QUEENSTOWN BANCORP OF MARYLAND, INC.

Queenstown Bank

Sure Banking on the Shore

2015 ANNUAL REPORT

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

In thousands, Except Per Share Data	2015	2014	2013	2012	2011
PROFITABILITY					
Net interest income	$ 17,926	$ 17,014	$ 16,194	$ 15,997	$ 16,357
Noninterest income	1,214	1,211	1,299	1,303	1,313
Securities gains	22	476	-	-	-
Noninterest expenses	9,715	9,768	10,455	9,590	10,116
Provisions for credit losses	1,241	3,000	3,900	6,203	6,070
Income before taxes	8,185	5,933	3,138	1,507	1,484
Income tax expense	3,076	2,231	1,102	447	426
Net income	5,109	3,702	2,036	1,060	1,058
Return on average assets	1.15%	0.83%	0.45%	0.24%	0.23%
Return on average equity	10.09%	7.84%	4.54%	2.41%	2.42%
Net interest margin	4.29%	4.09%	3.90%	3.91%	3.99%
*Efficiency ratio					
(excluding other real estate losses)	49.44%	51.95%	53.69%	53.36%	52.07%
Basic earnings per share	$ 4.06	$ 2.94	$ 1.62	$ 0.84	$ 0.84
Dividends per share	$ 1.00	$ 0.60	$ 0.40	$ 0.25	$ 0.25
BALANCE SHEET					
Loans	$ 393,672	$ 383,135	$ 376,462	$ 372,210	$ 383,485
Allowance for loan losses	5,908	6,035	5,647	4,684	4,974
Loans, net of allowance for loan losses	387,764	377,100	370,815	367,526	378,511
Interest bearing deposits with banks	29,906	24,366	32,708	36,727	25,810
Total assets	447,126	438,092	441,651	448,691	447,866
Deposits	393,525	388,213	395,131	403,476	401,364
Borrowings	-	-	-	-	2,000
Stockholders’ equity	51,847	48,091	45,158	43,990	43,220
Shares outstanding	1,259,330	1,259,330	1,259,330	1,262,370	1,262,370
Book value per share	$ 41.17	$ 38.19	$ 35.89	$ 34.85	$ 34.24
Loans / Deposits	100.04%	98.69%	95.28%	92.25%	95.55%
Allowance for loan losses / Loans	1.50%	1.58%	1.50%	1.26%	1.30%
REGULATORY CAPITAL RATIOS					
QUEENSTOWN BANK					
Tier I leverage (avg. equity / avg. assets) ratio	11.47%	10.77%	9.94%	9.65%	9.49%
Common equity risk based	14.89%	14.11%	13.43%	12.65%	12.02%
Tier I risk-based capital ratio	14.89%	14.11%	13.43%	12.65%	12.02%
Total risk based capital ratio	16.14%	15.37%	14.68%	13.90%	13.27%
QUEENSTOWN BANCORP					
Tier I leverage (avg. equity / avg. assets) ratio	11.48%	10.78%	9.95%	9.66%	9.49%
Common equity risk based	14.89%	14.12%	13.44%	12.66%	12.03%
Tier I risk based capital ratio	14.89%	14.12%	13.44%	12.66%	12.03%
Total risk based capital ratio	16.15%	15.38%	14.69%	13.92%	13.28%

*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:

At this time last year, we identified three key operating objectives to drive earnings for 2015 as: steady loan growth, stable funding costs and reductions in troubled assest and associated carrying costs. We are pleased to report that all of these objectives were achieved and resulted in strong financial performance for 2015. Our return on average assets of 1.15%, combined with our return on average equity of 10.09% reflect the strong financial performance achieved in 2015. Also in 2015, we completed the relocation of our Church Hill office on Route 213 in Church Hill, Maryland. The new location, complete with an automated teller machine and drive through transaction services, was instrumental in producing loan growth in the surrounding area communities. Our strong earnings performance combined with improving credit conditions are the catalysts for producing better returns on our stockholders' investment.

FINANCIAL PERFORMANCE

Net Income Increases 38%:
Net income was $5.1 million for 2015, compared to the $3.7 million for 2014. Improved credit performance and conditions resulted in a decrease in provisions for credit losses from $3 million in 2014, to $1.2 million for 2015. Linked to improved credit performance, expenses and losses related to maintaining and liquidating foreclosed real estate were reduced from $724 thousand in 2014, to $526 thousand in 2015.

Dividends Increase:
Stronger earnings in 2015 resulted in increasing our annual dividends by 67% to $1.00 per share for 2015, from $.60 per share for 2014.

Margin Improvement:
The net interest margin for the year 2015 was 4.29%, compared to 4.09% for 2014. Loan growth combined with stable funding costs contributed to the improvement in the net interest margin. The improved net interest margin resulted in an increase in net interest income of $913 thousand in 2015.

Loan Growth and Funding:
Our loan portfolio grew from $383.1 million at December 31, 2014 to $393.6 million at December 31, 2015. Loan growth occurred primarily in two loan categories; residential first mortgages and commercial loans. Loan growth was funded from income from operations and growth of demand, non-maturity savings and money market deposits.
Our demand deposits grew $5.4 million, while savings and money market deposits grew $10.9

million. The growth of these low cost deposit balances was a significant factor in our improved net interest margin performance.

Credit Quality:
Nonperforming loans have been reduced significantly from $9 million at December 31, 2014, to $6.2 million at December 31, 2015. Net loan losses have also improved, falling from $2.3 million for December 31, 2014 to $1.3 million for December 31, 2015. The allowance for loan losses represents 95% of nonperforming loans at December 31, 2015, compared to 67% at year end 2014.

MOVING FORWARD

Since 1899, Queenstown Bank of Maryland has strived to maintain a strong relationship with the communities we serve. Throughout our history we have worked with our customers to provide a community based banking solution for their financial needs. This community based model has been challenged by the deluge of new regulations and rigid regulatory practices that community banks face in today's banking environment. Despite these challenges, Queenstown Bank of Maryland remains committed to delivering valued service to our present and future customers, stockholders and the Mid-Shore communities we serve.

APPRECIATION

Your Board of Directors, management and employees sincerely appreciate the loyalty and patience of our stockholders as we progress towards restoring 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

2015

ANNUAL REPORT

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This financial report summarizes the most significant financial reports for our banking operation. The audited financial statements with all requisite footnotes are available on our website queenstownbank.com. If you do not have access to the internet and desire a copy of the audited financial statements please contact us at 410-827-8881.

SUMMARY FINANCIAL RESULTS

For the year ended December 31, 2015 net income was $5.1 million, compared to net income of $3.7 million for the year ended December 31, 2014. Net income per common share increased from $2.94 in 2014, to $4.06 in 2015.

Net interest income

The net interest margin grew 20 basis points from 4.09% to 4.29% in 2015. Loan growth funded by low cost non-maturity interest bearing deposits was the primary driver of this improved performance. The improved net interest margin resulted in an increase in net interest income of $913 thousand in 2015. (See Table 1: Average Balances and Net Interest Income Analysis)

Provisions for credit losses and allowance for loan losses

Provisions for credit losses were $1.2 million for 2015, compared to $3 million for 2014. (See Table 3: Allowance for Loan Losses)

Nonperforming loans have been reduced significantly from $9 million at December 31, 2014 to $6.1 million at December 31, 2015. Net loan losses have also improved, falling from $2.3 million for December 31, 2014 to $1.3 million for December 31, 2015. The allowance for loan losses represents 95% of nonperforming loans at year end 2015, compared to 67% at year end 2014. (See Table 4: Nonperforming Assets)

Noninterest income

Noninterest income, excluding security gains, was $1.1 million for 2015, compared to $ 1.2 million for 2014. Service charges on deposit accounts declined $20 thousand, from $634 thousand in 2014 to $614 thousand in 2015. Other income was $578 thousand for 2015, compared to $577 thousand for 2014.

Noninterest expenses

Noninterest expenses, excluding other real estate owned losses and expenses, increased $145 thousand for 2015, from $9,044 thousand in 2014, to $9,189 thousand for 2015. Other real estate owned losses on sales and carrying costs decreased $198 thousand, from $724 thousand for 2014, to $526 thousand for 2015.

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 37.6% for 2015 and 2014.

FINANCIAL CONDITION

Total assets increased from $438 million at year end 2014, to $447 million at year end 2015. Asset growth almost entirely consisted of loan growth of $10.5 million in 2015. (See Queenstown Bancorp of Maryland, Inc. and Subsidiary Consolidated Balance Sheets Page 1 and Table 1 Average Balances and Net Interest Income Analysis)

Funding this growth were significant increases in low cost non-maturity savings deposits and demand deposits. The growth of these funding sources allowed for a runoff of higher cost certificates of deposit balances.

Deposits

Total deposits at December 31, 2015 were $393.5 million, an increase of $5.3 million, from $388.2 million at December 31, 2014. The mix of our deposits improved significantly, as non-maturity savings accounts grew $8.9 million and interest bearing transaction accounts grew $2 million. This core deposit growth combined with reductions of $10.9 million in higher yielding time deposits produced improved costs of funds for 2015. The cost of total interest bearing deposits declined from .90% for year end 2014, to .74% for year end 2015. Non-maturity transaction and savings accounts comprised 38% of interest bearing deposit totals at December 31, 2015, compared to 34% at December 31, 2014. Demand deposits grew $5.3 million also contributing to the significant improvement in our funding mix. (See Table 6: Deposits).

Capital levels

Stockholders' equity increased $3.8 million, from $48 million at December 31, 2014, to $51.8 million at December 31, 2015. The increase is comprised 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 2014 year end ratios. For the Company, the Tier I ratio increased 77 basis points, from 14.12% to 14.89%. The total capital ratio also improved 77 basis points, from 15.38% to 16.15%. The common equity leverage ratio improved 70 basis points, from 10.78% to 11.48%. (See Table 7: Stockholders' Equity)

For the Bank, the Tier I ratio increased 78 basis points, from 14.11% to 14.89%. The total capital ratio increased 77 basis points, from 15.37% to 16.14%. The common equity leverage ratio increased 70 basis points, from 10.77% to 11.47%. All Company and 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	
	2015	**2014**
ASSETS		
Cash and due from banks	$ 4,073	7,826
Interest bearing deposits with banks	29,906	24,366
Total cash and cash equivalents	33,979	32,192
Securities available-for-sale (at fair value)	9,513	10,638
Federal Home Loan Bank Stock (at cost)	408	411
Loans	393,672	383,135
Less allowance for loan losses	(5,908)	(6,035)
Loans, net	387,764	377,100
Premises and equipment, net	5,694	5,964
Bank owned life insurance	5,646	5,495
Other real estate	1,414	2,808
Deferred income taxes	996	952
Accrued interest receivable	1,257	1,322
Prepaid expenses	154	270
Other assets	301	940
TOTAL ASSETS	$ 447,126	438,092
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	$ 90,177	84,807
Interest bearing deposits	303,348	303,406
Total deposits	393,525	388,213
Accrued expenses and other liabilities	1,754	1,788
Total liabilities	395,279	390,001
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	39,079	35,229
Accumulated other comprehensive income	36	130
Total stockholders' equity	51,847	48,091
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 447,126	438,092

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

	Years Ended		
	2015	**2014**	**2013**
INTEREST INCOME:			
Interest and fees on loans	$ 19,771	19,348	19,068
Interest and dividends on investment securities:			
Taxable	292	336	369
Tax exempt	-	-	52
Other interest income	99	119	135
Total interest income	20,162	19,803	19,624
INTEREST EXPENSE:			
Interest on deposits	2,235	2,789	3,430
NET INTEREST INCOME:	17,927	17,014	16,194
Provisions for credit losses	1,241	3,000	3,900
Net interest income after provisions for credit losses	16,686	14,014	12,294
NONINTEREST INCOME:			
Service charges on deposit accounts	614	634	672
Other income	578	577	627
Securities gains	22	476	-
Total noninterest income	1,214	1,687	1,299
NONINTEREST EXPENSES:			
Salaries and employee benefits	5,658	5,458	5,536
FDIC insurance premiums	571	589	451
Other real estate losses and expenses	526	724	1,585
Data processing expenses	598	627	630
Occupancy expense of bank premises	647	633	653
Equipment expenses	313	324	343
Other expenses	1,402	1,413	1,257
Total noninterest expenses	9,715	9,768	10,455
Income before income taxes	8,185	5,933	3,138
Income tax expense	3,076	2,231	1,102
Net income	$ 5,109	3,702	2,036
Basic and diluted net income per share	$ 4.06	2.94	1.62
Basic and diluted weighted average shares outstanding	1,259,330	1,259,330	1,259,438

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

	Years Ended		
	2015	**2014**	**2013**
Net income	$ 5,109	3,702	2,036
Other comprehensive income (loss), before tax:			
Securities available for sale:			
Unrealized holding gains (losses) arising during the period	(126)	107	(363)
Reclassification adjustment for gains included in net income	(30)	(194)	-
Other comprehensive income (loss), before tax	(156)	(87)	(363)
Income tax effect	62	34	143
Other comprehensive income (loss), net of tax	(94)	(53)	(220)
Total comprehensive income	$ 5,015	3,649	1,816

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2015, 2014 and 2013
(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, 2013	1,262,370	12,624	212	30,751	403	43,990
Net Income	-	-	-	2,036	-	2,036
Other comprehensive income(loss), net of tax	-	-	-	-	(220)	(220)
Purchases of common stock	(3,040)	(31)	(73)	-	-	(104)
Cash dividends ($0.40 per share)	-	-	-	(504)	-	(504)
Balances at December 31, 2013	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

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

	Years Ended		
	2015	2014	2013
OPERATING ACTIVITIES:			
Net Income	$ 5,109	3,702	2,036
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization on securities	50	41	16
Depreciation and amortization	362	362	399
Gains on sales of securities	(22)	(476)	-
Losses on other real estate	136	300	997
Provision for loan losses and other credit losses	1,241	3,000	3,900
Deferred tax expense	17	367	398
Net changes in:			
Accrued interest receivable	64	70	156
Accrued expenses and other liabilities	(34)	216	97
Prepaid expenses	116	88	325
Other operating activities	731	(524)	1,262
Net cash provided by operating activities	7,770	7,146	9,586
INVESTING ACTIVITES:			
Purchases of securities available-for-sale	(1,154)	(3,696)	(1,675)
Proceeds from sales of securites availible-for-sale	824	532	-
Proceeds from calls and maturities of securities held-to-maturity	-	-	500
Proceeds from calls and maturities of securities available-for-sale	50	1,701	1,786
Prinicipal payments received on securities available-for-sale	1,224	1,008	1,806
Net (increase) decrease in loans	(13,096)	(12,953)	(10,452)
Purchases of FHLB stock	-	-	(13)
Proceeds from redemption of FHLB stock	3	141	133
Purchases of premises and equipment	(92)	(1,355)	(258)
Purchases and improvements of other real estate owned	-	(5)	(200)
Proceeds from sales of other real estate	2,204	2,456	4,736
Net cash (used) by investing activities	(10,037)	(12,161)	(3,637)
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	5,313	(6,918)	(8,345)
Purchases of common stock	-	-	(104)
Dividends paid	(1,259)	(756)	(504)
Net cash provided (used) by financing activities	4,054	(7,674)	(8,953)
Net increase (decrease) in cash and due from banks	1,787	(12,689)	(3,004)
Cash and cash equivalents at beginning of year	32,192	44,881	47,885
Cash and cash equivalents at end of year	$ 33,979	32,192	44,881
Supplemental disclosures:			
Interest payments	$ 2,294	2,852	3,547
Income tax payments	3,029	1,892	707
Noncash investing and financing activities:			
Loan charge-offs	1,614	2,800	3,184
Transfers to other real estate owned	945	3,556	3,073

TABLE 1: AVERAGE BALANCES AND NET INTEREST INCOME ANALYSIS

	Years Ended December 31								
Taxable Equivalent Basis - In Thousands (1)	2015			2014			2013		
	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)	$ 385,322	19,931	5.17%	$ 368,913	19,439	5.27%	$ 359,886	19,152	5.32%
Securities – taxable (3)	10,023	302	3.01%	10,519	347	3.30%	9,640	383	3.97%
Securities – tax exempt (3)	-	-	-	-	-	-	1,120	81	7.23%
Interest bearing deposits with banks and federal funds sold	26,612	99	0.37%	39,294	119	0.30%	48,119	132	0.27%
Total earning assets	421,957	20,332	4.82%	418,726	19,905	4.75%	418,745	19,748	4.72%
NON-EARNING ASSETS									
Cash and due from banks	$ 2,662			$ 6,758			$ 7,815		
Premises and equipment, net	5,845			4,889			5,035		
All other assets, net	18,169			23,138			24,900		
Less: allowance for loan losses	(6,037)			(5,977)			(5,631)		
Total assets	442,596			447,534			450,864		
INTEREST-BEARING LIABILITIES									
Savings and time deposits	$ 301,955	2,234	0.74%	$ 310,971	2,789	0.90%	$ 319,072	3,430	1.07%
OTHER LIABILITIES AND STOCKHOLDERS' EQUITY									
Demand deposits	$ 88,174			$ 87,994			$ 85,646		
Other liabilities	1,854			1,394			1,263		
Stockholders' equity	50,613			47,175			44,883		
Total liabilities and stockholders' equity	442,596			447,534			450,864		
Net interest income and net interest margin (4)		18,098	4.29%		17,116	4.09%		16,318	3.90%
Interest rate spread (5)			4.08%			3.85%			3.65%

(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, 2015 and 2014, loans are as follows:

		2015	2014
Real estate:			
Construction and land development	$	33,301	30,589
Secured by farmland		37,794	37,232
Commercial		94,062	101,713
Residential		195,026	185,050
Commercial and agricultural		25,696	19,401
Consumer		7,793	9,150
Total	$	393,672	383,135

A summary of current, past due, and nonaccrual loans as of December 31, 2015 and 2014 was as follows:

		Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Total
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		25,624	72	-	-	25,696
Consumer		7,710	75	-	8	7,793
Total	$	383,239	4,228	173	6,032	393,672
Percentage of loan portfolio		97.3%	1.1%	.1%	1.5%	100%
As of December 31, 2014						
Real estate:						
Construction and land development loans	$	26,273	84	28	4,204	30,589
Secured by farmland		36,854	378	-	-	37,232
Commercial		100,131	1,329	-	253	101,713
Residential		176,891	3,623	734	3,802	185,050
Commercial and agricultural		19,315	86	-	-	19,401
Consumer		9,017	133	-	-	9,150
Total	$	368,481	5,633	762	8,259	383,135
Percentage of loan portfolio		96.2%	1.5%	.2%	2.1%	100%

TABLE 3: ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the year ended December 31, 2015 and 2014 were as follows:

		Real estate construction	Real estate residential	Real estate farmland and commercial	Commercial and agriculture	Consumer	Total
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
As of December 31, 2014							
Beginning Balance	$	1,745	1,848	1,613	374	67	5,647
Provision for loan losses		785	1,090	775	50	50	2,750
Net charge-offs:							
Charge-offs		(784)	(1,088)	(774)	(47)	(107)	(2,800)
Recoveries		2	108	200	30	98	438
Net charge-offs		(782)	(980)	(574)	(17)	(9)	(2,362)
Ending balance	$	1,748	1,958	1,814	407	108	6,035

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 2015	2014
Nonaccrual loans	$	6,032	8,259
Accruing mortgage loans 90 days or more past due		173	762
Total nonperforming loans		6,205	9,021
Other real estate acquired through loan foreclosures		1,414	2,808
Total nonperforming assets	$	7,619	11,829
Tier I capital	$	51,771	47,922
Percentage of nonperforming assets to Tier I capital		14.72%	24.68%
Allowance for loan losses	$	5,908	6,035
Allowance for loan losses to total nonperforming loans		95.2%	66.9%

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, 2015 and 2014. 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, 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
As of December 31, 2014					
Pass	$	25,575	173,226	135,483	19,288
Criticized accrual		810	8,022	3,209	113
Criticized nonaccrual		4,204	3,802	253	-
Total	$	30,589	185,050	138,945	19,401

		2015		2014
Criticized accrual loans	$	14,082	$	12,154
Criticized nonaccrual loans		6,032		8,259
Total criticized loans	$	20,114	$	20,413
Allowance for loan losses	$	5,908	$	6,035
Tier I capital		51,771		47,922
Totals	$	57,679	$	53,957
Total criticized loans to the allowance for loan losses plus Tier I capital		34.9%		37.8%

Criticized nonaccrual loans have been reduced by $2.2 million, these are the nonperforming criticized loans. At December 31, 2015, the performing criticized loans comprise 70% of the total criticized loans, compared to 60% at December 31, 2014.

TABLE 6: DEPOSITS

A breakdown of interest bearing deposits at December 31, 2015 and 2014, by type of account is as follows:

	2015	2014
Savings and money market accounts	$ 86,176	77,280
Interest bearing demand accounts	29,246	27,287
Time deposits of $100,000 or more	109,787	114,499
Other time deposits	78,138	84,340
Total interest bearing deposits	$ 303,347	303,406

At December 31, 2015, the scheduled maturities of certificates of deposit are as follows:

2016	$ 84,520
2017	46,539
2018	25,379
2019	14,173
2020	16,635

Interest on deposits for the years ended December 31, 2015, 2014 and 2013 consisted of the following:

	2015	2014	2013
Savings and money market	$ 142	131	133
Interest bearing demand accounts	28	22	22
Time deposits of $100,000 or more	1,388	1,753	2,018
Other time deposits	677	883	1,257
Total interest on deposits	$ 2,235	2,789	3,430

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 is required to pay 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, 2015, the capital levels of the Company and the Bank exceed all capital adequacy requirements to which they are subject.

As of December 31, 2015, 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, 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%
As of December 31, 2014				
Total capital (to risk weighted assets):				
Company (consolidated)	52,232	15.38%	8%	
Bank	52,191	15.37%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	47,962	14.12%	4%	
Bank	47,922	14.11%	4%	6%
Tier I capital (to average assets):				
Company (consolidated)	47,962	10.78%	4%	
Bank	47,922	10.77%	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
Teresa A. Hammer	Senior Vice President
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	Vice President
JoEllen Calloway	Vice President
Karen Dean	Vice President
Patricia Tarr	Vice President
Judy Vera	Vice President
John Ludwig	Vice President
Jamie Dulin	Vice President
Helen Aytch	Assistant Vice President
Heather Jarrell	Assistant Vice President
Diane Xander	Assistant Vice President
Karen Clough	Assistant Vice President
Lauren Pfisterer	Assistant Vice President
Katie Anderson	Assistant Vice President
Tammy Taylor	Assistant Vice President
Heather Dodd	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

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Branch Manager: Karen Dean

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Fax: 410-634-2459
Branch Manager: Cynthia Alt

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Branch Manager: Patricia Murchake

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Queenstown Bank

Of Maryland

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