overall financial performance for the Bank, and an improved credit experience for our customers.

FINANCIAL PERFORMANCE

Dividends to Stockholders Increases 15%:
Strong earnings in 2016 resulted in increasing our annual dividend by 15% to $1.15 per share for 2016, from $1.00 per share for 2015. Net income was $5.2 million for 2016, compared to $5.1 million for 2015. Continued improvement in credit performance resulted in a decrease in provisions for credit losses from $1.2 million for 2015, to $990 thousand for 2016. Carrying expenses and losses on sales of foreclosed real estate were reduced from $526 thousand for 2015, to $284 thousand for 2016.

Net Interest Margin:
The net interest margin declined from 4.29% for 2015, to 4.08% for 2016. The margin decline resulted primarily from a decline in loan balances and an increase in interest bearing deposits with banks. Despite this decline in the margin, net interest income grew slightly from $17.93 million for 2015, to $17.96 million for 2016. This increase resulted from growth in lower cost nonmaturity core deposits that reduced the cost of funds on interest bearing deposits from .74% for 2015, to .67% for 2016.
The elevated levels of interest bearing deposits with banks will enable the Bank to take advantage of the expected gradual rise in market interest rates as well as provide for potential loan growth.

Credit Quality:
Continued reductions in nonperforming assets were achieved in 2016. Nonperforming assets were reduced from $7.6 million at December 31, 2015, to $6.6 million at December 31, 2016. Net loan losses have also improved, falling from $1.4 million for 2015, to $988 thousand for 2016. The ratio of criticized loans (loans considered inadequately protected by the current paying capacity of the borrower or of the collateral pledged) to the allowance for loan losses plus Tier I capital has been reduced from 34.9% at December 31, 2015 to 30.6% at December 31, 2016.

Capital:
Capital ratios remain well above the regulatory capital definition of well capitalized financial institutions (See Table 7). The maintenance of these capital levels enables Queenstown Bancorp to remain well positioned for future growth opportunities and continue to provide dividends to our stockholders while meeting the capital expectations of our regulators.

MOVING FORWARD

Queenstown Bancorp continues building on the momentum of the strong deposit, earnings and dividend growth produced in 2016. Improved credit performance and conditions will be critical factors in producing further advances in financial performance in 2017. Queenstown Bank is well positioned and fully committed to develop and maintain individualized friendly long term banking relationships with our present and future customers. We remain fully invested in the success and growth of the Mid-Shore communities that we serve.

APPRECIATION

Your Board of Directors, management and employees sincerely appreciate the loyalty and patience of our stockholders as we continue building the value of your investment. Stock is available for purchase, please contact us if interested. Your referrals of business help us grow the value of your investment and are greatly appreciated.

We sincerely appreciate your continued support and encouragement.

Yours truly,

J. Thomas Rhodes, Jr.
President

Patrick E. Thompson
Chairman of the Board

THIS STATEMENT HAS NOT BEEN REVIEWED OR CONFIRMED FOR ACCURACY OR RELEVANCE BY THE FEDERAL DEPOSIT INSURANCE CORPORATION.

IF YOU HAVE ANY QUESTIONS REGARDING INFORMATION PROVIDED IN THIS STATEMENT, PLEASE CONTACT:

J. Thomas Rhodes, Jr., President
410-827-8881
P.O. Box 120
Queenstown, Md 21658

2016

ANNUAL REPORT

TABLE OF CONTENTS

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, 2016 net income was $5.2 million, compared to net income of $5.1 million for the year ended December 31, 2015. Net income per common share increased from $4.06 in 2015, to $4.14 in 2016.

Net interest income

Although the net interest margin declined, the net interest income increased slightly from $17.93 million for 2015, to $17.96 million for 2016. Growth of nonmaturity core deposits produced lower funding costs on interest bearing deposits. Funding costs were reduced from $2.2 million for 2015, to $2.1 million for 2016. The lower net interest margin resulted from the growth in these deposits being deployed in interest bearing deposits with banks.

Competitive pressures for loan production and portfolio retention resulted in lower loan balances in relation to deposit balances in 2016. Loans as a percent of deposits fell from just over 100% at December 31, 2015, to 95.24% at December 31, 2016. As interest bearing deposits with banks are reinvested at much higher yields in the loan portfolio, the net interest margin will improve.

Provisions for credit losses and allowance for loan losses

Provisions for credit losses were $990 thousand for 2016, compared to $1.2 million for 2015. (See Table 3: Allowance for Loan Losses)

Nonperforming loans have been reduced from $6.2 million at December 31, 2015 to $5.3 million at December 31, 2016. Net loan losses have also improved, falling from $1.3 million for December 31, 2015 to $988 thousand for December 31, 2016. The allowance for loan losses represents 110.4% of nonperforming loans at year end 2016, compared to 95.2% at year end 2015. (See Table 4: Nonperforming Assets)

Noninterest income

Noninterest income, excluding security gains, was $1.1 million for 2016, compared to $ 1.2 million for 2015. Service charges on deposit accounts declined $35 thousand, from $614 thousand in 2015, to $579 thousand in 2016. Overdraft fee income declined as the increases in deposit balances has reduced the number of overdraft transactions during the year. Other income was $581 thousand for 2016, compared to $578 thousand for 2015.

Noninterest expenses

Noninterest expenses, excluding other real estate owned losses and expenses, increased $198 thousand for 2016, from $9,189 thousand in 2015, to $9,387 thousand for 2016. Other real estate owned losses on sales and carrying costs decreased $242 thousand, from $526 thousand for 2015, to $284 thousand for 2016.

Income taxes

Income tax provisions are primarily adjusted for non-taxable income before applying applicable federal and state income tax rates. Our effective tax rate was 38.3% for 2016 and 37.6% in 2015.

FINANCIAL CONDITION

Total assets increased from $447 million at year end 2015, to $463 million at year end 2016. Funding this growth were significant increases in core nonmaturity savings deposit balances. Although this deposit growth has yet to be invested in the loan portfolio, this deposit growth produced $98 thousand savings in deposits interest expense. The loan portfolio decreased from $393.6 million at December 31, 2015, to $386 million at December 31, 2016. The majority of this decline related to $7 million in short term commercial credits that were expected to pay off in 2016. The deposit growth is primarily invested in interest bearing deposits with banks which enables Bancorp to benefit from expected slowly rising interest rates, and enables Bancorp to invest in the loan portfolio as opportunities arise. (See Queenstown Bancorp of Maryland, Inc. and Subsidiary Consolidated Balance Sheets Page 1 and Table 1 Average Balances and Net Interest Income Analysis)

Deposits

Total deposits at December 31, 2016 were $405.3 million, an increase of $11.8 million, from $393.5 million at December 31, 2015. The mix of our deposits improved significantly, as non-maturity savings accounts grew $3 million and interest bearing transaction accounts grew $9 million. This core deposit growth produced improved costs of funds for 2016. The cost of total interest bearing deposits declined from .74% for year end 2015, to .67% for year end 2016. Non-maturity transaction and savings accounts comprised 40% of interest bearing deposit totals at December 31, 2016, compared to 38% at December 31, 2015. (See Table 6: Deposits).

Capital levels

Stockholders' equity increased $3.7 million, from $51.8 million at December 31, 2015, to $55.5 million at December 31, 2016. The increase is comprised primarily of net income less cash dividends to common shareholders of $3.8 million. The Bank and Company's total qualifying capital ratios have increased over the 2015 year end ratios. For the Company, the Tier I ratio increased 116 basis points, from 14.89% to 16.05%. The total capital ratio also improved 116 basis points, from 16.15% to 17.31%. The common equity leverage ratio improved 29 basis points, from 11.48% to 11.77%. (See Table 7: Stockholders' Equity)

For the Bank, the Tier I ratio increased 116 basis points, from 14.89% to 16.05%. The total capital ratio increased 116 basis points, from 16.14% to 17.30%. The common equity leverage ratio increased 29 basis points, from 11.47% to 11.76%. 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	
	2016	**2015**
ASSETS		
Cash and due from banks	$ 6,103	4,073
Interest bearing deposits with banks	49,134	29,906
Total cash and cash equivalents	55,237	33,979
Securities available-for-sale (at fair value)	10,521	9,513
Federal Home Loan Bank stock (at cost)	416	408
Loans	386,044	393,672
Less allowance for loan losses	(5,910)	(5,908)
Loans, net	380,134	387,764
Premises and equipment, net	5,556	5,694
Bank owned life insurance	5,825	5,646
Other real estate	1,308	1,414
Deferred income taxes	1,443	996
Accrued interest receivable	1,449	1,257
Prepaid expenses	322	154
Other assets	474	301
TOTAL ASSETS	$ 462,685	447,126
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	$ 88,021	90,177
Interest bearing deposits	317,320	303,348
Total deposits	405,341	393,525
Accrued expenses and other liabilities	1,844	1,754
Total liabilities	407,185	395,279
Common stock - $10 par value; 10,000,000 shares authorized; shares issued and outstanding 1,259,330	12,593	12,593
Surplus	139	139
Retained earnings	42,846	39,079
Accumulated other comprehensive (loss) income	(78)	36
Total stockholders' equity	55,500	51,847
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 462,685	447,126

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share information)

	Years Ended		
	2016	**2015**	**2014**
INTEREST INCOME:			
Interest and fees on loans	$ 19,598	19,771	19,348
Interest and dividends on investment securities	229	292	336
Other interest income	269	99	119
Total interest income	20,096	20,162	19,803
INTEREST EXPENSE:			
Interest on deposits	2,137	2,235	2,789
NET INTEREST INCOME:	17,959	17,927	17,014
Provisions for credit losses	990	1,241	2,750
Net interest income after provisions for credit losses	16,969	16,686	14,264
NONINTEREST INCOME:			
Service charges on deposit accounts	579	614	634
Other income	581	578	577
Securities gains	-	22	476
Total noninterest income	1,160	1,214	1,687
NONINTEREST EXPENSES:			
Salaries and employee benefits	5,831	5,658	5,458
FDIC insurance premiums	502	571	589
Other real estate losses and expenses	284	526	724
Data processing expenses	617	598	627
Occupancy expense of bank premises	610	647	633
Equipment expenses	322	313	324
Provision for losses on unfunded commitments	-	-	250
Other expenses	1,505	1,402	1,413
Total noninterest expenses	9,671	9,715	10,018
Income before income taxes	8,458	8,185	5,933
Income tax expense	3,242	3,076	2,231
Net income	$ 5,216	5,109	3,702
Basic and diluted net income per share	$ 4.14	4.06	2.94
Basic and diluted weighted average shares outstanding	1,259,330	1,259,330	1,259,330

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

	Years Ended		
	2016	**2015**	**2014**
Net income	$ 5,216	5,109	3,702
Other comprehensive (loss), before tax:			
Securities available for sale:			
Unrealized holding gains (losses) arising during the period	(188)	(126)	107
Reclassification adjustment for gains (losses) included in net income	-	(30)	(194)
Other comprehensive (loss), before tax	(188)	(156)	(87)
Income tax effect	74	62	34
Other comprehensive (loss), net of tax	(114)	(94)	(53)
Total comprehensive income	$ 5,102	5,015	3,649

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2016, 2015 and 2014
(Dollars in thousands, except per share information)

	Common Stock				Accumulated Other Comprehensive	
	Shares	Par Value	Surplus	Retained Earnings	Income (Loss)	Total
Balances at January 1, 2014	1,259,330	$ 12,593	139	32,283	183	45,198
Net Income	-	-	-	3,702	-	3,702
Other comprehensive income(loss), net of tax	-	-	-	-	(53)	(53)
Cash dividends ($0.60 per share)	-	-	-	(756)	-	(756)
Balances at December 31, 2014	1,259,330	12,593	139	35,229	130	48,091
Net Income	-	-	-	5,109	-	5,109
Other comprehensive income(loss), net of tax	-	-	-	-	(94)	(94)
Cash dividends ($1.00 per share)	-	-	-	(1,259)	-	(1,259)
Balances at December 31, 2015	1,259,330	12,593	139	39,079	36	51,847
Net Income	-	-	-	5,216	-	5,216
Other comprehensive income(loss), net of tax	-	-	-	-	(114)	(114)
Cash dividends ($1.15 per share)	-	-	-	(1,449)	-	(1,449)
Balances at December 31, 2016	1,259,330	$ 12,593	139	42,846	(78)	55,500

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

	Years Ended		
	2016	2015	2014
OPERATING ACTIVITIES:			
Net Income	$ 5,216	5,109	3,702
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization on securities	75	50	41
Depreciation and amortization	364	362	362
Gains on sales of securities	-	(22)	(476)
Losses on other real estate	38	136	300
Provision for loan losses and other credit losses	990	1,241	3,000
Deferred tax expense	(373)	17	367
Net changes in:			
Accrued interest receivable	(192)	64	70
Accrued expenses and other liabilities	90	(34)	216
Prepaid expenses	(168)	116	88
Other operating activities	(186)	731	(514)
Net cash provided by operating activities	5,854	7,770	7,156
INVESTING ACTIVITES:			
Purchases of securities available-for-sale	(3,479)	(1,154)	(3,696)
Proceeds from sales of securites availible-for-sale	-	824	532
Proceeds from calls and maturities of securities available-for-sale	795	50	1,701
Prinicipal payments received on securities available-for-sale	1,414	1,224	1,008
Net decrease (increase) in loans	5,172	(13,096)	(12,953)
Purchases of FHLB stock	(8)	-	-
Proceeds from redemption of FHLB stock	-	3	141
Purchases of premises and equipment	(226)	(92)	(1,355)
Purchases and improvements of other real estate owned	-	-	(5)
Proceeds from sales of other real estate	1,369	2,204	2,456
Net cash provided (used) by investing activities	5,037	(10,037)	(12,171)
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	11,816	5,313	(6,918)
Dividends paid	(1,449)	(1,259)	(756)
Net cash provided (used) by financing activities	10,367	4,054	(7,674)
Net increase (decrease) in cash and due from banks	21,258	1,787	(12,689)
Cash and cash equivalents at beginning of year	33,979	32,192	44,881
Cash and cash equivalents at end of year	$ 55,237	33,979	32,192
Supplemental disclosures:			
Interest payments	$ 2,141	2,294	2,852
Income tax payments	3,695	3,029	1,892
Noncash investing and financing activities:			
Loan charge-offs	1,155	1,614	2,800
Transfers to other real estate owned	1,301	945	3,556

TABLE 1: AVERAGE BALANCES AND NET INTEREST INCOME ANALYSIS

Taxable Equivalent Basis - In Thousands (1)		2016				2015				2014		
		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)	$	382,262	19,662	5.14%	$	385,322	19,931	5.17%	$	368,913	19,439	5.27%
Securities – taxable (3)		9,932	232	2.34%		10,023	302	3.01%		10,519	347	3.30%
Interest bearing deposits with banks and federal funds sold		49,702	269	0.54%		26,612	99	0.37%		39,294	119	0.30%
Total earning assets		441,896	20,163	4.56%		421,957	20,332	4.82%		418,726	19,905	4.75%
NON-EARNING ASSETS												
Cash and due from banks	$	2,186			$	2,662			$	6,758		
Premises and equipment, net		5,627				5,845				4,889		
All other assets, net		16,637				18,169				23,138		
Less: allowance for loan losses		(6,058)				(6,037)				(5,977)		
Total assets		460,288				442,596				447,534		
INTEREST-BEARING LIABILITIES												
Savings and time deposits	$	316,769	2,137	0.67%	$	301,955	2,235	0.74%	$	310,971	2,789	0.90%
OTHER LIABILITIES AND STOCKHOLDERS' EQUITY												
Demand deposits	$	87,189			$	88,174			$	87,994		
Other liabilities		1,861				1,854				1,394		
Stockholders' equity		54,469				50,613				47,175		
Total liabilities and stockholders' equity		460,288				442,596				447,534		
Net interest income and net interest margin (4)			18,026	4.08%			18,097	4.29%			17,116	4.09%
Interest rate spread (5)				3.89%				4.08%				3.85%

Years Ended December 31

(1) The taxable equivalent basis is computed using 34% federal and applicable state tax rates.
(2) The average loan balances exclude nonaccrual loans.
(3) The average balances for debt and equity securities exclude the effect of their mark-to-market adjustment, if any.
(4) Net interest margin is computed by dividing net interest income by total earning assets.
(5) Interest rate spread equals the earning asset yield minus the interest-bearing liability rate.

TABLE 2: LOANS

At December 31, 2016 and 2015, loans are as follows:

		2016	2015
Real estate:			
Construction and land development	$	32,918	33,301
Secured by farmland		37,582	37,794
Commercial		98,501	94,062
Residential		191,071	195,026
Commercial and agricultural		18,312	25,696
Consumer		7,660	7,793
Total	$	386,044	393,672

A summary of current, past due, and nonaccrual loans as of December 31, 2016 and 2015 was as follows:

		Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Total
As of December 31, 2016						
Real estate:						
Construction and land development loans	$	31,596	52	-	1,270	32,918
Secured by farmland		37,139	-	443	-	37,582
Commercial		94,961	2,973	88	479	98,501
Residential		184,314	3,689	262	2,806	191,071
Commercial and agricultural		18,224	85	-	3	18,312
Consumer		7,574	86	-	-	7,660
Total	$	373,808	6,885	793	4,558	386,044
Percentage of loan portfolio		96.8%	1.8%	.2%	1.2%	100%
As of December 31, 2015						
Real estate:						
Construction and land development loans	$	29,956	484	-	2,861	33,301
Secured by farmland		37,794	-	-	-	37,794
Commercial		91,652	1,990	-	420	94,062
Residential		190,503	1,607	173	2,743	195,026
Commercial and agricultural		25,616	72	-	8	25,696
Consumer		7,718	75	-	-	7,793
Total	$	383,239	4,228	173	6,032	393,672
Percentage of loan portfolio		97.3%	1.1%	.1%	1.5%	100%

TABLE 3: ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the year ended December 31, 2016 and 2015 were as follows:

	Real estate construction	Real estate residential	Real estate farmland and commercial	Commercial and agriculture	Consumer	Total
As of December 31, 2016						
Beginning Balance	$ 1,664	1,948	1,814	368	114	5,908
Provision for loan losses	-	754	236	-	-	990
Net charge-offs:						
Charge-offs	(264)	(489)	(223)	(120)	(59)	(1,155)
Recoveries	66	43	8	8	42	167
Net charge-offs	(198)	(446)	(215)	(112)	(17)	(988)
Ending balance	$ 1,466	2,256	1,835	256	97	5,910
As of December 31, 2015						
Beginning Balance	$ 1,748	1,958	1,814	407	108	6,035
Provision for loan losses	500	250	250	216	25	1,241
Net charge-offs:						
Charge-offs	(602)	(415)	(250)	(272)	(75)	(1,614)
Recoveries	18	155	-	17	56	246
Net charge-offs	(584)	(260)	(250)	(255)	(19)	(1,368)
Ending balance	$ 1,664	1,948	1,814	368	114	5,908

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

TABLE 4 NONPERFORMING ASSETS

In Thousands		As of December 31 2016	2015
Nonaccrual loans	$	4,558	6,032
Accruing mortgage loans 90 days or more past due		793	173
Total nonperforming loans		5,351	6,205
Other real estate acquired through loan foreclosures		1,308	1,414
Total nonperforming assets	$	6,659	7,619
Tier I capital	$	55,538	51,771
Percentage of nonperforming assets to Tier I capital		11.99%	14.72%
Allowance for loan losses	$	5,910	5,908
Allowance for loan losses to total nonperforming loans		110.4%	95.2%

TABLE 5: CRITICIZED LOANS

The following table summarizes the loan risk ratings applied to the Company's real estate mortgages and commercial loans as of December 31, 2016 and 2015. Criticized loans are considered inadequately protected by the current paying capacity of the borrower or of the collateral pledged, if any. These loans have weaknesses that may jeopardize the liquidation of the debt. Loans not meeting the definition of criticized are considered pass rated loans.

		Real estate construction	Real estate residential	Real estate farmland and commercial	Commercial and agriculture
As of December 31, 2016					
Pass	$	30,789	183,193	127,484	18,140
Criticized accrual		859	5,072	8,120	169
Criticized nonaccrual		1,270	2,806	479	3
Total	$	32,918	191,071	136,083	18,312
As of December 31, 2015					
Pass	$	29,497	185,078	125,774	25,416
Criticized accrual		943	7,205	5,662	272
Criticized nonaccrual		2,861	2,743	420	8
Total	$	33,301	195,026	131,856	25,696

		2016		2015
Criticized accrual loans	$	14,220	$	14,082
Criticized nonaccrual loans		4,558		6,032
Total criticized loans	$	18,778	$	20,114
Allowance for loan losses	$	5,910	$	5,908
Tier I capital		55,538		51,771
Totals	$	61,448	$	57,679
Total criticized loans to the allowance for loan losses plus Tier I capital		30.6%		34.9%

Criticized nonaccrual loans have been reduced by $1.5 million. At December 31, 2016, the performing criticized loans comprise 76% of the total criticized loans, compared to 70% at December 31, 2015.

TABLE 6: DEPOSITS

A breakdown of interest bearing deposits at December 31, 2016 and 2015, by type of account is as follows:

	2016	2015
Savings and money market accounts	$ 89,173	86,177
Interest bearing demand accounts	38,022	29,246
Time deposits of less than $100,000	77,984	77,964
Time deposits of $100,000 through $250,000	72,007	71,851
Time deposits of more than $250,000	40,134	38,110
Total interest bearing deposits	$ 317,320	303,348

At December 31, 2016, the scheduled maturities of time deposits are as follows:

2017	$ 82,096
2018	55,181
2019	24,664
2020	16,206
2021	11,978

Interest on deposits for the years ended December 31, 2016, 2015 and 2014 consisted of the following:

	2016	2015	2014
Savings and money market	$ 151	142	131
Interest bearing demand accounts	49	28	22
Time deposits of $100,000 or more	1,300	1,388	1,753
Other time deposits	637	677	883
Total interest on deposits	$ 2,137	2,235	2,789

TABLE 7: STOCKHOLDERS' EQUITY

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain amounts and ratios (as set forth in the following table) of total and Tier 1 Capital (as defined in the regulations) to risk-weighted assets (as defined). As of December 31, 2016, the capital levels of the Company and the Bank exceed all capital adequacy requirements to which they are subject.

As of December 31, 2016, the most recent notification from the Bank's primary regulators categorized the Bank as well capitalized under the prompt corrective action regulations. To be categorized as well capitalized, a bank must maintain a minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since the last notifications that management believes have changed the Bank's category. Actual capital amounts and ratios are presented in the following table for the Company and the Bank.

	Actual		For Capital	To Be Well Capitalized Under Prompt Corrective
	Amount	Ratio	Adequacy Purposes	Action Provisions
As of December 31, 2016				
Total capital (to risk weighted assets):				
Company (consolidated)	$ 59,926	17.31%	8%	
Bank	59,886	17.30%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	55,578	16.05%	6%	
Bank	55,538	16.05%	6%	8%
Common equity tier I				
Company (consolidated)	55,578	16.05%	4.5%	
Bank	55,538	16.05%	4.5%	6.5%
Tier I capital (to average assets):				
Company (consolidated)	55,578	11.77%	4%	
Bank	55,538	11.76%	4%	5%
As of December 31, 2015				
Total capital (to risk weighted assets):				
Company (consolidated)	$ 56,181	16.15%	8%	
Bank	56,141	16.14%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	51,811	14.89%	6%	
Bank	51,771	14.89%	6%	8%
Common equity tier I				
Company (consolidated)	51,811	14.89%	4.5%	
Bank	51,771	14.89%	4.5%	6.5%
Tier I capital (to average assets):				
Company (consolidated)	51,811	11.48%	4%	
Bank	51,771	11.47%	4%	5%

NOTES

NOTES

Queenstown Bank of Maryland Officers

Patrick E. Thompson	Chairman of the Board
T. Douglas Pierson	Vice Chairman of the Board
J. Thomas Rhodes, Jr.	President/CEO
James P. Shaw	Senior Vice President/CFO
Peggy E. Lewis	Senior Vice President/CCBIA
Stephanie V. Morris	Senior Vice President
C. Franklin Russum	Senior Vice President
Tracy Whitby-Fairall	Senior Vice President/COO
Christina Wilkins	Senior Vice President
Brooke Horney	Senior Vice President
Jamie Dulin	Senior Vice President
JoEllen Calloway	Vice President
Karen Dean	Vice President
Patricia Tarr	Vice President
Judy Vera	Vice President
John Ludwig	Vice President
Lauren Pfisterer	Vice President
Katie Anderson	Vice President
Heather Jarrell	Assistant Vice President
Helen Aytch	Assistant Vice President
Diane Xander	Assistant Vice President
Karen Clough	Assistant Vice President
Tammy Taylor	Assistant Vice President
Heather Dodd	Assistant Vice President
Michael Lucas	Assistant Vice President

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

Wheeler R. Baker

W. Thomas Davis, Jr.

James R. Friel, III

Chad M. Helfenbein

T. Douglas Pierson

J. Thomas Rhodes, Jr.

Tracy T. Schulz

Patrick E. Thompson

Queenstown Bank

Sure Banking on the Shore

Branch Information

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

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

Centreville Branch - Centreville
115 Coursevall Drive
P.O. Box 177
Centreville, MD 21617
Phone: 410-758-8747
Fax: 410-758-8767
Branch Manager: Karen Dean

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

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

Benton's Crossing Branch - Stevensville
101 Main Street
P.O. Box 1035
Stevensville, MD 21666
Phone: 410-604-0881
Fax: 410-604-0883
Branch Manager: Diane Xander

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

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

Queenstown Bank

Of Maryland

ESTABLISHED 1899

Member Federal Deposit Insurance Corporation