

Queenstown Bancorp of Maryland, Inc.

P.O. Box 120

Queenstown, Maryland 21658

410-827-8881



July 31, 2017

Dear Shareholder,

It is with great pleasure that I write you today to give you the Mid-Year update for Queenstown Bancorp of Maryland Inc. (the "Company"), and its subsidiary, the Queenstown Bank of Maryland (the "Bank"). This has been an exciting first half of the year for the Company. In May, I joined the Bank as the new President & CEO after 30+ years in the banking industry in Baltimore and Washington. My family and I are very excited to settle into the community here in Queenstown and continue with the great traditions of the Bank. I have some very large shoes to fill with the retirement of Tom Rhodes, who retired in June after 42 years of service with the Bank, 25 years as the President & CEO. We all wish Tom the best in his retirement.

We also had good news on the dividend front. The payment of dividends on a semiannual basis was our traditional dividend schedule through 2011. The continued strong financial performance for the six months ended June 30, 2017 enabled the Company to declare a semiannual dividend of \$.15 per share, payable in early July 2017. The Company will continue to monitor its performance through the balance of the year to consider an additional dividend payment in the 4th quarter.

We are pleased to present our unaudited financial results on the following page for the six months ended June 30, 2017. The Bank continues to show strong results and has made significant progress in improving the overall asset quality within the portfolio. Net income increased \$79 thousand to \$2.6 million for the six months ended June 30, 2017 from the same period in 2016. Net interest income declined slightly from \$8.9 million for the first six months of 2016, to \$8.8 million for the first six months of 2017. The slight decline in net interest income results primarily from the change in the composition of the balance sheet with loan balances comprising 85% of total assets at June 30, 2016, compared to 79% of total assets at June 30, 2017. Competitive pressures in the lending area remain high in the market. Continued improvement in credit performance and conditions resulted in a decrease in provisions for loan losses from \$540 thousand for the first six months of 2016, compared to \$300 thousand for the first six months of 2017. The Bank continues to maintain a very attractive Efficiency Ratio, the industry standard for effective expense control, at 51.98%. Stockholders' equity at June 30, 2017 increased by \$3.5 million to \$58 million from June 30, 2016. The Bank remains very well capitalized at June 30, 2017. The ratio of common equity to assets increased from 11.91% at June 30, 2016 to 12.09% at June 30, 2017. Book value per share was \$46.08 at June 30, 2017, up \$2.83 from June 30, 2016, representing an increase of 6.5%. The basic earnings per share increased from \$2.04 per share to \$2.10 per share. For the twelve months from July 1, 2016 to June 30, 2017, the Company has returned \$1.6 million of capital to stockholders as dividends.

The Bank has operated in this community for 118 years and we remain committed to serving the needs of the community. We appreciate your continued support of the Bank. If you have any questions about the financial information or need banking services, please feel free to contact me at 410-827-8881 or kcashen@queenstownbank.com. Thank you.

Sincerely,

A handwritten signature in blue ink that reads "Kevin B. Cashen". The signature is fluid and cursive, written over a white background.

Kevin B. Cashen
President & CEO

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

	Six months ended	
<i>Unaudited</i>	June 30,	
In thousands, Except Per Share Data	2017	2016
PROFITABILITY		
Net interest income	\$ 8,839	\$ 8,964
Noninterest income	679	562
Provisions for credit losses	300	540
Noninterest expenses	4,916	4,827
Income before taxes	4,302	4,159
Income tax expense	1,657	1,593
Net income	2,645	2,566
Return on average assets	1.13%	1.16%
Return on average equity	9.37%	9.80%
Net interest margin	3.94%	4.19%
*Efficiency ratio	51.98%	50.30%
Basic earnings per share	\$ 2.10	\$ 2.04

	June 30,	
	2017	2016
BALANCE SHEET		
Loans	\$ 383,753	\$ 389,651
Allowance for loan losses	5,802	5,998
Loans, net of allowance for loan losses	377,951	383,653
Interest bearing deposits with banks	77,589	46,310
Securities available-for-sale (at fair value)	10,229	9,590
Total assets	487,709	460,108
Deposits	427,443	403,631
Stockholders' equity	58,027	54,467
Shares outstanding	1,259,330	1,259,330
Book value per share	\$ 46.08	\$ 43.25
Loans / Deposits	89.78%	96.54%
Allowance for loan losses / Loans	1.51%	1.54%

REGULATORY CAPITAL RATIOS

Queenstown Bancorp of Maryland

Tier I leverage (avg. equity / avg. assets) ratio	12.09%	11.91%
Common equity risk based	17.05%	15.76%
Tier I risk-based capital ratio	17.05%	15.76%
Total risk based capital ratio	18.30%	17.02%

Queenstown Bank of Maryland

Tier I leverage (avg. equity / avg. assets) ratio	12.08%	11.90%
Common equity risk based	17.04%	15.75%
Tier I risk-based capital ratio	17.04%	15.75%
Total risk based capital ratio	18.29%	17.01%

*Efficiency ratio - noninterest expense divided by the sum of tax equivalent net interest income and noninterest income, excluding gains (losses) on other real estate owned sales.