SHORE BANCSHARES INC
Form 424B5
May 21, 2014

**Filed pursuant to Rule 424(b)(5)**
**Registration Statement Number 333-195527**

# Prospectus Supplement
# To the Prospectus Dated May 8, 2014

# 3,600,000 Shares

# Common Stock

We are offering 3,600,000 shares of our common stock at a public offering price of $8.25 per share. Our common stock is traded on The NASDAQ Global Select Market under the symbol SHBI. On May 20, 2014, the last reported sale price of our common stock on The NASDAQ Global Select Market was $8.79 per share.

**Investing in our common stock involves risks. Please carefully read the Risk Factors beginning on page S-12 of this prospectus supplement and appearing in our Annual Report on Form 10-K for the year ended December 31, 2013 and in our Quarterly Reports on Form 10-Q for a discussion of certain factors that you should consider before making your investment decision.**

| | Per share | Total |
|---|---|---|
| Public offering price | $ 8.250 | $ 29,700,000 |
| Underwriting discount[(1)] | $ 0.495 | $ 1,782,000 |
| Proceeds to us, before expenses | $ 7.755 | $ 27,918,000 |

(1) See Underwriting beginning on page S-30 for disclosure regarding the underwriting discounts, expenses payable to the underwriter and proceeds to us, before expenses.

The shares of common stock are being offered through the underwriter on a firm commitment basis. We have granted the underwriter a 30-day option to purchase up to 540,000 additional shares of common stock at the same price, and on the same terms, solely to cover over-allotments, if any.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement and the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**These securities are not deposits, savings accounts, or other obligations of a depository institution and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.**

The underwriter expects to deliver the shares of our common stock in book-entry form only, through the facilities of The Depository Trust Company, against payment on or about May 27, 2014, subject to customary closing conditions.

The date of this prospectus supplement is May 20, 2014

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## Prospectus Supplement



## Prospectus

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**You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus we authorize to be delivered to you. We have not, and Sandler O Neill has not, authorized any other person to provide you with additional information or information different from that contained in or incorporated by reference into this prospectus supplement, the accompanying prospectus and any free writing prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. To the extent information in this prospectus supplement and any free writing prospectus is inconsistent with any of the documents incorporated by reference into this prospectus supplement and any free writing prospectus you should rely on this prospectus supplement and any free writing prospectus. We are not, and Sandler O Neill is not, making an offer to sell our securities in any jurisdiction where the offer or sale is not permitted.**

**You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, any free writing prospectus or any documents incorporated by reference herein, is accurate only as of their respective dates. Our business, financial condition, results of operations, and prospects may have changed since those dates. This prospectus supplement supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in that prospectus.**

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# ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering, and updates and adds to the information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which provides more general information about us, the common stock, and other securities we may offer from time to time, some of which may not apply to this offering. You should read this prospectus supplement, the accompanying prospectus and any free writing prospectus, together with additional information described below under the headings Where You Can Find More Information and Incorporation of Certain Information by Reference. Generally, when we refer to this prospectus we mean this prospectus supplement together with the accompanying prospectus.

We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where such offers and sales are permitted. The distribution of this prospectus supplement and the accompanying prospectus and the offering of the common stock in certain jurisdictions may be restricted by law. This prospectus supplement does not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any common stock offered by this prospectus supplement by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus supplement assumes that (i) the underwriter will not exercise its option to purchase additional shares of our common stock to cover over-allotments, if any, and (ii) no options, warrants, stock rights or shares of common stock were issued after May 20, 2014.

This prospectus supplement includes market size, market share and industry data that we have obtained from internal company surveys, market research, publicly available information and various industry publications. The third-party sources from which we have obtained information generally state that the information contained therein has been obtained from sources believed to be reliable, but we cannot assure you that this information is accurate or complete. We have not independently verified any of the data from third-party sources nor have we verified the underlying economic assumptions relied upon by those third parties. Similarly, internal company surveys, industry forecasts and market research, which we believe to be reliable based upon management s knowledge of the industry, have not been verified by any independent sources. Our internal company surveys are based on data we have collected over the past several years.

In this prospectus supplement, unless otherwise expressly stated or the context otherwise requires, the terms we, us, the Company, Shore, and our refer to Shore Bancshares, Inc. and our subsidiaries on a combined basis. References to Banks refers to CNB and The Talbot Bank of Easton, Maryland, our banking subsidiaries.

# SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contain or incorporate by reference forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). These forward looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections and statements of our beliefs concerning future events, business plans, objectives, expected operating results and the assumptions upon which those statements are based. Forward looking statements include without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and are typically identified with words such as may, could, should, will, would, believe, anticipate, estimate, expect, words or phases of similar meaning. We caution that the forward looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed, or implied by the forward looking statements.

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The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward looking statements:

General economic conditions, whether national or regional, and conditions in the lending markets in which we participate that may have an adverse effect on the demand for our loans and other products, our credit quality and related levels of nonperforming assets and loan losses, and the value and salability of the real estate that we own or that is the collateral for our loans;
Results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our allowance for credit losses or to write-down assets;
Changing bank regulatory conditions, policies or programs, whether arising as new legislation or regulatory initiatives, that could lead to restrictions on activities of banks generally, or our subsidiary banks in particular, more restrictive regulatory capital requirements, increased costs, including deposit insurance premiums, regulation or prohibition of certain income producing activities or changes in the secondary market for loans and other products;
Changes in market rates and prices may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our balance sheet;
Our liquidity requirements could be adversely affected by changes in our assets and liabilities;
The effect of legislative or regulatory developments, including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry;
Competitive factors among financial services organizations, including product and pricing pressures and our ability to attract, develop and retain qualified banking professionals;
The growth and profitability of non-interest or fee income being less than expected;
The effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board, the Securities and Exchange Commission (the SEC ), the Public Company Accounting Oversight Board and other regulatory agencies;
The effect of fiscal and governmental policies of the United States federal government; and
Other risk factors included under the heading Risk Factors beginning on page S-12 and appearing in our Annual Report on Form 10-K for the year ended December 31, 2013 and in our Quarterly Reports on Form 10-Q.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this prospectus supplement and in the information incorporated by reference herein. Therefore, we caution you not to place undue reliance on our forward-looking information and statements.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our periodic and current reports that we file with the SEC. Also note that we provide cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our businesses in our periodic and current reports to the SEC incorporated by reference in this prospectus supplement, the accompanying prospectus and other offering materials. These are factors that, individually or in the aggregate, management believes could cause our actual results to differ materially from expected and historical results.

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# PROSPECTUS SUPPLEMENT SUMMARY

*This summary highlights selected information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus and may not contain all the information that you need to consider in making your investment decision. To understand this offering fully, you should read this prospectus supplement and the accompanying prospectus carefully. You should carefully read the sections titled Risk Factors in this prospectus supplement and in the accompanying prospectus and the documents identified in the section Incorporation of Certain Information by Reference.*

## The Company

## General

Shore Bancshares, Inc. was incorporated under the laws of Maryland on March 15, 1996 and is a financial holding company registered under the Bank Holding Company Act of 1956, as amended (the BHCA ). We are the largest independent financial holding company headquartered on the Eastern Shore of Maryland with total assets of $1.05 billion as of March 31, 2014. Our primary business is acting as the parent company to several financial institution and insurance entities. We engage in the banking business through CNB, a Maryland commercial bank with trust powers and The Talbot Bank of Easton, Maryland, a Maryland commercial bank ( Talbot Bank ).

We engage in the insurance business through: two general insurance producer firms, The Avon-Dixon Agency, LLC, a Maryland limited liability company, and Elliott Wilson Insurance, LLC, a Maryland limited liability company; one marine insurance producer firm, Jack Martin & Associates, Inc., a Maryland corporation; three wholesale insurance firms, Tri-State General Insurance Agency, LTD, a Maryland corporation, Tri-State General Insurance Agency of New Jersey, Inc., a New Jersey corporation, and Tri-State General Insurance Agency of Virginia, Inc., a Virginia corporation (collectively TSGIA ); and an insurance premium finance company, Mubell Finance, LLC, a Maryland limited liability company (all of the foregoing are collectively referred to as the Insurance Subsidiaries ).

We have three inactive subsidiaries, Wye Financial Services, LLC, Shore Pension Services, LLC, and Wye Mortgage, LLC, all of which were organized under Maryland law.

Talbot Bank owns all of the issued and outstanding securities of Dover Street Realty, Inc., a Maryland corporation that engages in the business of holding and managing real property acquired by Talbot Bank as a result of loan foreclosures.

## Banking Products and Services

CNB is a Maryland commercial bank with trust powers that commenced operations in 1876. CNB was originally chartered as a national banking association but converted to its present charter effective December 30, 2009. Talbot Bank is a Maryland commercial bank that commenced operations in 1885 and was acquired by us in our December 2000 merger with Talbot Bancshares, Inc. The Banks operate 18 full service depository branches and 20 ATMs and provide a full range of commercial and consumer banking products and services to individuals, businesses, and other organizations in Kent County, Queen Anne s County, Caroline County, Talbot County and Dorchester County in Maryland and in Kent County, Delaware. The Banks deposits are insured by the Federal Deposit Insurance Corporation (the FDIC ).

The Banks serve businesses and individuals in their respective market areas. Services offered are essentially the same as those offered by larger regional institutions that compete with the Banks. Services provided to businesses include commercial checking, savings, certificates of deposit and overnight investment sweep accounts. The Banks offer all forms of commercial lending, including secured and unsecured loans, working capital loans, lines of credit, term loans, accounts receivable financing, real estate acquisition and development, construction loans and letters of credit. Merchant credit card clearing services are available as well as direct deposit of payroll, Internet banking and telephone banking services.

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# Our Market Area

Shore Bancshares, Inc. is headquartered in Easton, Maryland and our bank subsidiaries, CNB and Talbot Bank, are headquartered in Centreville, Maryland and Easton, Maryland, respectively. Our primary market area includes the portions of the Delmarva Peninsula of south-central Delaware and the Eastern Shore of Maryland. This primary market area includes all of the Maryland counties located east of the Chesapeake Bay (Kent, Queen Anne s, Talbot, Dorchester, Caroline and Wicomico Counties) and the two southern-most counties in Delaware (Kent and Sussex Counties). The Delmarva Peninsula is 170 miles long. In width, it ranges from 70 miles to 12 miles at the isthmus on its northern edge to less near its southern tip in Virginia. It is bordered by the Chesapeake Bay on the west, the Delaware River, Delaware Bay, and the Atlantic Ocean on the east, and the Elk River and its isthmus on the north. The total land area is approximately 5,454 square miles.

As a result of the retrenchment in our primary market area by certain of our larger competitors, the acquisition of certain smaller competitors and the continuing regulatory and competitive burden on the remaining smaller competitors, we believe opportunities exist to increase our market share within and adjacent to our primary market area through organic growth and, potentially, opportunistic acquisitions. We continue to invest in our credit and lending teams, through both hiring experienced commercial lenders and providing additional underwriting and credit monitoring training of our employees. We believe the net proceeds from this offering will further enhance our ability to take advantage of these growth opportunities.

# Our Strategy

The Shore Bancshares community of companies share the same core brand belief, that Good things are happening here. This belief represents Shore Bancshares' commitment to the communities and clients it serves. We maximize every opportunity to deliver quality service to our entire community through interactions with customers, suppliers, business partners, community leaders, and key stakeholders. A key element of our business strategy has been to increase our presence and grow the Shore Bancshares Community of Companies brand throughout the Delmarva Peninsula.

Our current business strategy is to operate a well-capitalized and profitable commercial and retail financial institution dedicated to serving the needs of customers on the Delmarva Peninsula. We offer a broad range of products and services while stressing personalized and efficient customer service and convenient access to these products and services. We intend to continue to operate CNB and Talbot Bank, however, we are likely to merge the charters to streamline the operations of our back office and increase the synergies of the combined institution. It is our intention to keep the names of both banks, with one name having a doing business as designation. We have structured our operations to support Talbot Bank and CNB with knowledgeable and well-trained employees. Subject to regulatory and capital requirements and our ability to grow in a reasonable and prudent manner, we may open or acquire additional branches and acquire whole banks as opportunities arise. In addition to our branch system, we continue to expand electronic services for our customers. We attempt to differentiate ourselves from our competitors by providing a higher level of customer service, including through the use of technology.

Our goal is to continue to expand our franchise organically and, if available, through opportunistic acquisitions, while maintaining sound operations and risk management, in an effort to provide superior returns to our stockholders. Given our size as the largest independent financial holding company headquartered on the Delmarva Peninsula, the Banks are the leading locally-based community banks in our primary market area. In order to drive returns to stockholders, our strategy focuses on the following key elements:

**Focus on Driving Profitability.** The management team and the board of directors are dedicated to producing profits and returns for the stockholders. Prior to the recent economic recession, the Company achieved attractive returns to stockholders. We are focused on achieving a strong net interest margin, which is a key driver of our profitability. We are also continuing to focus on expense control, paying particular attention to our efficiency ratio. Assuming the successful completion of this offering, we believe the additional capital will result, over time, in reduced FDIC insurance, legal expenses and regulatory costs associated with the regulatory order at Talbot Bank. For a discussion of such regulatory order, see Regulatory Enforcement Orders and Risk

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Factors. In addition, receipt of approval from the Commissioner and FDIC to terminate the regulatory order will allow us to pursue the merger of our subsidiary bank charters. Such efficiencies would improve our return on average assets and return on average equity.

**Diversity of Revenues.** The Company has been successful over the years in generating consistent contribution to revenue from non-interest income sources. For the twelve months ended March 31, 2014, we earned $17.8 million in non-interest income from sources other than mortgage banking since we do not engage in such activities. Non-interest income comprised 31% of total revenue during such time period. A significant portion of such non-interest income generated during the twelve months ended March 31, 2014, or $8.0 million, was generated by our retail insurance agencies, which have consistently produced solid revenue for the Company. Retail insurance agency revenue was 15.3% of total revenue, or 45.2% of non-interest income during the twelve months ended March 31, 2014. While our wholesale insurance agency, TSGIA, has contributed revenue for the Company, the overall operations of such agency have resulted in net losses for the agency in four of the last five years ended December 31, 2013. The Company is currently in negotiations to sell TSGIA. The sale of such agency, if consummated, will have a negligible impact on the Company s financial condition and results of operations. In addition to insurance agency revenue, service charges on deposits contributed $2.4 million during the twelve months ended March 31, 2014. Further, wealth management revenues for such time were $1.7 million. The Company intends to continue to leverage its status as a financial holding company by focusing on and increasing its non-interest income.

**Improving Asset Quality.** The Company has proactively addressed the adverse impact of the recent economic recession on its nonperforming and classified assets through provisions for credit losses, charge-offs and loan sales. Nonperforming assets amounted to $63.5 million or 5.48% of total assets at December 31, 2011. In order to address this level of nonperforming assets, the Company charged-off $34.8 million, $26.6 million and $20.6 million of loans during 2013, 2012 and 2011, respectively. Concurrently, the Company provided $27.8 million, $27.7 million and $19.5 million to reserve against credit losses during 2013, 2012 and 2011, respectively. In addition, as of September 30, 2013, Talbot Bank executed a sale of $41.5 million of non-performing loans, loans classified as troubled debt restructured, other real estate owned, and adversely classified performing loans (the Asset Sale ). The assets involved in the Asset Sale consisted of $7.6 million of nonaccrual loans, $30.4 million of loans classified as troubled debt restructured, $1.8 million of adversely classified performing loans, and $1.7 million of other real estate owned. As a result of such actions, at March 31, 2014, non-performing assets were $23.9 million or 2.28% of total assets, a reduction of $39.6 million or 62.4% compared to the level at December 31, 2011. The Company continues to focus on the resolution of its nonperforming and problem loans. The reduction of nonperforming and problem loans is and will continue to be a high priority for the Company. In order to complement this proactive approach, Talbot Bank doubled the size of its credit administration department, hired a seasoned and skilled credit management team, reworked the loan policy in conjunction with third party consultants, hired a third party vendor to conduct independent loan reviews and tightened the credit approval process by instituting a new management loan approval committee.

**Leverage Size and Existing Platform to Take Advantage of Market Dislocation.** We are the largest publicly-traded financial institution headquartered on the Delmarva Peninsula. We believe this gives us an advantage when competing for organic growth across banking, insurance and wealth management, or for acquisitions in our primary market area. We believe that some of the larger, out-of-state bank holding companies have reduced the level of their activity in our primary market area, which has resulted in fewer products and services for their customer base. To take advantage of this dislocation, we plan to continue a long-term strategy of expanding and diversifying our franchise. Over the last year, the Company has undertaken an effort to unify our brands under the Shore Bancshares Community of Companies. We hired a consulting firm to assist with developing and executing a plan to unify our brands. Historically, each subsidiary has operated under its own name. Now each entity carries the Shore Bancshares brand in addition to its existing brand. We hired a second consulting firm to work with all of our employees to promote a strong sales culture to improve revenues across banking, insurance and wealth management. In addition to our efforts to expand organic growth, due in large part to the impact of the recent economic downturn on the financial health of numerous financial institutions, we anticipate continued consolidation in the financial services industry on the Delmarva Peninsula and will seek to enhance our franchise through future acquisition opportunities of whole banks or branches.

**Emphasis on Core Deposits.** We strive to be the leading financial institution in the market areas we serve. We are positioned as a financial holding company that is an alternative solution for customers between the small community banks and the larger, out-of-state regional and money center banks. We offer a broad range of products and services while stressing personalized and efficient customer service and convenient access to these products and services. We maintain a strong emphasis on core deposits and a culture that is based on sales and service. As a result, our noninterest-bearing checking accounts comprise 17.8% of total deposits at March 31, 2014. We provide customers with immediate access to senior management and decision-makers that have local market knowledge. Our philosophy has allowed us to attract and retain low cost core deposits. The Company relies almost solely on core deposit funding from our local market areas. As of March 31, 2014, we had no brokered deposits, certificates of deposits from online listing services or borrowings from the Federal Home Loan Banks. The Company intends to leverage its brand to attract further low-cost deposits in what we believe is a fertile market area for deposits. At June 30, 2013, the Company s deposits totalled $922 million or 8.0% of total deposits (excluding Discover Financial Services) on the Delmarva Peninsula consisting of the Maryland counties of Kent, Queen Anne s, Talbot, Caroline, Dorchester, Wicomico, Somerset and Worcester and the Delaware counties of Kent and Sussex. Within one mile of one of the Company s 18 branch offices, there are 27 branches of money center and regional banks with an aggregate of $1.2 billion of deposits and 25 branches of community banks with an aggregate of $851.5 million of deposits. Further, within five miles of one of the Company s 18 branch offices, there are 42 branches of money center and regional banks with an aggregate of $2.0 billion of deposits and 46 branches of community banks with an aggregate of $2.1 billion of deposits. Marketing to these potential customers will also provide the Company with an opportunity to cross-sell its other products such as loans, insurance and wealth management.

**Experienced Management Team and Dedicated Board of Directors.** Our senior management team brings an average of 27.5 years of experience in the banking industry. The management team is complemented by a dedicated board of directors with extensive local knowledge and a wide range of experience including accounting, business, banking, manufacturing, insurance, management and finance. Over the last two years, we have added to our management team the Executive Vice President and Chief Financial Officer of the Company, the President and Chief Executive Officer of Talbot Bank and the Senior Vice President and Senior Credit Officer of Talbot Bank. We also elevated Scott Beatty to his current position as President and Chief Executive Officer of the Company. Each of these new employees has significant community banking experience or experience working with larger, regional and money center banks. As we execute on our growth opportunities, we will look to add additional management team members with proven track records of growing, acquiring, integrating and operating community, regional and super-regional banks in the Mid-Atlantic banking markets.

# Regulatory Enforcement Actions

Talbot Bank has entered into a Stipulation and Consent to the Issuance of a Consent Order with the FDIC, a Stipulation and Consent to the Issuance of a Consent Order with the Maryland Commissioner of Financial Regulation (the Commissioner ) and an Acknowledgement of Adoption of the Order by the Commissioner. The FDIC and the Commissioner issued the related Consent Order (the Order ), effective May 24, 2013.

The Order, which will remain in effect until modified or terminated by the FDIC and the Commissioner, requires, among other things, that Talbot Bank take the following actions:

**Have and Retain Qualified Management**. Talbot Bank is required to have and retain experienced, qualified members of management that possess qualifications and experience commensurate with his

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or her duties and responsibilities at Talbot Bank, including, at a minimum, a chief executive officer with proven ability in managing a bank of comparable size and complexity and experience in upgrading a low quality loan portfolio, a senior lending officer and a chief credit officer.

**Increased Participation by Talbot Bank's Board of Directors**. The Order requires Talbot Bank s board of directors to increase its participation in the affairs of Talbot Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all Talbot Bank activities.

**Loss Charge-Offs**. The Order directs Talbot Bank to eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss by the FDIC or the Commissioner.

**Classified Assets Reduction**. Within 60 days of the effective date of the Order, Talbot Bank is required to submit a Classified Asset Plan to the FDIC and Commissioner to reduce the risk position in each asset in excess of $750,000 that is classified Substandard and Doubtful by the FDIC or the Commissioner.

**New Minimum Capital Requirements**. The Order directs Talbot Bank to achieve and maintain new minimum capital levels within 90 days from the effective date of the Order.

**Dividend and Fee Restrictions**. While the Order is in effect, Talbot Bank cannot declare or pay dividends or fees to the Company without the prior written consent of the FDIC and the Commissioner.

**Brokered Deposits**. The Order provides that Talbot Bank may not accept, renew, or rollover any brokered deposits unless it is in compliance with the requirements of the FDIC regulations governing brokered deposits.

A full description of the Order may be found in our Annual Report on Form 10-K for the year ended December 31, 2013 and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014. The Company and Talbot Bank believe that Talbot Bank has taken action to comply with a significant number of the items required by the Order and, assuming the successful completion of this offering, the Company intends to infuse sufficient capital into Talbot Bank to satisfy the Order's increased minimum capital requirements.

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# The Offering

*Issuer*

Shore Bancshares, Inc.

*Shares offered*

3,600,000 shares of common stock, $0.01 par value.(1)

*Offering price*

$8.25 per share

*Over-allotment option*

We have granted the underwriter an option to purchase up to an additional 540,000 shares of common stock within 30 days of the date of this prospectus supplement in order to cover over-allotments, if any.

*Shares outstanding after completion of offering*

12,074,943(2)

*Use of proceeds*

We intend to use the proceeds of the offering for general corporate purposes, including but not limited to contribution of capital to Talbot Bank to satisfy the capital requirements of the Order, to support organic growth, de novo branching, branch acquisitions, loan production offices and opportunistic acquisitions, should appropriate acquisition opportunities arise. Currently, we do not have any agreements, arrangements or understandings regarding any possible acquisitions. See Use of Proceeds at page S-24.

*Trading market*

Our common stock is traded on The NASDAQ Global Select Market.

*Trading symbol*

SHBI

*Dividends and distributions*

We do not currently pay a dividend on our common stock, based on our board of directors determination that it is in the best interests of us and our stockholders to reinvest earnings in our operations. In addition, under the Order and other regulatory restrictions applicable to the Company and the Banks, we are currently prohibited from paying any dividends without the prior consent of The Board of Governors of the Federal Reserve System (the FRB ), and Talbot Bank is currently prohibited from paying any dividends without the prior consent of the FDIC and the Commissioner. For additional information, see Risk Factors Risks Relating To The Company s Securities and Market for Common Stock and Our Dividend Policy.

*Risk factors*

Investing in our common stock involves risks. You should carefully consider the information under Risk Factors beginning on page S-12 and the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus before investing in our common stock.

(1) The number of shares offered assumes that the underwriter s over-allotment option is not exercised. If the over-allotment option is exercised in full, we will issue and sell 4,140,000 shares.

(2) The number of shares outstanding after the offering is based on 8,474,943 shares of common stock outstanding as of May 20, 2014, and excludes 540,000 shares issuable pursuant to the exercise of the underwriter s over-allotment option. It also excludes an aggregate of 503,048 shares reserved for issuance under our equity compensation plans subject to outstanding awards.

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# SELECTED HISTORICAL FINANCIAL DATA

The following table sets forth selected historical consolidated financial data for the Company as of and for each of the five years ended December 31, 2013 (which has been derived from our audited consolidated financial statements), and as of and for the three months ended March 31, 2014 and 2013. You should read this table together with the historical consolidated financial information contained in our consolidated financial statements and related notes, Management s Discussion and Analysis of Financial Condition and Results of Operation included in our Annual Report on Form 10-K for the year ended December 31, 2013 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, which have been filed with the SEC and are incorporated by reference in this prospectus supplement. Information for the three-month periods ended March 31, 2014 and 2013 is derived from unaudited interim financial statements and has been prepared on the same basis as our audited financial statements and includes, in the opinion of management, all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the data for such period. The results of operations for the three-month period ended March 31, 2014 do not necessarily indicate the results that may be expected for any future period or for the full year. We have presented certain information in the table below on a non-GAAP (as defined below) basis. We believe that these non-GAAP ratios, when taken together with the corresponding ratios calculated in accordance with GAAP, provide meaningful supplemental information regarding our performance for the periods presented. Reconciliations for the non-GAAP measures included in the table are provided below. The results included here and elsewhere in this prospectus supplement are not necessarily indicative of future performance.

| | At or For the Three Months Ended March 31, | | At or For the Years Ended December 31, | | | | |
|---|---|---|---|---|---|---|---|
| (Dollars in thousands, except per share data) | 2014[1] | 2013[1] | 2013 | 2012 | 2011 | 2010 | 2009 |
| RESULTS OF OPERATIONS: | | | | | | | |
| Interest income | $9,455 | $10,607 | $41,351 | $45,901 | $50,852 | $55,461 | $58,789 |
| Interest expense | 1,132 | 2,130 | 6,475 | 10,562 | 11,088 | 12,822 | 17,411 |
| Net interest income | 8,323 | 8,477 | 34,876 | 35,339 | 39,764 | 42,639 | 41,378 |
| Provision for credit losses | 975 | 2,150 | 27,784 | 27,745 | 19,470 | 21,119 | 8,986 |
| Net interest income after provision for credit losses | 7,348 | 6,327 | 7,092 | 7,594 | 20,294 | 21,520 | 32,392 |
| Noninterest income | 4,788 | 4,490 | 17,459 | 15,758 | 17,318 | 18,041 | 19,541 |
| Noninterest expense | 10,115 | 10,491 | 40,686 | 39,555 | 39,167 | 41,720 | 40,248 |
| Income (loss) before income taxes | 2,021 | 326 | (16,135) | (16,203) | (1,555) | (2,159) | 11,685 |
| Income tax expense (benefit) | 763 | 104 | (6,501) | (6,565) | (658) | (492) | 4,412 |
| Net income (loss) | 1,258 | 222 | (9,634) | (9,638) | (897) | (1,667) | 7,273 |
| Preferred stock dividends and discount accretion | | | | | | | 1,876 |
| Net income (loss) available to common shareholders | $1,258 | $222 | $(9,634) | $(9,638) | $(897) | $(1,667) | $5,397 |
| PER COMMON SHARE DATA: | | | | | | | |
| Net income (loss) basic | $0.15 | $0.03 | $(1.14) | $(1.14) | $(0.11) | $(0.20) | $0.64 |
| Net income (loss) diluted | 0.15 | 0.03 | (1.14) | (1.14) | (0.11) | (0.20) | 0.64 |
| Dividends paid | | | | 0.01 | 0.09 | 0.24 | 0.64 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Book value | 12.35 | 13.51 | 12.19 | 13.48 | 14.34 | 14.51 | 15.18 |
| Tangible book value(2)(3) | 10.47 | 11.60 | 10.31 | 11.56 | 12.37 | 12.32 | 12.64 |
| FINANCIAL CONDITION: | | | | | | | |
| Loans | $703,637 | $785,753 | $711,919 | $785,082 | $841,050 | $895,404 | $916,557 |
| Assets | 1,049,514 | 1,104,611 | 1,054,124 | 1,185,807 | 1,158,193 | 1,130,311 | 1,156,516 |
| Deposits | 929,444 | 970,159 | 933,468 | 1,049,273 | 1,009,919 | 979,516 | 990,937 |
| Long-term debt | | | | | 455 | 932 | 1,429 |
| Stockholders equity | 104,632 | 114,348 | 103,299 | 114,026 | 121,249 | 122,513 | 127,810 |

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| (Dollars in thousands, except per share data) | At or For the Three Months Ended March 31, 2014[1] | 2013[1] | At or For the Years Ended December 31, 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|
| PERFORMANCE RATIOS: | | | | | | | |
| Return on average total assets | 0.49 % | 0.08 % | (0.89 )% | (0.82 )% | (0.08 )% | (0.15 )% | 0.48 % |
| Return on average stockholders equity | 4.88 | 0.79 | (8.64 ) | (8.07 ) | (0.74 ) | (1.33 ) | 4.00 |
| Net interest margin | 3.50 | 3.30 | 3.48 | 3.23 | 3.74 | 4.02 | 3.90 |
| Efficiency ratio[4] | 77.01 | 80.74 | 77.59 | 77.17 | 68.35 | 68.75 | 66.07 |
| Noninterest income to total revenue | 36.52 | 34.63 | 33.36 | 30.84 | 30.34 | 29.73 | 32.08 |
| Dividend payout ratio | | | | (0.88 ) | (81.82 ) | (120.00) | 100.00 |
| Average stockholders equity to average total assets | 10.00 | 10.18 | 10.31 | 10.18 | 10.66 | 11.05 | 11.96 |
| ASSET QUALITY RATIOS: | | | | | | | |
| Nonperforming assets to total assets | 2.28 % | 3.64 % | 2.11 % | 3.76 % | 5.48 % | 3.95 % | 2.27 % |
| Nonperforming assets and accruing TDRs to total assets | 4.70 | 8.40 | 4.58 | 8.18 | 7.66 | 6.16 | 2.42 |
| Allowance for credit losses to average loans | 1.42 | 2.01 | 1.40 | 1.96 | 1.64 | 1.57 | 1.19 |
| Allowance for credit losses to nonaccrual loans | 52.56 | 49.46 | 59.10 | 43.84 | 27.81 | 39.26 | 66.72 |
| Allowance for credit losses to nonaccrual loans and TDRs | 22.63 | 18.65 | 24.25 | 18.00 | 18.66 | 23.25 | 60.34 |
| INSURANCE SEGMENT PERFORMANCE: | | | | | | | |
| Revenue | | | | | | | |
| Retail | $2,124 | $1,989 | $7,886 | $7,496 | $7,185 | $7,503 | $7,918 |
| Wholesale | 1,214 | 1,089 | 4,081 | 3,165 | 2,957 | 3,446 | 4,114 |
| Total | $3,338 | $3,078 | $11,967 | $10,661 | $10,142 | $10,949 | $12,032 |
| Net Income (Loss) | | | | | | | |
| Retail[5] | $198 | $168 | $365 | $299 | $(413 ) | $218 | $494 |
| Wholesale[6] | 94 | 63 | 95 | (191 ) | (284 ) | (1,009 ) | (194 ) |
| Total | $292 | $231 | $460 | $108 | $(697 ) | $(791 ) | $300 |
| Reconciliation | | | | | | | |
| Consolidated Insurance Agency Commissions | $3,077 | $2,813 | $10,647 | $9,814 | $9,358 | $10,113 | $11,131 |
| Other Income | 189 | 194 | 1,090 | 608 | 523 | 626 | 636 |
| Noninterest Income | 3,266 | 3,007 | 11,737 | 10,422 | 9,881 | 10,739 | 11,767 |
| Intersegment Income | 72 | 71 | 230 | 239 | 261 | 210 | 265 |
| Total Revenue | $3,338 | $3,078 | $11,967 | $10,661 | $10,142 | $10,949 | $12,032 |
| CAPITAL RATIOS:[7] | | | | | | | |
| Shore | | | | | | | |
| Tangible common equity to tangible assets[3] | 8.58 % | 9.02 % | 8.41 % | 8.36 % | 9.16 % | 9.35 % | 9.38 % |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Tier 1 risk-based capital ratio | 10.42 | 12.26 | 10.09 | 12.05 | 12.55 | 11.81 | 11.45 |
| Total risk-based capital ratio | 11.68 | 13.52 | 11.34 | 13.32 | 13.80 | 13.07 | 12.59 |
| Leverage ratio | 7.30 | 8.80 | 7.03 | 8.32 | 9.29 | 9.53 | 9.27 |
| CNB | | | | | | | |
| Tier 1 risk-based capital ratio | 14.01 | 13.65 | 13.82 | 13.82 | 14.07 | 13.34 | 12.80 |
| Total risk-based capital ratio | 15.26 | 14.90 | 15.07 | 15.08 | 15.33 | 14.59 | 14.05 |
| Leverage ratio | 9.15 | 9.36 | 9.16 | 9.33 | 9.62 | 9.57 | 9.70 |
| Talbot Bank | | | | | | | |
| Tier 1 risk-based capital ratio | 7.26 | 11.11 | 6.92 | 10.66 | 11.55 | 11.15 | 11.20 |
| Total risk-based capital ratio | 8.52 | 12.38 | 8.17 | 11.93 | 12.81 | 12.41 | 12.27 |
| Leverage ratio | 5.38 | 8.24 | 4.98 | 7.50 | 9.01 | 9.63 | 9.27 |

(1) Where applicable, ratios have been annualized.

(2) Total stockholders equity, net of goodwill and other intangible assets, divided by the number of shares of common stock outstanding at year end.

(3) The Selected Historical Financial Data contains certain financial information determined by methods other than in accordance with generally accepted accounting principles in the United States ( GAAP ). These non-GAAP financial measures are tangible common equity, defined as total common