



QUEENSTOWN
— BANK —

Just the bank you need.™

Queenstown Bancorp of Maryland, Inc.

2023

Annual Report

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

In thousands, Except Per Share Data	2023	2022	2021	2020	2019
PROFITABILITY					
Net interest income	\$ 20,193	20,977	19,510	18,168	19,148
Noninterest income	1,783	1,709	1,659	1,402	1,587
Net (loss) gain on sales of securities	(660)	-	-	-	-
Noninterest expenses	13,705	13,199	11,799	10,738	10,493
Provisions for credit losses	(700)	-	-	1,600	-
Income before taxes	8,311	9,487	9,370	7,232	10,242
Income tax expense	2,150	2,450	2,423	1,849	2,722
Net income	6,161	7,037	6,947	5,383	7,520
Return on average assets	0.92%	1.05%	1.10%	1.01%	1.61%
Return on average equity	10.51%	11.39%	9.91%	7.88%	11.69%
Net interest margin	3.02%	3.21%	3.22%	3.55%	4.30%
*Efficiency ratio	61.94%	57.56%	55.15%	53.69%	50.24%
PER SHARE DATA					
Basic net income	\$ 5.15	5.87	5.79	4.50	6.31
Diluted net income	\$ 5.10	5.81	5.75	4.47	6.28
Dividends per share	\$ 2.50	2.50	2.50	2.50	2.75
Book value	\$ 52.32	46.59	58.43	57.13	55.03
Shares outstanding	1,197,300	1,195,223	1,200,048	1,195,786	1,192,281
BALANCE SHEET					
U.S. S.B.A. Paycheck Protection Program Loans	\$ 6	9	430	15,019	-
Loans-other	457,393	429,297	384,674	386,661	395,909
Total Loans	457,399	429,306	385,104	401,680	395,909
Allowance for loan losses	6,734	7,565	7,401	7,170	5,752
Loans, net of allowance for loan losses	450,665	421,741	377,703	394,510	390,157
Interest bearing deposits with banks	48,190	35,112	70,295	69,897	40,935
Securities available for sale	136,404	148,141	177,863	81,941	15,327
Total assets	679,279	650,619	658,087	576,977	473,122
Deposits	591,384	586,004	584,569	505,564	404,913
Borrowings	20,000	5,000	-	-	-
Tier I capital	79,009	76,045	72,325	68,180	65,600
Stockholders' equity	62,649	55,690	70,135	68,316	65,614
Loans / Deposits	77.34%	73.26%	65.88%	79.45%	97.78%
Allowance for loan losses / Loans	1.47%	1.76%	1.92%	1.79%	1.45%
REGULATORY CAPITAL RATIOS					
QUEENSTOWN BANK					
Tier I leverage ratio	11.37%	11.27%	10.77%	11.89%	13.88%
Common equity risk based	16.60%	16.64%	17.13%	18.37%	18.01%
Tier I risk-based capital ratio	16.60%	16.64%	17.13%	18.37%	18.01%
Total risk-based capital ratio	17.85%	17.89%	18.39%	19.64%	19.26%

*Efficiency ratio: total noninterest expenses divided by tax equivalent net interest income plus noninterest income



Queenstown Bancorp of Maryland, Inc.

Dear Fellow Shareholders,

“A brand for a company is like a reputation for a person. You earn your reputation by trying to do the hard things well.”

Jeff Bezos, Founder of Amazon

We are pleased to provide our Annual Report for FY 2023. We believe we did the hard things well in 2023. By doing the hard things well, we further solidified our reputation as a top tier, local community bank serving the needs of our community in a personal and responsive way. Even with challenges, our team stepped up, came together, and worked hard to deliver the financial performance you will find covered in this report. While the performance is off from 2022, given the magnitude of events impacting our industry during 2023, there is good reason we believe it was a good performance.

As has been a theme over the past several years, these have been tumultuous times in the banking industry. In 2023, we saw continued rate increases by the Federal Reserve, the failure of three (3) banks in March/April, significant increase on deposit rates and a slowdown in loan growth across the industry. The Federal Reserve implemented four additional increases for a total of eleven increases over 16 months, the fastest and steepest in history. In March 2023, we saw the failure of three banks in rapid succession due to poor management and a lack of liquidity. These failures impacted deposit pricing and renewed an interest in understanding FDIC insurance. Like many of you, inflation continues to impact every aspect of our cost structure.

Given all the above, we are proud of the year-end performance. We overcame a significant increase in our interest expense on deposits and increases in our non-interest expense to earn over \$6 million. Our deposits remained flat at just under \$600 million while many in the industry saw a decline in deposits. On the loan side, we saw 6.5% growth in the portfolio while the second half of the year saw a significant decline in loan volumes due to rates and uncertainty. Our asset quality remained strong and was well managed by the team. Our core functions performed well and should position the Bank for future success.

Net income for 2023 was \$6.1 million (\$5.15 per common share) compared to \$7 million (\$5.87 per common share) for 2022. These earnings resulted in a .92% Return on Average Assets and 10.51% Return on Average Equity. Net interest income was \$20.1 million for 2023 and \$21 million for 2022. There was a loan loss benefit of \$768 thousand for 2023, compared to no loan loss provision for 2022. The Bank has experienced very strong credit performance of the loan portfolio over the last several years. Losses on securities sales of \$660 thousand were recognized in 2023. These sales of COVID-era securities were reinvested in much higher yielding loans to improve the net interest income of the Company going forward. The Bank remains very well capitalized with the ratio of common equity to risk-based total assets of 16.60% as of December 31, 2023. Tier I regulatory common equity grew from \$75.8 million at December 31, 2022 to \$79 million at December 31, 2023.

As we enter our 125th year, we will continue to deliver the products and services that you, our shareholders, and customers, expect from your local bank. This includes our continued investment in technologies that will both expand our services and create efficiencies. We expect that the market will continue to be a challenge in 2024 with interest rate uncertainty, economic uncertainty, and geopolitical uncertainty. Our pledge is to continue to try to do the hard things well and maintain our reputation as “the” local community bank for the upper shore.

Yours truly,



Kevin B. Cashen
President & CEO



In Memoriam - Wm. Thomas Davis, Jr.

The Bank is saddened to report the sudden loss of one of its long-time Directors, Wm. Thomas Davis, Jr., in January 2024. Tommy served on the Board for nearly 20 years and was well know and respected in our community. He was a native of Queen Anne’s County and was dedicated to the Bank and to the community at-large. Through his firm, DMS & Associates, Tommy left a huge mark on the look and feel of our community and left it a better place. He will be greatly missed by all in the community. We will continue to keep his family and friends in our thoughts and prayers.

2023

ANNUAL REPORT

TABLE OF CONTENTS

FINANCIAL STATEMENTS	<u>Page(s)</u>
SUMMARY FINANCIAL RESULTS & ANALYSIS	
Consolidated Balance Sheets	1
Consolidated Statements of Income	2
Consolidated Statements of Comprehensive Income	3
Consolidated Statements of Changes in Stockholders' Equity	3
Consolidated Statements of Cash Flows	4
Table 1: Average Balances and Net Interest Income Analysis	5
Table 2: Securities	6
Table 3: Loans	7
Table 4: Allowance for Loan Losses	8
Table 5: Nonperforming Assets	8
Table 6: Criticized Loans	9
Table 7: Deposits	10
Table 8: Borrowings & Credit Facilities	10
Table 9: Stockholders' Equity	11

SUMMARY FINANCIAL RESULTS

Net income for 2023 was \$6.1 million (\$5.15 per common share) , compared to net income of \$7 million (\$ 5.87 per common share) for 2022. Dividends per share were \$2.50 per share for 2023 and 2022. These earnings resulted in a 0.92% Return on Average Assets and 10.51% Return on Average Equity.

Net interest income

Net interest income decreased from \$21 million for 2022, to \$20.1 million for 2023. The yield on earning assets was 4.19% for 2023, compared to 3.44% for 2022.(See Table 1) Interest bearing deposits costs increased from .38% in 2022, to 1.68% for 2023. Interest rates on deposits continued to rise for 2023 as Federal Funds rate hikes of 5.25% since March of 2022 are increasing deposit costs throughout the banking system.

Provisions for loan losses and allowance for loan losses

Continued strong credit performance resulted in a loan loss provisioning benefit for 2023 of \$ 700 thousand , compared to no loan loss provision for 2022. (See Table 4: Allowance for Loan Losses) Net loan charge-offs were \$63 thousand for 2023, compared to net loan recoveries of \$164 thousand for 2022.

Noninterest income

Noninterest income increased \$74 thousand, to \$1.8 million for 2023. Service charges on deposit accounts increased \$39 thousand and income on life insurance policies increased \$ 18 thousand . Losses on sales of covid-era securities were reinvested in much higher yielding loans to improve the net interest income of the Company going forward.

Noninterest expenses

Noninterest expenses increased \$506 thousand, from \$13.1 million for 2022, to \$13.7 million for 2023. Our efficiency ratio, the cost of producing \$1 of revenue, was \$.61 for 2023 compared to \$.58 for 2022.

Income taxes

Income tax provisions are primarily adjusted for non-taxable income before applying applicable federal and state income tax rates. Income tax expense was \$2.1 million for 2023, compared to \$2.4 million in 2022. The effective tax rate was 26% for 2023 and 2022 .

FINANCIAL CONDITION

Total assets were \$679 million at year end 2023, compared to \$651 million at year end 2022. Loan balances grew \$28 million for 2023. Loan growth was primarily achieved in our local commercial mortgage portfolios. (See Queenstown Bancorp of Maryland, Inc. and Subsidiary Consolidated Balance Sheets Page 1 and Table 3: Loans)

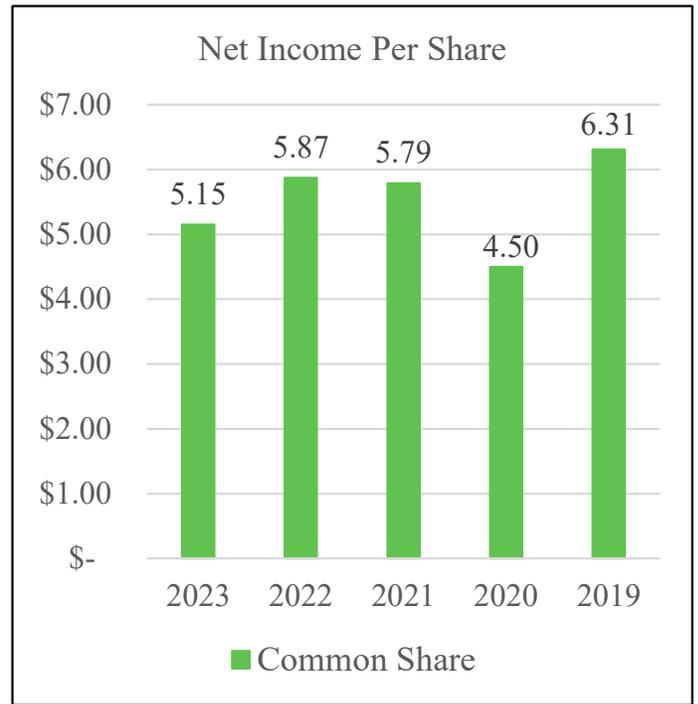
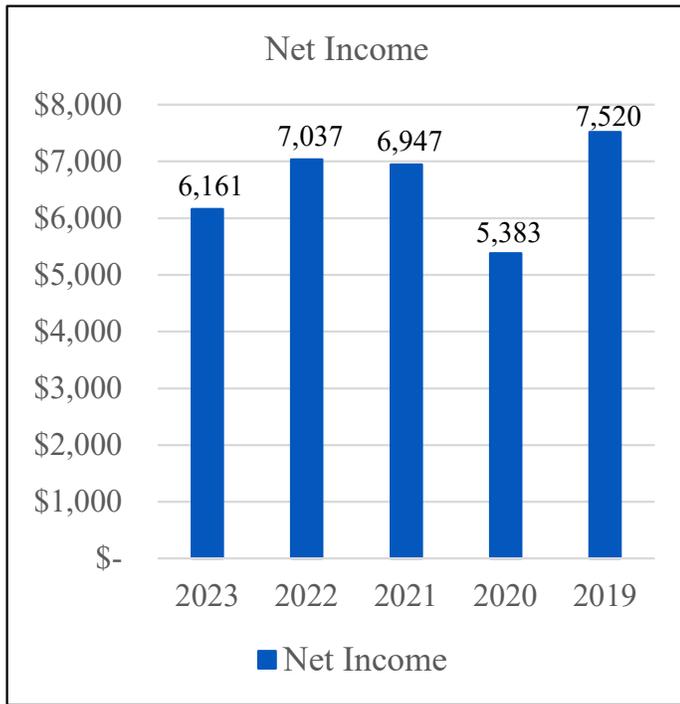
Total deposits at December 31, 2023 were \$591 million, an increase of \$ 5 million from \$586 million at December 31, 2022. Increases in certificate deposit rates that began in the fourth quarter of 2022 are shifting deposits away from low cost non-maturity accounts into higher cost time deposits in 2023. Non-maturity transaction and savings accounts comprised 67% of total deposits at December 31, 2023, compared to 77% at December 31, 2022. (See Table 7: Deposits).

Tier I regulatory capital increased \$3.3 million, from \$76 million at December 31, 2022, to \$79.3 million at December 31, 2023. The increase is comprised primarily of net income less cash dividends of \$3.1 million. All capital ratios remain well above the regulatory capital definition of a well capitalized. For the Company, the Tier I ratio decreased 2 basis points, from 16.69% to 16.67%. The total capital ratio decreased 2 basis points, from 17.94% to 17.92%. The common equity leverage ratio increased 12 basis points, from 11.30% to 11.42%. The net unrealized holding losses on available-for-sale securities , which is not a component of regulatory capital , gained \$ 3.6 million in 2023. (See Table 9: Stockholders' Equity)

For the Bank, the Tier I ratio decreased 4 basis points, from 16.64% to 16.60%. The total capital ratio decreased 4 basis points, from 17.89% to 17.85%. The common equity leverage ratio increased 10 basis points, from 11.27% to 11.37%. (See Table 9: Stockholders' Equity)

Financial Summary Analysis

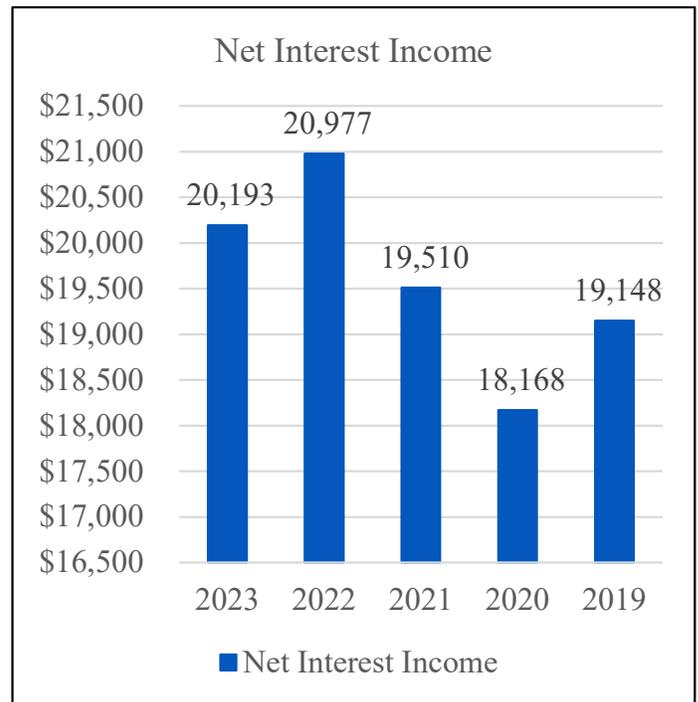
In thousands, Except Per Share Data



Net income for 2023 was \$6.1 million (\$5.15 per common share), compared to net income of \$7 million (\$5.87 per common share) for 2022.



The yield on earning assets was 4.19% for 2023, compared to 3.44% for 2022.



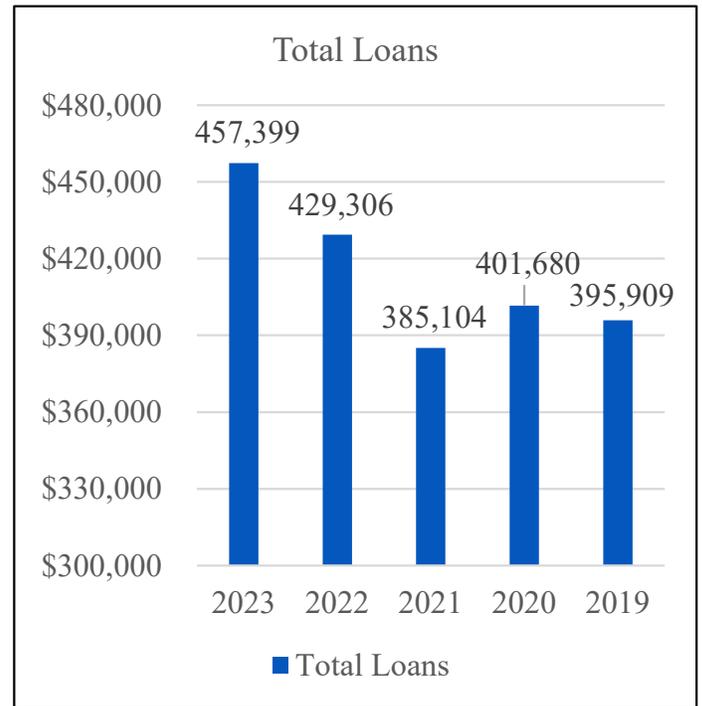
Net interest income decreased from \$21 million for 2022, to \$20.1 million for 2023.

Financial Summary Analysis

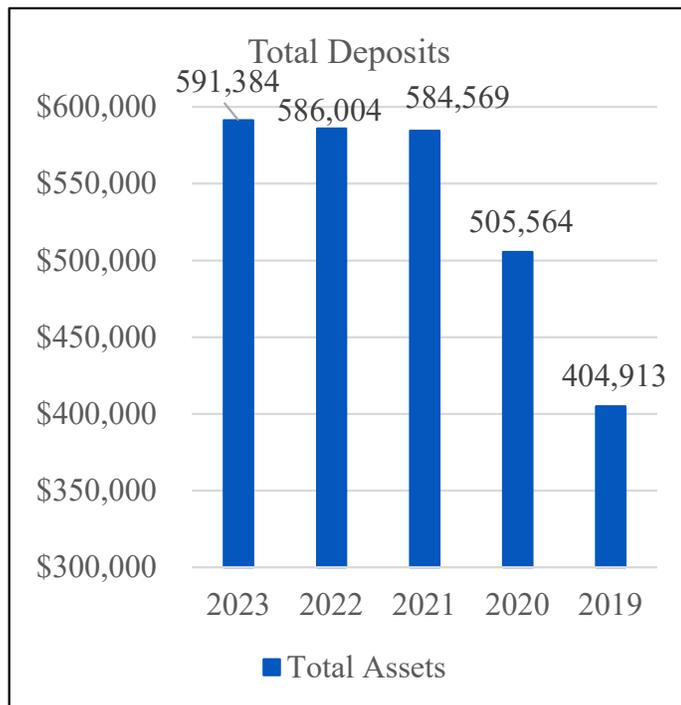
In thousands, Except Per Share Data



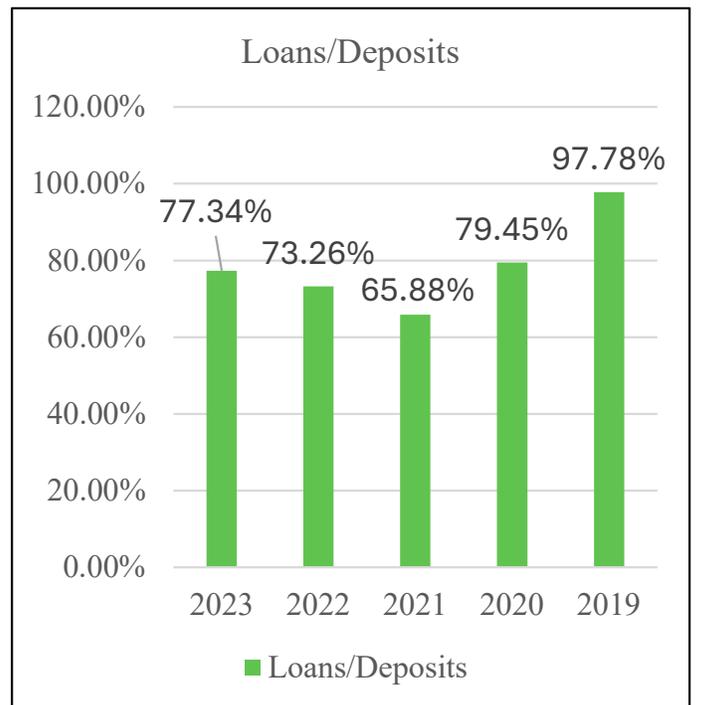
Total assets were \$679 million at year end 2023, compared to \$651 million at year end 2022.



Loan balances grew \$28 million for 2023.



Total deposits at December 31, 2023, were \$591 million, an increase of \$5 million from \$586 million at December 31, 2022.



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

(Dollars in thousands)

	December 31	
	2023	2022
ASSETS		
Cash and due from banks	\$ 6,363	7,077
Interest bearing deposits with banks	48,190	35,112
Total cash and cash equivalents	54,553	42,189
Securities available for sale (at fair value)	136,404	148,141
Securities held to maturity (at amortized cost)	2,999	3,239
Federal Home Loan Bank stock (at cost)	493	579
Loans	457,399	429,306
Less allowance for loan losses	(6,734)	(7,565)
Loans, net	450,665	421,741
Premises and equipment, net	6,205	6,236
Bank owned life insurance	15,637	15,224
Deferred income taxes	8,616	10,284
Accrued interest receivable	2,228	2,059
Prepaid expenses	530	378
Other assets	949	549
TOTAL ASSETS	\$679,279	650,619
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	\$171,032	179,286
Interest bearing deposits	420,352	406,718
Total deposits	591,384	586,004
Advances from Federal Home Loan Bank	20,000	5,000
Accrued expenses and other liabilities	5,246	3,925
Total liabilities	616,630	594,929
Common stock - \$10 par value; shares authorized 10,000,000, shares issued and outstanding 1,197,300 and 1,195,223, respectively	11,973	11,952
Additional paid in capital	463	339
Retained earnings	66,922	63,754
Accumulated other comprehensive (loss) income	(16,709)	(20,355)
Total stockholders' equity	62,649	55,690
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$679,279	650,619

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

(Dollars in thousands, except per share information)

	Years Ended		
	2023	2022	2021
INTEREST INCOME:			
Interest and fees on loans	\$ 22,552	\$ 18,736	19,378
Interest and dividends on investment securities	3,186	2,890	1,608
Other interest income	2,290	902	288
Total interest income	<u>28,028</u>	<u>22,528</u>	<u>21,274</u>
INTEREST EXPENSE:			
Interest on deposits	7,059	1,550	1,764
Interest on borrowings	776	1	-
Total interest expense	<u>7,835</u>	<u>1,551</u>	<u>1,764</u>
Net interest income	20,193	20,977	19,510
Provision for loan losses, including unfunded commitments	(700)	-	-
Net interest income after provision for loan losses	<u>20,893</u>	<u>20,977</u>	<u>19,510</u>
NONINTEREST INCOME:			
Service charges on deposit accounts	509	470	363
Other income	1,274	1,239	1,296
Net (loss) on sales of securities	(660)	-	-
Total noninterest income	<u>1,123</u>	<u>1,709</u>	<u>1,659</u>
NONINTEREST EXPENSES:			
Salaries and employee benefits	8,295	7,861	7,259
Data processing and electronic banking expenses	1,338	1,172	1,009
Occupancy expense	745	728	669
Equipment expenses	486	496	458
FDIC insurance premiums	305	181	166
Other expenses	2,536	2,761	2,238
Total noninterest expenses	<u>13,705</u>	<u>13,199</u>	<u>11,799</u>
Income before income taxes	8,311	9,487	9,370
Income tax expense	2,150	2,450	2,423
Net income	<u>\$ 6,161</u>	<u>\$ 7,037</u>	<u>6,947</u>
Basic net income per common share	\$ 5.15	\$ 5.87	5.79
Diluted net income per common share	\$ 5.10	\$ 5.81	5.75
Basic weighted average common shares outstanding	1,196,656	1,199,084	1,199,302
Diluted weighted average common shares outstanding	1,207,900	1,211,471	1,208,576

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

(Dollars in thousands)

	Years Ended		
	2023	2022	2021
Net income	\$ 6,161	\$ 7,037	\$ 6,947
Other comprehensive income (loss), before tax:			
Securities available for sale:			
Net change in unrealized gains (losses)	5,508	(25,061)	(3,211)
Net losses on sales reclassified into earnings	(478)	-	-
Other comprehensive income (loss) , before tax	5,030	(25,061)	(3,211)
Income tax effect	(1,384)	6,896	885
Other comprehensive income (loss), net of tax	3,646	(18,165)	(2,326)
Total comprehensive income (loss)	<u>\$ 9,807</u>	<u>\$(11,128)</u>	<u>4,621</u>

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

For the Years Ended December 31, 2023, 2022 and 2021

(Dollars in thousands, except per share information)

	Common Stock		Additional paid- in capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Totals
	Shares	Par Value				
	Balances at January 1, 2021	1,195,786				
Net Income	-	-	-	6,947	-	6,947
Other comprehensive income, net of tax	-	-	-	-	(2,326)	(2,326)
Stock options exercised	562	5	28	-	-	33
Stock option compensation	3,900	39	95	-	-	134
Stock repurchases	-	-	32	-	-	32
Cash dividends (\$2.50 per share)	-	-	-	(3,001)	-	(3,001)
Balances at December 31, 2021	1,200,248	12,002	615	59,708	(2,190)	70,135
Net Income	-	-	-	7,037	-	7,037
Other comprehensive loss, net of tax	-	-	-	-	(18,165)	(18,165)
Restricted stock issued	1,055	11	55	-	-	66
Stock options exercised	1,920	19	54	-	-	73
Stock option compensation	-	-	15	-	-	15
Stock repurchases	(8,000)	(80)	(400)	-	-	(480)
Cash dividends (\$2.50 per share)	-	-	-	(2,991)	-	(2,991)
Balances at December 31, 2022	1,195,223	11,952	339	63,754	(20,355)	55,690
Net Income	-	-	-	6,161	-	6,161
Other comprehensive income, net of tax	-	-	-	-	3,646	3,646
Restricted stock issued	2,066	21	112	-	-	133
Stock options exercised	240	2	6	-	-	8
Stock option compensation	-	-	15	-	-	15
Stock repurchases	(229)	(2)	(9)	-	-	(11)
Cash dividends (\$2.50 per share)	-	-	-	(2,993)	-	(2,993)
Balances at December 31, 2023	<u>1,197,300</u>	<u>\$ 11,973</u>	<u>463</u>	<u>66,922</u>	<u>(16,709)</u>	<u>62,649</u>

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

(Dollars in thousands)

	Years Ended		
	2023	2022	2021
OPERATING ACTIVITIES:			
Net Income	\$ 6,161	7,037	6,947
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization on securities	946	1,200	996
Depreciation and amortization	456	441	446
Provision for loan losses, including unfunded commitments	(700)	-	-
Loss on sales of securities	660	-	-
Deferred tax expense (benefit)	283	(22)	(61)
Stock option compensation	15	15	32
Net changes in:			
Accrued interest receivable	(169)	(318)	499
Accrued expenses and other liabilities	1,253	542	286
Prepaid expenses	(152)	(82)	33
Other operating activities	(583)	107	(392)
Net cash provided by operating activities	<u>8,170</u>	<u>8,920</u>	<u>8,786</u>
INVESTING ACTIVITIES:			
Purchases of securities available-for-sale	-	(9,310)	(116,620)
Purchases of securities held-to-maturity	-	(3,336)	-
Proceeds from sales of securities available-for-sale	6,660	-	-
Proceeds from calls and maturities of securities available-for-sale	-	-	5,000
Principal payments received on securities available-for-sale	8,545	12,815	11,509
Principal payments received on securities held-to-maturity	257	108	-
Net (increase) decrease in loans	(28,313)	(44,327)	16,773
Purchases of FHLB stock	-	(277)	-
Proceeds from redemptions of FHLB stock	86	-	137
Purchases of bank owned life insurance	-	-	(3,000)
Purchases of premises and equipment	(426)	(376)	(421)
Proceeds from sales of real estate	-	104	29
Net cash (used) by investing activities	<u>(13,191)</u>	<u>(44,599)</u>	<u>(86,593)</u>
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	5,380	1,435	79,005
Proceeds from borrowings	20,000	5,000	-
Repayment of borrowings	(5,000)		
Stock options exercised	9	73	134
Stock repurchases	(11)	(480)	-
Dividends paid	(2,993)	(2,991)	(3,001)
Net cash provided by financing activities	<u>17,385</u>	<u>3,037</u>	<u>76,138</u>
Net increase (decrease) in cash and cash equivalents	12,364	(32,642)	(1,669)
Cash and cash equivalents at beginning of year	42,189	74,831	76,500
Cash and cash equivalents at end of year	<u>\$54,553</u>	<u>\$ 42,189</u>	<u>74,831</u>
Supplemental disclosures:			
Interest payments	\$ 6,334	1,490	1,904
Income tax payments	2,061	2,453	2,509
Noncash investing and financing activities:			
Transfers to other real estate	\$ -	104	-

TABLE 1: AVERAGE BALANCES AND NET INTEREST INCOME ANALYSIS

Taxable Equivalent Basis - In Thousands (1)	Years Ended December 31								
	2023			2022			2021		
	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)	\$ 445,128	22,573	5.07%	\$ 404,290	18,747	4.64%	\$ 391,351	19,395	4.96%
Securities (3)	172,701	3,218	1.86%	182,969	2,914	1.59%	122,985	1,679	1.37%
Interest bearing deposits									
with banks and federal funds sold	52,485	2,300	4.38%	67,936	889	1.31%	94,562	288	0.30%
Total earning assets	670,314	28,091	4.19%	655,195	22,550	3.44%	608,898	21,362	3.51%
NON-EARNING ASSETS									
Cash and due from banks	\$ 2,960			\$ 3,321			\$ 3,452		
Premises and equipment, net	6,224			6,276			6,447		
All other assets, net	20,325			20,698			19,672		
Securities market value adjustment	(19,782)			(13,102)			(806)		
Less: allowance for loan losses	(7,480)			(7,471)			(7,239)		
Total assets	672,561			664,917			631,230		
INTEREST-BEARING LIABILITIES									
Savings and time deposits	\$ 419,169	7,059	1.68%	\$ 408,396	1,550	0.38%	\$ 378,373	1,764	0.47%
Borrowings	16,603	776	4.67%	27	1	3.70%	-	-	-
Total interest bearing liabilities	\$ 435,772	7,835	1.80%	\$ 408,423	1,551	0.38%	\$ 378,373	1,764	0.47%
OTHER LIABILITIES AND STOCKHOLDERS' EQUITY									
Demand deposits	\$ 174,506			\$ 191,627			\$ 179,472		
Other liabilities	3,637			3,088			3,256		
Stockholders' equity	58,646			61,779			70,129		
Total liabilities and stockholders' equity	672,561			664,917			631,230		
Net interest income and net interest margin (4)									
		20,256	3.02%		21,000	3.21%		19,598	3.22%
Interest rate spread (5)									
			2.39%			3.06%			3.04%

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

(2) The average loan balances exclude nonaccrual loans.

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

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

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

TABLE 2: SECURITIES

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

	December 31, 2023			
	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
Available-for-sale				
U.S. treasuries and government agencies	\$ 23,112	19	2,215	20,916
State and municipal	29,718	-	4,477	25,241
Mortgage backed	101,143	2	15,584	85,561
Corporate debt	5,483	-	797	4,686
Totals	\$ 159,456	21	23,073	136,404

	December 31, 2023			
	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
Held to maturity				
Mortgage backed	\$ 2,999	-	160	2,839

	December 31, 2022			
	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
Available-for-sale				
U.S. treasuries and government agencies	\$ 24,934	-	2,770	22,164
State and municipal	37,414	-	6,562	30,852
Mortgage backed	108,394	39	18,191	90,242
Corporate debt	5,482	-	599	4,883
Totals	\$ 176,224	\$ 39	\$ 28,122	\$ 148,141

	December 31, 2022			
	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
Held to maturity				
Mortgage backed	\$ 3,239	-	186	3,053

The unrealized losses that exist are the result of changes in market interest rates since original purchases. These unrealized losses are considered temporary in nature and will recover over time as these securities approach maturity. The Company has sufficient liquidity to hold these securities for an adequate period of time, to allow for an eventual recovery in fair value.

TABLE 3: LOANS

At December 31, 2023 and 2022 loans were as follows:

	2023	2022
Real estate:		
Construction and land development	\$ 34,732	39,138
Secured by farmland	29,082	27,214
Commercial	165,520	138,499
Residential	207,466	204,985
Commercial and agricultural	14,736	13,711
Consumer	5,863	5,759
Total	<u>\$ 457,399</u>	<u>429,306</u>

A summary of current, past due, and nonaccrual loans as of December 31, 2023 and 2022 was as follows:

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Total
As of December 31, 2023					
Real estate:					
Construction and land development loans	\$ 34,732	-	-	-	34,732
Secured by farmland	28,970	112	-	-	29,082
Commercial	164,602	-	-	918	165,520
Residential	206,770	474	222	-	207,466
Commercial and agricultural	14,064	-	-	672	14,736
Consumer	5,848	15	-	-	5,863
Total	<u>\$ 454,986</u>	<u>601</u>	<u>222</u>	<u>1,590</u>	<u>457,399</u>
Percentage of loan portfolio	99.47%	0.13%	0.05%	0.35%	100%
As of December 31, 2022					
Real estate:					
Construction and land development loans	\$ 39,138	-	-	-	39,138
Secured by farmland	27,214	-	-	-	27,214
Commercial	138,484	15	-	-	138,499
Residential	204,375	477	27	106	204,985
Commercial and agricultural	13,640	4	67	-	13,711
Consumer	5,759	-	-	-	5,759
Total	<u>\$ 428,610</u>	<u>496</u>	<u>94</u>	<u>106</u>	<u>429,306</u>
Percentage of loan portfolio	99.84%	0.12%	0.02%	0.02%	100%

TABLE 4: ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the year ended December 31, 2023 and 2022 were as follows:

As of December 31, 2023	
Beginning Balance	\$ 7,565
Provision for loan losses	(768)
Net charge-offs:	
Charge-offs	(221)
Recoveries	158
Net (charge-offs) recoveries	<u>(63)</u>
Ending balance	<u>\$ 6,734</u>

As of December 31, 2022	
Beginning Balance	\$ 7,401
Provision for loan losses	-
Net charge-offs:	
Charge-offs	(21)
Recoveries	185
Net (charge-offs) recoveries	<u>164</u>
Ending balance	<u>\$ 7,565</u>

TABLE 5: NONPERFORMING ASSETS

In Thousands	As of December 31	
	2023	2022
Nonaccrual loans	\$ 1,590	106
Accruing loans 90 days or more past due	222	94
Total nonperforming assets	<u>1,812</u>	<u>200</u>
Tier I capital	\$ 79,009	75,826
Allowance for loan losses	6,734	7,565
Total	<u>\$ 85,743</u>	<u>83,391</u>
Percentage of nonperforming assets to Tier I capital plus plus the allowance for loan losses	2.11%	0.24%

TABLE 6: CRITICIZED LOANS

The following table summarizes the loan risk ratings applied to the Company's real estate mortgages and commercial loans as of December 31, 2023 and 2022. Criticized loans are considered inadequately protected by the current paying capacity of the borrower or of the collateral pledged, if any. These loans have weaknesses that may jeopardize the liquidation of the debt. Loans not meeting the definition of criticized are considered pass rated loans.

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Totals
As of December 31, 2023					
Pass	\$ 34,657	206,107	189,482	14,064	444,310
Criticized accrual	75	1,359	4,202	-	5,636
Criticized nonaccrual	-	-	918	672	1,590
Total	\$ 34,732	207,466	194,602	14,736	451,536
As of December 31, 2022					
Pass	\$ 39,138	203,788	160,780	13,644	417,350
Criticized accrual	-	1,091	4,933	67	6,091
Criticized nonaccrual	-	106	-	-	106
Total	\$ 39,138	204,985	165,713	13,711	423,547
		2023	2022		
Criticized accrual loans	\$	5,636	6,091		
Criticized nonaccrual loans		1,590	106		
Total criticized loans	\$	7,226	6,197		
Allowance for loan losses	\$	6,734	7,565		
Tier I capital		79,009	75,826		
Totals	\$	85,743	83,391		
Total criticized loans to the allowance for loan losses plus Tier I capital		8.4%	7.4%		

TABLE 7: DEPOSITS

A breakdown of interest bearing deposits at December 31, 2023 and 2022 by type of account were as follows:

	2023	2022
Savings and money market	\$ 155,182	196,709
Interest bearing demand	68,242	74,086
Time deposits through \$ 250,000	152,061	114,869
Time deposits of more than \$250,000	44,867	21,054
Total interest bearing deposits	<u>\$ 420,352</u>	<u>406,718</u>

At December 31, 2023, the scheduled maturities of time deposits were as follows:

2024	\$ 152,201
2025	38,204
2026	2,332
2027	3,130
2028	1,061
	<u>\$ 196,928</u>

Interest on deposits for the years ended December 31, 2023, 2022 and 2021 consisted of the following:

	2023	2022	2021
Savings and money market	\$ 738	357	245
Interest bearing demand	1,329	473	213
Time deposits more than \$ 250,000	1,042	133	325
Other time deposits	3,950	587	981
Total interest on deposits	<u>\$ 7,059</u>	<u>1,550</u>	<u>1,764</u>

8. BORROWINGS AND CREDIT FACILITIES

Short-term borrowings consist of advances from the Federal Home Loan Bank of Atlanta with original maturities of up to one year and advances from the Federal Reserve Bank of Richmond Discount Window Bank Term Funding Program (BTFP). There was a \$20 million advance outstanding under the BTFP at December 31, 2023. The advance matures on April 4, 2024 with an interest rate of 4.66%. There was a \$5 million daily adjustable rate credit advance from the FHLB of Atlanta outstanding at December 31, 2022. The interest rate on the FHLB advance outstanding at December 31, 2022 was 4.57%.

At December 31, 2023, credit available under the FHLB credit facility approximates \$93 million, with letters of credit issued for the benefit of public funds depositors of \$37 million outstanding. The Bank is required to maintain an investment in stock of the FHLB in the amount of \$493 thousand as a condition for the credit facility. The Bank has also pledged its portfolios of 1-4 family first and second mortgage loans, home equity loans, multi-family mortgages and mortgages secured by farmland as collateral for this credit facility. Certain qualifying commercial mortgages are also pledged as collateral for this credit facility. Principal balances outstanding on these mortgage loans total approximately \$285 million at December 31, 2023. Credit available from the Bank Term Funding Program (BTFP) approximates \$33 million at December 31, 2023. Securities pledged to the BTFP have approximate principal balances of \$53 million at December 31, 2023.

TABLE 9: 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, 2023, the capital levels of the Company and the Bank exceed all capital adequacy requirements to which they are subject.

As of December 31, 2023, the most recent notification from the Bank's primary regulators categorized the Bank as well capitalized under the prompt corrective action regulations. To be categorized as well capitalized, a bank must maintain a minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since the last notifications that management believes have changed the Bank's category. Actual capital amounts and ratios are presented in the following table for the Company and the Bank.

	Actual		For Capital	To Be Well Capitalized
	Amount	Ratio	Adequacy Purposes	Under Prompt Corrective
	Action Provisions			
As of December 31, 2023				
Total capital (to risk weighted assets):				
Company (consolidated)	\$85,318	17.92%	8%	
Bank	84,969	17.85%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	79,357	16.67%	6%	
Bank	79,009	16.60%	6%	8%
Common equity tier I				
Company (consolidated)	79,357	16.67%	4.50%	
Bank	79,009	16.60%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	79,357	11.42%	4%	
Bank	79,009	11.37%	4%	5%
As of December 31, 2022				
Total capital (to risk weighted assets):				
Company (consolidated)	\$81,764	17.94%	8%	
Bank	81,546	17.89%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	76,044	16.69%	6%	
Bank	75,826	16.64%	6%	8%
Common equity tier I				
Company (consolidated)	76,044	16.69%	4.50%	
Bank	75,826	16.64%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	76,044	11.30%	4%	
Bank	75,826	11.27%	4%	5%

Queenstown Bank of Maryland

Main Office

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

Grasonville Branch

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

Chester Branch

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

Benton's Crossing Branch

101 Main Street
P.O. Box 1035
Stevensville, MD 21666
Phone: 410-604-0881
Fax: 410-604-0883
Branch Manager: Nitza Hall

Centreville Branch

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

Easton Branch

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

Ridgely Branch

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

Church Hill Branch

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

Cambridge Branch

110 Dorchester Ave
Cambridge, MD 21613
Phone: 410-330-8888
Branch Manager: Jacquelyn Copper

James R. Friel, III
Kevin B. Cashen
Brooke Horney
Eric Johnson
Deanna Lintz
James P. Shaw
Tracy Whitby-Fairall
Kathryn Clark
Jessica Fox
Heather Jarrell
Peggy E. Lewis
Michael Lucas
C. Franklin Russum
Christina Wilkins
Karen Dean
Teresa Hood
Rose Kleckner
Timothy McCarter
Gene Spear

Chairman of the Board
President/CEO
Executive Vice President/CCO
Executive Vice President/CLO
Executive Vice President
Executive Vice President/CFO
Executive Vice President/COO
Senior Vice President
Vice President
Vice President
Vice President
Vice President
Vice President

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

Directors

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

History

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

Presidents

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

Queenstown Bank
of Maryland

ESTABLISHED 1899

Member
FDIC