

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, DC 20429

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008.

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

FDIC file number 19101

HARFORD BANK

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

52-0799113
(I.R.S. Employer
Identification No.)

8 West Bel Air Avenue, Aberdeen, Maryland
(Address of principal executive offices)

21001
(Zip Code)

(410) 272-5000
(Registrant's telephone number, including area code)

Securities Registered pursuant to Section 12(g) of the Act: Common Stock, par value \$10.00 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. []

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 16(d) of the Act. []

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (check one):

Large accelerated filer [] Accelerated filer [] Non-accelerated filer [] Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) []

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$33,616,242.

The number of shares outstanding of the registrant's common stock as of February 18, 2009 was 976,793.

Documents Incorporated by Reference

Portions of the registrant's Annual Report to Shareholders for the year ended December 31, 2008 are incorporated by reference into Part II of this Form 10-K. Portions of the definitive proxy statement for the registrant's 2009 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

HARFORD BANK

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This Annual Report of Harford Bank (the "Bank") on Form 10-K for the year ended December 31, 2008 may contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Readers of this report should be aware of the speculative nature of "forward-looking statements." Statements that are not historical in nature, including those that include the words "anticipate," "estimate," "should," "expect," "believe," "intend," and similar expressions, are based on current expectations, estimates and projections about, among other things, the industry and the markets in which the Bank operates, and they are not guarantees of future performance. Whether actual results will conform to expectations and predictions is subject to known and unknown risks and uncertainties, including risks and uncertainties discussed in this report; general economic, market, or business conditions; changes in interest rates, deposit flow, the cost of funds, and demand for loan products and financial services; changes in the Bank's competitive position or competitive actions by other companies; changes in the quality or composition of loan and investment portfolios; the ability to manage growth; changes in laws or regulations or policies of federal and state regulators and agencies; and other circumstances beyond the Bank's control. Consequently, all of the forward-looking statements made in this document are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated will be realized, or if substantially realized, will have the expected consequences on the Bank's business or operations. These and other risk factors are discussed in detail in Item 1A of Part I of this report. Except as required by applicable laws, the Bank does not intend to publish updates or revisions of forward-looking statements it makes to reflect new information, future events or otherwise.

PART I

Item 1. BUSINESS.

General

The Bank was chartered as a national banking association on April 27, 1964 under the name of Aberdeen National Bank. On December 8, 1980, desiring to expand into other municipalities in Harford County, Maryland, Aberdeen National Bank legally changed its name to Harford National Bank. On July 2, 2001, Harford National Bank converted to a Maryland-chartered bank and changed its name to Harford Bank. The Bank operates six banking offices in Harford County, Maryland, and one branch office in Cecil County, Maryland, with the Bank's main office located in Aberdeen, Maryland. The Bank is engaged in a general commercial and retail banking business serving individuals, businesses, and governmental units in Harford County, Maryland and neighboring counties.

Information about the Bank's revenues, net income and assets derived from its operations for each of the years ended December 31, 2008, 2007 and 2006 may be found in the Financial Statements and Notes thereto, which are included in the Annual Report to Shareholders for the year ended December 31, 2008 (attached as Exhibit 13 to this annual report).

Location and Market Area

The Bank conducts general commercial banking in its primary service areas, emphasizing the banking needs of individuals and small to medium sized businesses and professional concerns. The Bank operates from six branches located throughout Harford County, Maryland and one branch office in Cecil County, Maryland. The Bank draws most of its customer deposits and conducts most of its lending transactions from within its primary service area.

Harford County, Maryland which has experienced significant growth during the last several years, is located in northern Maryland between Baltimore and Delaware just off the I-95 corridor. Harford County is noted for its inland waterways that allow access to the Chesapeake Bay. Aberdeen Proving Ground, Higher Education and Technology Center, Ripken Stadium, and the Havre de Grace Decoy Museum are all located in Harford County.

Aberdeen Proving Ground Military Base (APG) is a key player in the repositioning of military bases by the Defense Department's 2005 Base Realignment and Closure (BRAC) Commission. APG BRAC will create nearly 28,000 jobs and attract nearly 17,000 households within the next 3 years. The primary growth corridor of Harford County is located in and around Bel Air, Maryland is also the location of three of the Bank's branches.

Deposit and Related Services

The Bank offers deposit services customary for a state-chartered community bank, including checking accounts, NOW accounts, savings accounts, and other time deposits of various types ranging from money market accounts to longer-term certificates of deposit. The transaction accounts and certificates of deposit are tailored to the Bank's principal market areas at rates competitive to those offered in the area. In addition, the Bank offers certain retirement account services, such as Individual Retirement Accounts (IRAs). All deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to the maximum allowed by law. The Bank solicits these accounts from individuals, businesses, associations and organizations, and governmental authorities.

Other banking services include, but are not limited to, on-line banking with bill payment, cash management services, safe deposit boxes, direct deposit of payroll and social security checks, and ACH origination. The Bank is associated with the STAR and Money Pass networks of automated teller machines that may be used by Bank customers throughout Maryland and other regions. The Bank also offers a Visa check (debit) card.

Lending Activities

The Bank also offers a full range of short- to medium-term commercial and personal loans. Commercial loans include both secured and unsecured loans for working capital, business expansion (including acquisition and real estate improvements), and purchase of equipment and machinery. It is typical for commercial loans to be secured by real estate, accounts receivable, inventory, equipment or other assets of the business. Commercial loans generally involve a greater degree of credit risk than one to four family residential mortgage loans. Repayment is often dependent on the successful operation of the business and may be affected by adverse conditions in the local economy or real estate market. The financial condition and cash flow of commercial borrowers is therefore carefully analyzed during the loan approval process, and continues to be monitored by obtaining business financial statements, personal financial statements and income tax returns. The frequency of this ongoing analysis depends upon the size and complexity of the credit and collateral that secures the loan.

Consumer loans include secured and unsecured loans for financing automobiles, boats, mobile homes, education, bill consolidation and home improvements. The Bank also originates mortgage loans, real estate construction loans and real estate acquisition loans. These lending activities are subject to a variety of lending limits imposed on state-chartered banks. Careful analysis of an applicant's creditworthiness is performed before granting credit, and on going monitoring of loans outstanding is performed in an effort to minimize risk of loss by identifying problem loans early. The risk of loss associated with real estate construction lending is controlled through conservative underwriting procedures such as loan to value ratios of 80% or less, obtaining additional collateral when prudent, and closely monitoring construction projects to control disbursement of funds on loans. The Bank's underwriting standards for residential mortgage loans recommend loan to value ratios not to exceed 80%, without private mortgage insurance, based on appraisals performed by approved independent appraisers of the Bank. Title insurance protecting the Bank's lien priority, as well as fire and casualty insurance, for all mortgage loans is generally required. Repayment of these loans is dependent on the borrower's continuing financial stability, which can be adversely impacted by job loss, divorce, illness, or personal bankruptcy.

Seasonality

Management does not believe that the business activities of the Bank are seasonal in nature.

Employees

At December 31, 2008, the Bank employed 79 total employees, of which 69 were full-time equivalent employees.

COMPETITION

The banking business, in all of its phases, is highly competitive. Within its market area, the Bank competes with commercial banks (including local banks and branches or affiliates of other larger banks), savings and loan associations and credit unions for loans and deposits, with consumer finance companies for loans, and with other financial institutions for various types of financial products and services. There is also competition for commercial and retail banking business from banks and financial institutions located outside the Bank's market area. The competition for deposits depends primarily on interest rates, personalized services, the quality and range of financial services, convenience of office locations and office hours. Factors that impact competition for loans include the general availability of lendable funds and credit, the number and amount of associated fees and charges, general and local economic conditions, current interest rates, and other factors, which are not readily predictable. Additionally, many of the financial institutions operating in the Bank's market area may offer certain services, such as investment brokerage, that the Bank does not offer and have greater financial resources or have substantially higher lending limits than does the Bank.

The primary factors in competing for deposits are interest rates, personalized services, the quality and range of financial services, convenience of office locations and office hours. The primary factors in competing for loans are interest rates, loan origination fees, the quality and range of lending services and personalized services.

To compete with other financial services providers, the Bank relies principally upon local promotional activities, personal relationships established by officers, directors and employees with its customers and specialized services tailored to meet its customers' needs. In those instances in which the Bank is unable to accommodate a customers' needs, the Bank will arrange for those services to be provided by other financial services providers with which it has a relationship.

The following tables set forth deposit data for Cecil County, Maryland and Harford County, Maryland as of June 30, 2008, the most recent date for which comparative information is available.

Institution Name	Offices in Market Area	Deposits \$0	Market Share
<u>Cecil County</u>			
PNC Bank National Assn.	7	329,768	33.11%
Cecil Bank	8	230,977	23.19%
BLC Bank N A	6	155,139	15.57%
NBRFS Financial	3	114,592	11.50%
Peoples Bank of Elkton	2	107,159	10.76%
Manufacturers & Traders Tr. Co.	2	33,221	3.34%
National Penn Bank	1	20,799	2.09%
Harford Bank	1	4,471	0.45%
Number of Institutions in the Market:	8	996,126	100
<u>Harford County</u>			
PNC Bank National Assn.	10	374,358	14.06%
Bank of America	9	349,579	13.13%
Branch Banking and Trust	11	321,246	12.07%
Manufacturers & Traders Tr. Co.	8	293,942	11.04%
Wachovia Bank National Assn.	2	194,846	7.32%
Harford Bank	6	174,846	6.57%
Provident Bank of Maryland	5	135,826	5.10%
Suntrust Bank	3	98,924	3.72%
Baltimore County SB FSB	4	84,832	3.19%
Rosedale FS&LA	3	78,446	2.95%
Jarrettsville FS&LA	1	65,714	2.47%
NBRFS Financial	4	62,823	2.36%
Susquehanna Bank	2	61,028	2.29%
Cecil Bank	3	55,166	2.07%
First Mariner Bank	2	53,336	2.00%
Madison Bohemian SB	2	50,291	1.89%
K Bank	1	48,897	1.84%
BLC Bank NA	1	35,385	1.33%
Slavie Federal Savings Bank	1	34,450	1.29%
Sovereign Bank	2	27,994	1.05%
Madison Square FSB	2	26,393	0.99%
Liberty FS&LA	1	14,693	0.55%
Chesapeake Bank of Maryland	1	9,485	0.36%
Carrollton Bank of Maryland	1	9,345	0.35%
TD Bank National Assn	1	741	0.03%
Number of Institutions in the Market:	25	2,662,586	100

Source: FDIC Deposit Market Share Report

For further information about competition in our market areas, see the Risk Factor entitled “*The Bank Operates in a Competitive Market*” in Item 1A of Part I of this annual report.

SUPERVISION AND REGULATION

The following is a summary of the material regulations and policies applicable to the Bank and is not intended to be a comprehensive discussion. Changes in applicable laws and regulations may have a material effect on the business of the Bank.

General

The Bank is a Maryland-chartered commercial bank subject to the banking laws of Maryland and to regulation by the Commissioner of Financial Regulation of Maryland (the “Maryland Commissioner”). The Bank is a member of the FDIC, so it is also subject to certain provisions of federal law and regulations and examination by the FDIC. The Bank is also subject to numerous state and federal statutes and regulations that affect the business of banking in its market area.

Federal Banking Regulation

The Bank is a Maryland-chartered commercial bank and is regulated and examined by the Maryland Commissioner, who is required by statute to make at least one examination in each calendar year (or at 18-month intervals if the Commissioner determines that an examination is unnecessary in a particular calendar year). The Bank’s deposits are insured by the FDIC, and certain laws and regulations administered by the FDIC also govern the Bank’s operations. The Maryland Commissioner and the FDIC have extensive enforcement authority over the institutions they regulate to prohibit or correct activities that violate law, regulations or written agreements with the regulator, or which are deemed to constitute unsafe or unsound practices. Enforcement actions may include the appointment of a conservator or receiver, the issuance of a cease and desist order, the termination of deposit insurance, the imposition of civil money penalties on the institution, its directors, officers, employees and institution-affiliated parties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the removal of, or restrictions on directors, officers, employees and institution-affiliated parties, and the enforcement of any such mechanisms through restraining orders or other court actions.

Loan operations are subject to certain federal laws applicable to credit transactions, such as the federal Truth-In-Lending Act governing disclosures of credit terms to consumer borrowers, the Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves, the Equal Credit Opportunity Act prohibiting discrimination on the basis of race, creed, or other prohibited factors in extending credit, the Fair Credit Reporting Act of 1978, governing the use and provision of information to credit report agencies, the Fair Debt Collection Act governing the manner in which consumer debts may be collected, and the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws. The operations of the Bank are also subject to the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records, and the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that act, which governs automatic deposits to and withdrawals from deposit accounts and customers’ rights and liabilities arising from the use of automated teller machines and other electronic banking services. Additionally, the Bank is subject to certain restrictions on extensions of credit to executive officers, directors, and principal shareholders or any related interest of such persons. These restrictions generally require that such credit extensions be made on substantially the same terms as are available to third parties dealing with the Banks and not involve more than the normal risk of repayment. Other laws tie the maximum amount that may be loaned to any one customer and its related interests to the Bank’s capital levels.

The Community Reinvestment Act (“CRA”) requires the FDIC, in connection with the examination of financial institutions within its jurisdictions; to evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of those banks. These factors are also considered by all regulatory agencies in evaluating mergers, acquisitions and applications to open a branch or facility. As of the date of its most recent examination report, the Bank has a CRA rating of “Satisfactory.”

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), each federal banking agency is required to prescribe, by regulation, non-capital safety and soundness standards for institutions under its authority. The standards adopted by federal regulators under this law include standards for internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. An institution that fails to meet those standards may be required by the agency to develop a plan acceptable to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions. Management believes that the Bank meets substantially all applicable standards. FDICIA also imposes capital standards on insured depository institutions, which are described below under the caption “Capital Requirements.”

Before establishing a new branch office, the Bank must meet certain minimum capital stock and surplus requirements. With each new branch located outside the municipal area of the Bank’s principal banking office, these minimal levels are subject to upward adjustment based on the population size of the municipal area in which the branch will be located. Prior to establishment of the branch, the Bank must obtain Maryland Commissioner and FDIC approval. If establishment of the branch involves the purchase

of a bank building or furnishings, the total investment in bank buildings and furnishings cannot exceed, with certain exceptions, 50% of the Bank's unimpaired capital and surplus.

Deposit Insurance

As a FDIC member institution, the Bank's deposits are insured through the Deposit Insurance Fund, which is administered by the FDIC, and the Bank is required to pay quarterly deposit insurance premium assessments to the FDIC. The Deposit Insurance Fund was created pursuant to the Federal Deposit Insurance Reform Act of 2005, which was signed into law on February 8, 2006. Under this new law, (i) the current \$100,000 deposit insurance coverage will be indexed for inflation (with adjustments every five years, commencing January 1, 2011), and (ii) deposit insurance coverage for retirement accounts was increased to \$250,000 per participant subject to adjustment for inflation. In addition, the FDIC will be given greater latitude in setting the assessment rates for insured depository institutions which could be used to impose minimum assessments. The law also allowed "eligible insured depository institutions" to share in a one-time assessment credit pool. Harford Bank's portion of the one time credit assessment was \$127,352 of which \$54,812 remained available for 2008. The Bank paid \$86,983 (\$141,795 offset by 54,812 one-time credit assessment), \$20,403 (\$92,943 offset by \$72,540 of the one-time credit assessment), and \$20,445, in 2008, 2007 and 2006, respectively, in FDIC premiums.

On October 3, 2008, FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 per depositor through December 31, 2009. Harford Bank is also participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules.

Capital Requirements

FDICIA established a system of prompt corrective action to resolve the problems of undercapitalized institutions. Under this system, federal banking regulators are required to rate supervised institutions on the basis of five capital categories: "well - capitalized"; "adequately capitalized"; "undercapitalized"; "significantly undercapitalized"; and "critically undercapitalized"; and to take certain mandatory actions, and are authorized to take other discretionary actions, with respect to institutions in the three undercapitalized categories. The severity of the actions will depend upon the category in which the institution is placed. A depository institution is "well capitalized" if it has a total risk based capital ratio of 10% or greater, a Tier 1 risk based capital ratio of 6% or greater, and a leverage ratio of 5% or greater and is not subject to any order, regulatory agreement, or written directive to meet and maintain a specific capital level for any capital measure. An "adequately capitalized" institution is defined as one that has a total risk based capital ratio of 8% or greater, a Tier 1 risk based capital ratio of 4% or greater and a leverage ratio of 4% or greater (or 3% or greater in the case of a bank with a composite CAMEL rating of 1).

FDICIA generally prohibits a depository institution from making any capital distribution, including the payment of cash dividends, or paying a management fee to its holding company if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to growth limitations and are required to submit capital restoration plans. For a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee (subject to certain limitations) that the institution will comply with the capital restoration plan.

Significantly undercapitalized depository institutions may be subject to a number of other requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized and requirements to reduce total assets and stop accepting deposits from correspondent banks. Critically undercapitalized depository institutions are subject to the appointment of a receiver or conservator, generally within 90 days of the date such institution is determined to be critically undercapitalized.

As of December 31, 2008, the Bank was qualified as "well capitalized." For further information regarding the Bank's capital resources, see Item 7 of Part II of this annual report under the caption "Capital Management" and Note 14 to the Financial Statements included in Exhibit 13 to this annual report.

USA PATRIOT Act

Congress adopted the USA PATRIOT Act (the "Patriot Act") on October 26, 2001 in response to the terrorist attacks that occurred on September 11, 2001. Under the Patriot Act, certain financial institutions, including banks, are required to maintain and prepare additional records and reports that are designed to assist the government's efforts to combat terrorism. The Patriot Act includes sweeping anti-money laundering and financial transparency laws and required additional regulations, including, among other things, standards for verifying client identification when opening an account and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

Governmental Monetary and Credit Policies and Economic Controls

The earnings and growth of the banking industry and ultimately of the Bank are affected by the monetary and credit policies of governmental authorities, including the Board of Governors of the Federal Reserve System (the “FRB”). An important function of the FRB is to regulate the national supply of bank credit in order to control recessionary and inflationary pressures. Among the instruments of monetary policy used by the FRB to implement these objectives are open market operations in U.S. Government securities, changes in the federal funds rate, changes in the discount rate of member bank borrowings, and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth of bank loans, investments and deposits and may also affect interest rates charged on loans or paid for deposits. The monetary policies of the FRB authorities have had a significant effect on the operating results of commercial banks in the past and are expected to continue to have such an effect in the future. In view of changing conditions in the national economy and in the money markets, as well as the effect of actions by monetary and fiscal authorities, including the FRB, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or their effect on the business and earnings of the Bank.

Financial Services Modernization

Effective in pertinent part on March 11, 2000, the federal Gramm-Leach-Bliley Act revises the federal Bank Holding Company Act of 1956 and repeals the affiliation provisions of the federal Glass-Steagall Act of 1933, which, taken together, limited the securities, insurance and other non-banking activities of any company that controls a FDIC insured financial institution. Under the Gramm-Leach-Bliley Act, bank holding companies can elect, subject to certain qualifications, to become a “financial holding company.” The Gramm-Leach-Bliley Act provides that a financial holding company may engage in a full range of financial activities, including insurance and securities sales and underwriting activities, real estate development, and, with certain exceptions, merchant banking activities, with new expedited notice procedures. The Gramm-Leach-Bliley Act also permits certain qualified national banks to form “financial subsidiaries,” which have broad authority to engage in all financial activities except insurance underwriting, insurance investments, real estate investment or development, and merchant banking, and expands the potential financial activities of subsidiaries of state banks, subject to applicable state law. The Gramm-Leach-Bliley Act may have the result of increasing the competition faced by the Bank from larger banks and other companies. It is not possible to predict the full effect that the Gramm-Leach-Bliley Act will have on the Bank.

Federal Securities Laws

The shares of the Bank’s common stock are registered with the FDIC under Section 12(g) of the Exchange Act. The Bank is subject to information reporting, proxy solicitation, insider trading restrictions and other requirements of the Exchange Act. The Bank is subject to information reporting requirements, proxy solicitation requirements, insider trading restrictions and other requirements of the Exchange Act, including the requirements imposed under the federal Sarbanes-Oxley Act of 2002. Among other things, loans to and other transactions with insiders are subject to restrictions and heightened disclosure, directors and certain committees of the Board must satisfy certain independence requirements, and the Corporation is generally required to comply with certain corporate governance requirements.

Future Legislation

Periodically, the federal and state legislatures consider bills with respect to the regulation of financial institutions. Some of these proposals could significantly change the regulation of banks and the financial services industry. The Bank cannot predict whether such proposals will be adopted or the effect on the Bank if they are adopted.

Available Information

The Bank maintains an internet website at www.harfordbank.com on which it makes available its most recent periodic report filed with the FDIC pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All of the periodic and other reports filed by the Bank with the FDIC pursuant to the Exchange Act are generally available for public inspection at: Federal Deposit Insurance Corporation, Accounting and Securities Disclosure Section, Division of Supervision and Consumer Protection, 550 17th Street, NW, Washington, DC 20429.

Item 1A. RISK FACTORS.

The following factors should be considered carefully in evaluating an investment in shares of common stock of the Bank.

Risks Relating to the Bank’s Business

The Majority of the Bank’s Business is Concentrated in Maryland; A Significant Amount of the Bank’s Business is Concentrated in Commercial and Residential Real Estate Lending

Because most of the Bank's loans are made to Maryland borrowers, a decline in local economic conditions may have a greater effect on the Bank's earnings and capital than on the earnings and capital of larger financial institutions whose loan portfolios are geographically diverse. Further, the Bank makes many real estate secured loans, which are in greater demand when interest rates are low and economic conditions are good. Even when economic conditions are good and interest rates are low, these conditions may not continue. Moreover, the market values of the real estate securing these loans may deteriorate, and the Bank may lose money if a borrower fails to repay a real estate loan. Additionally, the FDIC, along with the other federal banking regulators, issued final guidance on December 6, 2006 entitled "*Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices*" directed at institutions that have particularly high concentrations of commercial real estate loans within their lending portfolios. This guidance suggests that institutions whose commercial real estate loans exceed certain percentages of capital should implement heightened risk management practices appropriate to their concentration risk and may be required to maintain higher capital ratios than institutions with lower concentrations in commercial real estate lending. Based on our commercial real estate concentration as of December 31, 2007, the Bank's concentration did not exceed the thresholds above which the guidance indicates a need for further supervisory analysis. Although management continuously evaluates the Bank's concentration and risk management strategies, management cannot guarantee that any risk management practices the Bank implements will be effective to prevent losses relating to the Bank's commercial real estate portfolio. In addition, management cannot predict the extent to which this guidance will impact our operations or capital requirements in future periods.

The Bank May Experience Loan Losses in Excess of its Allowance

The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the value and marketability of the collateral for the loan. Management of the Bank maintains an allowance for loan losses based upon, among other things, historical experience, an evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. Based upon such factors, management makes various assumptions and judgments about the ultimate collectibility of the loan portfolio and provides an allowance for loan losses based upon a percentage of the outstanding balances and for specific loans when their ultimate collectibility is considered questionable. If management's assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate to absorb future losses, or if the bank regulatory authorities require the Bank to increase its allowance for loan losses as a part of its examination process, the Bank's earnings and capital could be significantly and adversely affected. Although management uses the best information available to make determinations with respect to the allowance for loan losses, future adjustments may be necessary if economic conditions differ substantially from the assumptions used or adverse developments arise with respect to the Bank's non-performing or performing loans. Material additions to the allowance for loan losses of the Bank would result in a decrease in the Bank's net income and capital, and could have a material adverse effect on the Bank.

Interest Rates and Other Economic Conditions Will Impact the Bank's Results of Operations

Results of operations for financial institutions, including the Bank, may be materially and adversely affected by changes in prevailing economic conditions, including declines in real estate values, rapid changes in interest rates and the monetary and fiscal policies of the federal government. The Bank's profitability is in part a function of the spread between the interest rates earned on assets and the interest rates paid on deposits and other interest-bearing liabilities (i.e., net interest income), including advances from the Federal Home Loan Bank of Atlanta. Interest rate risk arises from mismatches (i.e., the interest sensitivity gap) between the dollar amount of repricing or maturing assets and liabilities and is measured in terms of the ratio of the interest rate sensitivity gap to total assets. More assets repricing or maturing than liabilities over a given time period is considered asset-sensitive and is reflected as a positive gap, and more liabilities repricing or maturing than assets over a given time period is considered liability-sensitive and is reflected as negative gap. An asset-sensitive position (i.e., a positive gap) could enhance earnings in a rising interest rate environment and could negatively impact earnings in a falling interest rate environment, while a liability-sensitive position (i.e., a negative gap) could enhance earnings in a falling interest rate environment and negatively impact earnings in a rising interest rate environment. Fluctuations in interest rates are not predictable or controllable. The Bank has attempted to structure its asset and liability management strategies to mitigate the impact on net interest income of changes in market interest rates.

The Market Value of the Bank's Investments Could Decline

As of December 31, 2008, the Bank has classified all of its investment securities as held-to-maturity pursuant to Statement of Financial Accounting Standards No. 115 ("SFAS 115") relating to accounting for investments. Investment securities that are classified as held-to-maturity in accordance with SFAS 115 are stated at amortized cost. Management believes that several factors will affect the market values of the Bank's investment portfolio. These include, but are not limited to, changes in interest rates or expectations of changes, the degree of volatility in the securities markets, inflation rates or expectations of inflation and the slope of the interest rate yield curve (the yield curve refers to the differences between shorter-term and longer-term interest rates; a positively sloped yield curve means shorter-term rates are lower than longer-term rates). Also, the passage of time will affect the market values of our investment securities, in that the closer they are to maturing, the closer the market price should be

to par value. These and other factors may impact specific categories of the portfolio differently, and management cannot predict the effect these factors may have on any specific category.

The Bank Operates in a Competitive Market

The Bank operates in a competitive environment, competing for loans, deposits, and customers with commercial banks, savings associations and other financial entities. Competition for deposits comes primarily from other commercial banks, savings associations, credit unions, money market and mutual funds and other investment alternatives. Competition for loans comes primarily from other commercial banks, savings associations, mortgage banking firms, credit unions and other financial intermediaries. Many of these competitors are much larger in terms of total assets and capitalization, have greater access to capital markets, and/or offer a broader range of financial services than those offered by the Bank. Banks with a larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the needs of larger customers. In addition, current banking laws facilitate interstate branching and merger activity among banks. Since September 1995, certain bank holding companies have been authorized to acquire banks throughout the United States. Beginning June 1, 1997, certain banks have been permitted to merge with banks organized under the laws of different states. As a result of these changes, interstate banking is now an accepted element of competition in the banking industry and the Bank may be brought into competition with institutions with which it does not presently compete.

Finally, the Bank's growth and profitability will depend upon its ability to attract and retain skilled managerial, marketing and technical personnel. Competition for qualified personnel in the financial services industry is intense, and there can be no assurance that the Bank will be successful in attracting and retaining such personnel.

The Banking Industry is Heavily Regulated; Significant Regulatory Changes Could Adversely Affect the Bank's Operations

The Bank's operations are and will be affected by current and future legislation and by the policies established from time to time by various federal and state regulatory authorities. The Bank is subject to supervision by the FDIC and the Maryland Commissioner. Banking regulations, designed primarily for the safety of depositors, may limit a financial institution's growth and the return to its investors by restricting such activities as the payment of dividends, mergers with or acquisitions by other institutions, investments, loans and interest rates, interest rates paid on deposits, expansion of branch offices, and the offering of securities or trust services. The Bank is also subject to capitalization guidelines established by federal law and could be subject to enforcement actions to the extent that the Bank is found by regulatory examiners to be undercapitalized. It is not possible to predict what changes, if any, will be made to existing federal and state legislation and regulations or the effect that such changes may have on the Bank's future business and earnings prospects. Management also cannot predict the nature or the extent of the effect on the Bank's business and earnings of future fiscal or monetary policies, economic controls, or new federal or state legislation. Further, the cost of compliance with regulatory requirements may adversely affect the Bank's ability to operate profitably.

The Bank May be Adversely Affected by Recent Legislation

From time to time federal and state legislatures adopt or change the laws affecting the banking industry, and these new or changed laws could have a material impact on the Bank's business and prospects. For example, the recently enacted federal Gramm-Leach-Bliley Act, among other things, repeals restrictions on banks affiliating with securities firms. It also permits bank holding companies that become financial holding companies to engage in additional financial activities, including insurance and securities underwriting and agency activities, merchant banking, and insurance company portfolio investment activities that are currently not permitted for bank holding companies. This law may increase the competition the Bank faces from larger banks and other companies. It is not possible to predict the full effect that the Gramm-Leach-Bliley Act or other legislation will have on the Bank.

The Bank May be Subject to Claims

The Bank's customers may sue the Bank for losses due to alleged breaches of fiduciary duties, errors and omissions of employees, officers and agents, incomplete documentation, the failure of the Bank to comply with applicable laws and regulations, or many other reasons. Also, the employees of the Bank may knowingly or unknowingly violate laws and regulations. Bank management may not be aware of any violations until after their occurrence. This lack of knowledge may not insulate the Bank from liability. Claims and legal actions may result in legal expenses and liabilities that may reduce the Bank's profitability and hurt its financial condition.

The Bank May not be Able to Keep Pace with Developments in Technology

The Bank uses various technologies in its business, including telecommunication, data processing, computers, automation, internet-based banking, and debit cards. Technology changes rapidly. The Bank's ability to compete successfully with other

banks and non-banks may depend on whether it can exploit technological changes. The Bank may not be able to exploit technological changes, and any investment it does make may not make it more profitable.

Risks Relating to the Bank’s Common Stock

The Bank’s Ability to Pay Dividends is Limited

Both federal and state laws impose restrictions on the ability of the Bank to pay dividends. Under Maryland law, a cash dividend may be declared only from the Bank’s undivided profits or, with the prior approval of the Maryland Commissioner of Financial Regulation (“Maryland Commissioner”), its surplus in excess of 100 percent of its required capital stock. A stock dividend may be declared only if the Bank’s surplus, after the increase in capital stock, is equal to at least 20 percent of the outstanding capital stock as increased. Moreover, if the surplus of the Bank, after the increase in capital stock, is less than 100 percent of its capital stock as increased, the Bank is required to annually transfer to surplus at least 10 percent of its net earnings until the surplus is 100 percent of its capital stock as increased. A dividend of property may be declared only if, after giving effect to the distribution, (i) the Bank can pay its indebtedness as the indebtedness becomes due in the usual course of business, and (ii) the Bank’s total assets are greater than the sum of the Bank’s total liabilities, plus, unless the Bank’s charter permits otherwise, the amount that would be needed, if the Bank were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights on dissolution are superior to those receiving the distribution. Additionally, the Bank may not pay dividends or distribute any of its capital assets while it remains in default on any assessment due the FDIC. FDIC regulations also impose certain minimum capital requirements that affect the amount of cash available for the payment of dividends by regulated banking institutions such as the Bank. In addition to these specific restrictions, the Bank’s regulators have the ability to prohibit proposed dividends that would otherwise be permitted under applicable regulations if the regulatory body determines that such distribution would constitute an unsafe or unsound practice. Because of these limitations and the fact that dividends are at the discretion of the Board of Directors, there can be no assurance that the Board will declare dividends during any fiscal quarter.

The Bank’s Stock is not Insured

Investments in the shares of the Bank’s common stock are not deposits and are not insured against loss by the government.

The Bank’s Stock is not Heavily Traded

The Bank’s common stock is not traded on any exchange, but is instead traded over the counter on The NASDAQ Stock Market’s Over-the-Counter Bulletin Board. Stock that is not heavily traded, such as the Bank’s common stock, can be more volatile than stock trading in an active public market. Factors such as the Bank’s financial results, the introduction of new products and services by the Bank or its competitors, and various factors affecting the banking industry generally may have a significant impact on the market price of the Bank’s common stock. Management cannot predict whether an active public market for the Bank’s common stock will develop or be sustained in the future. In recent years, the stock market has experienced a high level of price and volume volatility, and market prices for the stock of many companies have experienced wide price fluctuations that have not necessarily been related to their operating performance. Therefore, the Bank’s shareholders may not be able to sell their shares at the volumes, prices, or times that they desire.

Item 1B. UNRESOLVED FDIC COMMENTS.

None.

Item 2. PROPERTIES.

The Bank has six branch locations in Harford County, Maryland and a branch location in Cecil County, Maryland. The locations are described as follows:

OFFICE	LOCATION
Aberdeen Office/Operations Center	8 West Bel Air Avenue, Aberdeen, Maryland 21001
Joppatowne Office	501 Riviera Drive, Joppa, Maryland 21085
Bel Air Office	505 S. Main Street, Bel Air, Maryland 21014
Havre de Grace Office	960 Revolution Street, Havre de Grace, Maryland 21078
Abingdon Office	2905 Emmorton Road, Abingdon, Maryland 21009
Marketplace Office	545 Marketplace Drive, Bel Air, Maryland 21014
Elkton Office	133 Bridge Street, Elkton, Maryland 21921

The Bank owns without encumbrance offices in Aberdeen, Bel Air, Joppatowne, Havre de Grace and an unimproved lot in Bel Air for a future branch site. The real estate taxes for the above referenced properties totaled \$111,821 for 2008, \$107,181, for 2007, and \$100,287 for 2006.

The Bank operates under leases at the following locations:

LOCATION	USE	SQUARE FEET	ANNUAL RENT	LEASE EXPIRATION
Abingdon Office 2905 Emmorton Road Abingdon, MD 21009	Branch office location	2,000	\$37,073	July 31, 2021
U.S. Route 40 and Buchanan Lane, Aberdeen, MD 21001	Parking area	N/A	\$2,160	September 1, 2009
Lake Fanny Hill 915 Bel Air Road Bel Air, MD 21014	Billboard	N/A	\$1,350	September 30, 2009
133 N. Bridge Street Elkton, Maryland 21921	New branch office	3,500	\$51,204	October 1, 2021

Rent expenses for 2008, 2007, and 2006 totaled \$116,136, \$106,818, and \$69,368, respectively.

Other than as described above, there are no encumbrances on any of these properties or leases. Bank management believes that all of these properties are adequately insured.

Item 3. LEGAL PROCEEDINGS.

The Bank is at times, in the ordinary course of business, subject to legal actions. Management, upon the advice of counsel, believes that losses, if any, resulting from the settlement of current legal actions will not have a material adverse effect on the financial condition of the Bank.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Price Analysis and the Discussion on Dividends

As of February 18, 2009, the shares of the common stock of the Bank were held by approximately 617 stockholders. The shares of the Bank's common stock are traded in the over-the-counter market through The NASDAQ Stock Market's Over-the-Counter Bulletin Board Service under the symbol "HFBK.OB". To the best of the Bank's knowledge, the table below sets forth, for the periods indicated, the low and high bid information in the over-the-counter market for the Bank's common stock. These over-the-counter market quotations, which have been adjusted for a 3% stock dividend declared in 2008, reflect inter-dealer prices and do not include retail mark-up, markdown or commission, and may not necessarily represent actual transactions. The table also shows the per share cash dividends declared during these periods, adjusted for a 3% stock dividend declared in 2008.

	2008			2007		
	High	Low	Cash Dividends	High	Low	Cash Dividends
First Quarter	\$41.27	\$40.80	.26	\$39.97	\$38.13	\$.26
Second Quarter	41.78	39.25	.27	40.90	40.00	.26
Third Quarter	39.41	36.53	.27	41.16	40.61	.26
Fourth Quarter	38.00	36.80	.10	41.19	40.27	.27

Cash dividends are typically declared on a quarterly basis and are at the discretion of the Board of Directors, based upon such factors as operating results, financial condition, capital adequacy, regulatory requirements, and stockholder return. The Bank's ability to pay dividends is limited by certain restrictions imposed on Maryland banks and corporations generally. These

restrictions are discussed above it Item 1A of Part I under the heading “The Bank’s Ability to Pay Dividends is Limited”, which discussion is incorporated herein by reference. There can be no guarantee that dividends will be declared in any fiscal quarter.

The Bank has adopted a Dividend Reinvestment Plan (“DRIP”) that permits stockholders to reinvest their cash dividends in shares of the Bank’s common stock. Stockholders who elect to reinvest their dividends in common stock will receive the number of shares equal to the amount of the dividend divided by the applicable purchase price per share.

Recent Sales of Unregistered Securities

Section 3(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”), exempts from the definition of “security” any securities issued by a bank, and the FDIC, as the Bank’s primary federal regulator, does not require the registration of the Bank’s securities prior to offer or sale. From time to time, the Bank sells shares of its common stock pursuant to its DRIP and upon exercise of options granted under its Director Stock Purchase Plan, Incentive Stock Option Plan, Employee Stock Purchase Plan, 2004 Director Non-Qualified Stock Option Plan (the “2004 Plan”), 2008 Key Employee Stock Option Plan (the “Key Employee Plan”) and the 2008 Employee Stock Purchase Plan (the “2008” Purchase Plan”). During the fourth quarter ended December 31, 2008, a total of 3,202 shares were issued pursuant to the DRIP at an average price of \$38.50 per share. There were no stock option shares issued during the fourth quarter.

Equity Compensation Plan Information

In 1997, the Bank adopted the Director Stock Purchase Plan pursuant to which non-qualified stock options could be granted to directors. The Bank also maintains an Incentive Stock Option Plan and an Employee Stock Purchase Plan, both of which contemplate the grant of stock options to certain employees of the Bank. Each of these plans was approved by the Bank’s shareholders.

In 2004, the Bank replaced the Director Stock Purchase Plan with the 2004 Plan, for which shareholder approval was not required. The 2004 Plan permits the grant of non-qualified stock options to purchase up to 47,271 shares of common stock (subject to adjustment for dividends, recapitalizations, and similar capital events and the expiration of unexercised options). Directors who have served for at least one year and have a Board meeting attendance record of at least 50% during the 12 months preceding participation are eligible to participate. Options granted under the 2004 Plan vest according to the agreement granting the options and thereafter generally remain exercisable for 10 years from the date of grant. If a participant’s service with the Bank terminates for cause, then the unexercised portions of his or her options immediately lapse. If a participant’s service is terminated because of death or permanent disability, then the unexercised portions of his or her options lapse unless exercised within one year of termination. If a participant’s service is terminated for any other reason, then the unexercised portions of his or her options lapse unless exercised within three months of termination. In the event of an Extraordinary Event (as defined in the 2004 Plan), all outstanding unexercised options become immediately exercisable (whether vested or not). If a participant fails to exercise his or her options upon an Extraordinary Event, then the Bank is required to take such action as may be necessary to enable each participant to receive, upon exercise, securities or other assets as were issuable or payable upon the Extraordinary Event in respect of, or in exchange for, the shares of common stock subject to those options. The Board may amend, suspend, discontinue or terminate the 2004 Plan at any time and from time to time, except that such action may not alter or impair the existing rights of any participant without his or her consent. The 2004 Plan, including the form of agreement used to grant stock options, was filed as Exhibit 10.4 to the Bank’s Annual Report on Form 10-KSB for the year ended December 31, 2004.

In 2008, the Bank replaced the Incentive Stock Option Plan with the Key Employee Plan, which was adopted by stockholders in 2008. The Key Employee Plan permits the grant of stock options to purchase up to 77,250 shares of common stock (subject to adjustment for dividends, recapitalizations, and similar capital events and the expiration of unexercised options). The Key Employee Plan is administrated by the Executive Committee and contemplates the grant of stock options to certain key employees, including executive officers and officers who are also directors, intended to qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code (the “Code”). Generally, an option granted under the Key Employee Plan permits and optionee to purchase a certain number of shares of Common Stock at a price per share equal to at least the fair market value of a share on the grant date. Options granted under the Key Employee Plan vest after 3 years and an option has a term of 10 years from the date of grant. If an optionee’s service with the Bank is terminated for “cause” (as defined in the plan), then the unexercised portion of any option held by the optionee will immediately terminate, be forfeited and lapse. If an optionee’s service with the Bank is terminated because of death or disability, then the optionee (or his or her personal representative, administrator or a person who acquired the right to exercise any unexercised portion of the option by bequest, inheritance or death of the optionee) will have one year to exercise any unexercised portion of his or her option. If an optionee’s service with the Bank is terminated for any other reason, then the optionee will have up to three months to exercise any unexercised portion of any option held by the optionee. Upon a change in control of the Bank, all unexercised options will immediately vest and become exercisable.

In 2008, the Bank replaced the 1997 employee stock purchase plan with the 2008 Purchase Plan. The 2008 Purchase Plan permits the grant of stock options to purchase up to 15,450 shares of common stock (subject to adjustment for dividends, recapitalizations, and similar capital events and the expiration of unexercised options). These two plans are substantially similar and contemplate the grant of stock options intended to be qualified options within the meaning of Section 423 of the Code. The 2008 Purchase Plan is administered by the Executive Committee and is available to each employee who has completed 12 months of employment with the Bank as of the date an option is granted. An “employee” means any employee of the Bank or of its affiliates, other than a “highly compensated employee” (as defined in Section 414(q) of the Code), whose customary employment was more than 20 hours per week or more than five months during the year. Stock options granted under these plans allow the participant to buy a certain number of shares of common stock of the Bank at an exercise price equal to 85% of the fair market value of such shares on the date of grant. Unless a shorter period is provided in an option agreement or in the other plan documents, an option will remain exercisable for 27 months from the date it was granted. Executive officers who were “highly compensated employees” during 2008 did not participate in the 2008 Purchase Plan.

The following table provides information about shares of common stock that may be issued upon the exercise of options under all of the Bank’s equity compensation plans as of December 31, 2007. All shares and prices listed in the table have been adjusted to reflect a 3% stock dividend paid in 2008.

Plan Category	Number of Shares To be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	20,638	\$35.22	96,321
Equity compensation plans not approved by security holders	18,969	\$37.10	24,806
Total	39,607	\$36.12	121,127

Stock Repurchase Plan

In August of 2006, the Bank’s Board of Directors adopted a stock repurchase plan pursuant to which the Bank is authorized to purchase up to 60,000 shares of the Bank’s common stock over a 36-month period (subject to annual renewal approval by the FDIC). The Bank filed a Current Report on Form 8-K to announce the regulatory approval on October 17, 2006. The Bank did not repurchase any shares under the plan during the fourth quarter of 2008.

Item 6. SELECTED FINANCIAL DATA.

The following table sets forth certain selected financial data for the five years ended December 31, 2008 and is qualified in its entirety by the detailed information and financial statements, including notes thereto, included elsewhere or incorporated by reference in this Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing in Item 7 of Part II of this annual report. Per share data has been adjusted to reflect any stock dividends paid.

(Dollars in thousands, except per share data)

	2008	2007	2006	2005	2004
RESULTS OF OPERATIONS					
Interest revenue	\$ 12,972	\$ 12,465	\$ 11,739	\$ 10,422	\$ 8,929
Interest expense	<u>(4,475)</u>	<u>(4,212)</u>	<u>(2,905)</u>	<u>(2,073)</u>	<u>(1,425)</u>
Net interest income	8,497	8,253	8,834	8,349	7,504
Provision for loan losses	<u>(320)</u>	<u>(210)</u>	<u>(226)</u>	<u>(275)</u>	<u>(98)</u>
Net interest income after provision for loan losses	8,177	8,043	8,608	8,074	7,406
Noninterest revenue	1,692	1,599	1,025	905	1,057
Noninterest expenses	<u>(7,297)</u>	<u>(6,818)</u>	<u>(6,534)</u>	<u>(5,948)</u>	<u>(5,684)</u>
Income before income taxes	2,572	2,824	3,099	3,031	2,779
Income taxes	<u>(846)</u>	<u>(880)</u>	<u>(1,037)</u>	<u>(1,067)</u>	<u>(964)</u>
NET INCOME	<u>\$ 1,726</u>	<u>\$ 1,944</u>	<u>\$ 2,062</u>	<u>\$ 1,964</u>	<u>\$ 1,815</u>

PER SHARE DATA:

Net income - basic	\$ 1.76	\$ 2.05	\$ 2.16	\$ 2.05	\$ 1.91
Net income - diluted	1.75	2.03	2.15	2.04	1.90
Dividends declared	0.90	1.06	1.05	1.02	0.93
Book value(at year end) (1)	24.21	23.24	22.56	21.63	20.57

FINANCIAL CONDITION(at year end)

Assets	\$ 241,334	\$ 212,808	\$ 201,478	\$ 189,891	\$ 180,333
Deposits	183,910	174,744	174,644	163,120	154,037
Total loans, net of allowance for loan losses	201,614	171,779	159,531	145,761	134,296
Stockholders' equity	23,693	23,140	22,161	21,393	20,152

PERFORMANCE RATIOS (for the year):

Return on average assets	77.00%	0.95%	1.04%	1.05%	1.07%
Return on average stockholders' equity	7.31%	8.53%	9.45%	9.37%	9.15%
Net interest margin	4.27%	4.62%	5.00%	4.94%	4.88%
Efficiency ratio (2)	71.62%	69.20%	66.27%	64.27%	66.39%
Dividend payout ratio	51.24%	53.70%	49.48%	51.03%	50.66%
Average stockholders' equity to average total assets	10.55%	11.17%	11.05%	11.23%	11.72%

(1) Total stockholders' equity divided by the number of shares of common stock outstanding at year-end.

(2) Noninterest expense as a percentage of total revenue (net interest income plus total noninterest income)

Lower ratios indicate improved productivity.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

The following discussion compares the financial condition of the Bank at December 31, 2008 to the financial condition at December 31, 2007 and the results of operations for the years ended December 31, 2008 and 2007. This discussion should be read in conjunction with the financial statements, notes thereto, and other statistical information included elsewhere in this annual report on Form 10-K or incorporated by reference herein.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The Bank's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and follow general practices within the industry in which the Bank operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, the consolidated financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the consolidated financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available.

The most significant accounting policies followed by the Bank are presented in Note 1 to the financial statements. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses as the accounting area that requires the most subjective or complex judgments, and as such should be most subject to revision as new information becomes available.

The allowance for loan losses represents management's estimate of probable loan losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the balance sheets. Note 1 to the financial statements describes the methodology used to determine the allowance for loan losses.

Recent accounting pronouncements that have been approved by the Financial Accounting Standards Board are as follows:

FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. Management does not expect SFAS No. 160 to have a material impact on the Bank's consolidated financial statements.

FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. The use and complexity of derivative instruments and hedging activities have increased significantly over the past several years. Constituents have expressed concerns that the existing disclosure requirements in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, do not provide adequate information about how derivative and hedging activities affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. Management does not expect SFAS No. 161 to have a material impact on the Bank's consolidated financial statements.

FASB Statement No. 141 (revised 2007), *Business Combinations* will significantly change the accounting for business combinations in a number of areas, including the treatment of contingent consideration, contingencies, acquisition costs, in-process research and development costs and restructuring costs. Additionally, under SFAS No. 141(R), changes in deferred tax

asset valuation allowances and acquired income uncertainties in a business combination after the measurement period will impact income tax expense. The provisions of this standard are effective beginning January 1, 2009. Management does not expect that SFAS No. 141(R) will have a material impact on the Bank's results of operations or financial position.

The accounting policies adopted by management are consistent with accounting principles generally accepted in the United States of America and are consistent with those followed by peer banks.

RESULTS OF OPERATIONS

The Bank recorded \$1,725,592 in net income for the year ended December 31, 2008, compared to \$1,943,748 for 2007. Basic net income per share for 2008 decreased to \$1.76 from \$1.99 for 2007. Diluted net income per share for 2008 was \$1.75, compared to \$1.97 for 2007.

Return on average assets was .77% for the year ended December 31, 2008, compared to .95% for the year ended December 31, 2007. Return on average stockholders' equity for 2008 was 7.31%, compared to 8.53% for 2007. Comparing fiscal year 2008 to fiscal year 2007, average assets increased 9.65% to \$223,803,284, average net loans increased 14.17% to \$186,047,073, average deposits increased 1.77% to \$178,270,055, and average stockholders' equity increased 3.51% to \$23,601,046.

Net Interest Income and Net Interest Margin

The primary source of income for the Bank is net interest income, which is the difference between revenue on interest-earning assets, such as investment securities and loans, and interest incurred on interest-bearing sources of funds, such as deposits and borrowings. The level of net interest income is determined primarily by the average balance of interest-earning assets and funding sources and the various rate spreads between the interest-earning assets and the Bank's funding sources. The table "Average Balances, Interest, and Yields" that follows shows the Bank's average volume of interest-earning assets and interest-bearing liabilities for 2008 and 2007 and related income/expense and yields. Changes in net interest income from period to period result from increases or decreases in the volume of interest-earning assets and interest-bearing liabilities, and increases or decreases in the average rates earned and paid on such assets and liabilities. The volume of interest-earning assets and interest-bearing liabilities is affected by the ability to manage the earning-asset portfolio (which includes loans), and the availability of particular sources of funds, such as noninterest-bearing deposits.

Harford Bank
Average Balances, Interest, and Yields

	2008			2007		
	Average balance	Interest	Yield	Average balance	Interest	Yield
Assets						
Federal funds sold	\$ 4,318,910	\$ 88,280	2.04%	\$ 3,799,220	\$ 202,129	5.32%
FHLB interest bearing deposits	812,956	22,989	2.83%	1,414,506	79,725	5.64%
Investment certificates of deposit	161,612	4,361	2.70%	-	-	0.00%
Investment securities:						
U. S. government agency	10,605,605	471,633	4.45%	11,624,799	548,124	4.72%
State and municipal	2,888,091	101,155	3.50%	4,405,599	149,487	3.39%
Other	<u>1,351,235</u>	<u>45,630</u>	3.38%	<u>630,347</u>	<u>39,488</u>	6.26%
Total investment securities	<u>14,844,931</u>	<u>618,418</u>	4.17%	<u>16,660,745</u>	<u>737,099</u>	4.42%
Loans:						
Commercial	21,050,356	1,386,788	6.59%	19,154,949	1,577,176	8.23%
Overdrafts	380,919	-	-	516,209	-	-
Credit Lines	6,876,628	349,131	5.08%	5,705,635	454,343	7.96%
Real Estate	136,116,457	9,242,676	6.79%	116,127,345	8,147,582	7.02%
Personal	<u>21,622,713</u>	<u>1,498,795</u>	6.93%	<u>21,518,146</u>	<u>1,477,347</u>	6.87%
Total loans	186,047,073	12,477,390	6.71%	163,022,284	11,656,448	7.15%
Allowance for loan losses	<u>(1,675,951)</u>			<u>(1,528,049)</u>		
Total loans, net of allowance	<u>184,371,122</u>	<u>12,477,390</u>	6.77%	<u>161,494,235</u>	<u>11,656,448</u>	7.22%
Total interest-earning assets	204,509,531	13,211,438	6.46%	183,368,706	12,675,401	6.91%
Noninterest-bearing cash	5,372,374			6,265,605		
Premises and equipment	8,051,371			8,131,222		
Other assets	<u>5,870,008</u>			<u>6,347,798</u>		
Total assets	<u>\$ 223,803,284</u>			<u>\$ 204,113,331</u>		
Liabilities and Stockholders' Equity						
Interest-bearing Deposits						
NOW deposits	\$ 20,122,035	45,199	0.22%	\$ 20,472,063	31,728	0.15%
Savings	21,773,558	119,661	0.55%	21,734,194	119,327	0.55%
Money market and personal investment	29,869,542	547,186	1.83%	25,571,453	527,078	2.06%
Other time deposits	<u>73,228,773</u>	<u>3,040,525</u>	4.15%	<u>70,102,288</u>	<u>3,321,657</u>	4.74%
Total interest-bearing deposits	144,993,908	3,752,571	2.59%	137,879,998	3,999,790	2.90%
Noninterest-bearing deposits	<u>33,276,147</u>	-	-	<u>37,286,163</u>	-	-
Total deposits	<u>178,270,055</u>	<u>3,752,571</u>	2.10%	<u>175,166,161</u>	<u>3,999,790</u>	2.28%
Borrowed overnight funds	1,131,421	27,873	2.46%	1,030,685	60,640	5.88%
FHLB long term borrowing	<u>19,978,532</u>	<u>694,758</u>	3.48%	<u>4,297,065</u>	<u>151,882</u>	3.53%
Total borrowed funds	<u>21,109,953</u>	<u>722,631</u>	3.42%	<u>5,327,750</u>	<u>212,522</u>	3.99%
Total deposits and borrowed funds	199,380,008	<u>4,475,202</u>	2.24%	180,493,911	<u>4,212,312</u>	2.33%
Other liabilities	822,230			819,693		
Stockholders' equity	<u>23,601,046</u>			<u>22,799,727</u>		
Total liabilities and stockholders' equity	<u>\$ 223,803,284</u>			<u>\$ 204,113,331</u>		
Net interest spread			4.22%			4.58%
Net interest income		<u>\$ 8,736,236</u>			<u>\$ 8,463,089</u>	
Net margin on interest-earning assets			4.27%			4.62%

Interest on tax-exempt securities and dividends are reported on fully taxable equivalent basis (a non-GAAP financial measure)

The average balance of earning assets for the year ended December 31, 2008 increased \$21,140,825 or 11.53% when compared to 2007. The average balance of investment securities for the year ended December 31, 2008 was \$14,844,931, a decrease of \$1,815,814 or 10.90% from investments in 2007. For the year ended December 31, 2008, the average balance of federal funds sold, FHLB interest-bearing deposits and interest-bearing deposits in other banks increased \$79,752 when compared to 2007.

The rate earned on interest-earning assets for the year ended December 31, 2008 decreased 45 basis points to 6.46% from 6.91% for the year ended December 31, 2007. The decrease compares to a 9 basis point decrease in the rate paid for deposits and other interest bearing liabilities at December 31, 2008 over the same period in 2007.

Tax equivalent net interest income for the year ended December 31, 2008 was \$8,736,236, representing a 3.23% increase over the \$8,463,089 recorded for 2007.

A table analyzing changes in net interest income follows:

	Analysis of Changes in Net Interest Income					
	2008 Compared to 2007			2007 Compared to 2006		
	Due to variance in			Due to variance in		
	Total	Rate	Volume	Total	Rate	Volume
Federal funds sold	\$ (113,849)	\$ (141,497)	\$ 27,648	\$ 62,315	\$ 15,614	\$ 46,701
FHLB interest bearing deposits	(56,736)	(22,809)	(33,927)	(41,350)	3,426	(44,776)
Investment certificates of deposit	4,361	4,361	-	(81,042)	(73)	(80,969)
Investment securities:						
U.S. government agency	(548,124)	567	(548,691)	(46,560)	50,527	(97,087)
State and municipal	322,146	111,966	210,180	(124,892)	(20,251)	(104,641)
Other	61,667	(79,668)	141,335	2,213	1,590	623
Loans:						
Commercial	(190,388)	(346,521)	156,133	71,700	14,167	57,533
Overdrafts	-	-	-	-	-	-
Credit Lines	(105,212)	(198,159)	92,947	36,856	1,903	34,953
Real Estate	1,095,094	(308,142)	1,403,236	845,232	222,635	622,597
Personal	<u>21,448</u>	<u>14,264</u>	<u>7,184</u>	<u>55,557</u>	<u>31,161</u>	<u>24,396</u>
Total loans	<u>820,942</u>	<u>(838,558)</u>	<u>1,659,499</u>	<u>1,009,345</u>	<u>269,865</u>	<u>739,480</u>
Total interest revenue	<u>490,407</u>	<u>(965,638)</u>	<u>1,456,045</u>	<u>780,029</u>	<u>320,697</u>	<u>459,332</u>
Interest-bearing liabilities						
NOW deposits	13,471	14,013	(542)	(5,146)	(787)	(4,359)
Savings	334	118	216	6,129	15,498	(9,369)
Money market and personal investment	20,108	(68,484)	88,592	258,345	207,370	50,975
Other time deposits	(281,132)	(429,274)	148,142	1,018,800	568,579	450,221
Other borrowed funds	<u>510,109</u>	<u>(119,413)</u>	<u>629,522</u>	<u>29,329</u>	<u>13,922</u>	<u>15,407</u>
Total interest expense	<u>262,890</u>	<u>(603,040)</u>	<u>865,930</u>	<u>1,307,457</u>	<u>804,583</u>	<u>502,874</u>
Net interest income	<u>\$ 227,517</u>	<u>\$ (362,598)</u>	<u>\$ 590,115</u>	<u>\$ (527,428)</u>	<u>\$ (483,886)</u>	<u>\$ (43,542)</u>

Changes in net interest income due to variances in rate and volume are allocated to the change due to rate.

Tax equivalent income on loans increased \$820,942 to \$12,477,390 for the year ended December 31, 2008 when compared to 2007. \$1,659,499 of the 2008 increase in income was attributable to volume variances offset by an \$838,558 decrease in loan rates. Tax equivalent income on loans for the year ending December 31, 2007 increased \$1,009,345. \$269,988 of the 2007

increase was attributable to rate increases and \$739,357 was attributable to volume variances. The average balance of net loans in 2008 was \$184,371,122, an increase of \$22,876,887 or 14.17% over 2007.

The Bank's net interest margin (its tax equivalent net interest income divided by average earning assets) represents the net yield on earning assets and is managed through loan and deposit pricing and asset/liability strategies. The Bank's net interest margins for the years ended December 31, 2008 and 2007 were 4.27 and 4.62%, respectively. The Bank's net interest spread, which is the difference between the average yield on earning assets and the rate paid for interest bearing liabilities, for the years ended December 31, 2008 and 2007, was 4.22% and 4.58%, respectively. The decrease in the net interest spread for 2008 when compared to 2007 was mainly attributable to rates declining more rapidly on interest-earning assets than on interest-bearing liabilities.

Interest expense for fiscal year 2008 increased \$262,890 when compared to fiscal year 2007. Increased volume of interest bearing deposits and borrowed funds during 2008 accounted for an \$865,930 increase in interest expense over 2007, while a decline in the rates of time deposits decreased interest expense \$603,040. The average rate paid for deposits and borrowed funds in 2008 declined 9 basis points to 2.24% from 2.33% during 2007.

Noninterest Revenue

Noninterest revenue for the year ended December 31, 2008 increased \$92,019 or 5.75% when compared to fiscal year 2007. This increase was attributable to increased service charges in the amount of \$88,855. Other fees and commissions were \$406,451 for the year ended December 31, 2008 compared to \$351,527 for the same period in 2007. This represents an increase of \$54,924. This increase is mainly attributable to a recovery of prior year attorney fees in the amount of \$44,175, as a result of the settlement of a loan previously in a nonaccrual status. The Bank also recognized a gain on the sale of property in Elkton, Maryland during 2007.

The following table presents the principal components of noninterest revenue for the years ended December 31, 2008 and 2007.

NONINTEREST REVENUE	2008	2007
Service charges on deposit accounts	\$1,138,625	\$1,049,770
Earning on bank owned life insurance	146,622	144,513
Gain on sale of real estate held for sale	-	53,869
Other fees and commissions	406,451	351,527
Total noninterest revenue	\$1,691,698	\$1,599,679
Noninterest revenue as a percentage of average total assets	.76%	.78%

Noninterest Expense

Total noninterest expense for fiscal year 2008 increased \$479,139 or 7.03% over fiscal year 2007. The primary contributors to the increase realized in 2008 were salaries and benefits (\$232,522), increased occupancy expense (42,508) increased data processing expense (\$60,380), increased FDIC assessments (\$48,702) and increased miscellaneous operating expenses (\$68,314). There were no other significant line item expenses that caused concern or required special management attention.

The following table presents the principal components of noninterest expenses for the years ended December 31, 2008 and 2007.

NONINTEREST EXPENSES	2008	2007
Salaries and benefits	\$3,707,248	\$3,474,726
Occupancy	584,695	542,187
Furniture and equipment	597,524	667,734
Data processing expense	477,860	417,480
Professional fees	133,003	146,483
Director and committee fees	178,463	186,013
Stationery and supplies	161,052	132,740
Advertising	149,724	185,365
Net losses and write downs of repossessed assets	124,322	-
FDIC Assessment	86,983	37,281
Other operating	1,096,655	1,028,341
Total noninterest expense	\$7,297,529	\$6,818,390
Noninterest expense as a percentage of average total assets	3.26%	3.34%

Income Taxes

Income tax expense for the year ended December 31, 2008 was \$845,610 compared to \$880,519 for December 31, 2007. The effective tax rate on earnings for 2008 was 32.9%, compared to 31.2% for 2007. Further information on the components of income tax expense is provided in Note 12 to the Financial Statements, which are included in the Annual Report to Shareholders for the year ended December 31, 2008 and are incorporated by reference into Item 8 of Part II of this annual report.

FINANCIAL CONDITION

Assets

Total assets at December 31, 2008 increased to \$241,333,603 from \$212,807,749 at December 31, 2007, representing an increase of 13.40%. Average total assets for the year ended December 31, 2008 were 203,803,284, compared to \$204,113,331 for the same period of 2007, an increase of 9.65%. The loan portfolio, which is the primary source of income for the Bank, represented 90.15% of average earning assets for the year ended December 31, 2008, compared to 88.07% for 2007.

Interest-Bearing Deposits with Other Banks and Federal Funds Sold

The Bank invests excess cash balances in interest bearing accounts and federal funds sold to its correspondent banks. These liquid investments are maintained at a level necessary to meet the immediate liquidity needs of the Bank. The average balance of interest-bearing deposits with other banks and federal funds sold decreased \$81,860 to \$5,131,866 for the year ended December 31, 2008, from \$5,213,726 for 2007.

Investment Securities

Investments at December 31, 2008 were \$12,962,582, a decrease of \$1,608,691 or 11.04% over investments at December 31, 2007. Proceeds from the maturities of securities during the period were used to fund new loans. All of the Bank's investment securities are in the held to maturity category, and these securities are stated at cost adjusted for amortization of premiums and accretion of discounts.

The following table sets forth the maturities and weighted average yields of the investment portfolio as of December 31, 2008 and December 31, 2007. As indicated by the table, \$6,349,496 or 43.58% of the investments held at December 31, 2007 mature in one year or less, compared to \$3,740,315 or 20.29% at December 31, 2006.

	DECEMBER 31, 2008		DECEMBER 31, 2007	
	AMOUNT	YIELDS	AMOUNT	YIELDS
U.S. Government Agencies				
One year or less	\$ 2,492,259	4.84%	\$ 4,994,617	3.56%
After one year through five years	7,996,283	3.85%	5,973,306	4.27%
Total U.S. Government Agencies	10,488,542	4.09%	10,967,923	4.53%
Municipals				
One year or less	1,040,594	2.99%	1,354,879	2.27%
After one year through five years	1,433,446	3.09%	2,248,471	3.15%
Total Municipal Securities	2,474,040	3.05%	3,603,350	2.82%
Total Securities	\$14,571,282	3.89%	\$14,571,273	4.11%

Loans

Loans, net of the allowance for loan losses, increased 17.37% during 2008, compared to 7.68% in 2007. The Bank continued to experience strong growth in real estate secured loans during 2008, which increased \$26,941,947 or 19.87%. This growth compares to an increase of \$15,349,701 or 12.76% in 2007. Commercial loans increased \$3,248,087 or 21.11% in 2008, compared to a decrease of \$3,087,724 or 16.71% in 2007. Consumer loans decreased \$450,157 or 2.01% in 2008, compared to a decrease of \$52,826 or .24% in 2007.

The following table sets forth the composition of the Bank's loan portfolio.

	December 31, 2008		December 31, 2007	
	Amount	Percent of total	Amount	Percent of total
Real Estate Loans				
Construction & land development	\$ 10,625,260	5.22%	\$ 9,801,918	5.65%
Secured by farmland	2,655,122	1.30%	2,477,449	1.43%
Residential	60,798,762	29.86%	50,306,937	29.02%
Commercial	88,463,748	43.45%	73,014,641	42.12%
Commercial Loans	18,634,961	9.15%	15,386,874	8.88%
Lease Financing	511,568	.25%	-	-
Personal Loans	21,922,856	10.77%	22,373,013	12.90%
Total Loans	203,612,277	100.00%	173,360,832	100.00%
Net deferred (fees) and costs	(145,949)		(59,838)	
Allowance for loan losses	(1,852,104)		(1,521,691)	
Net Loans	\$201,614,224		\$171,779,303	

The following table sets forth the maturity distribution of the Bank's loan portfolio as of December 31.

	2008	2007
Maturing within one year	\$49,787,677	\$39,671,963
Maturing over one to five years	86,387,113	76,410,519
Maturing over five years	67,437,487	57,278,350
Total	\$203,612,277	\$173,360,832
Variable rate loans included above	\$36,767,365	\$26,531,230

Credit Risk Management

The Bank's loan portfolio is subject to varying degrees of credit risk. Credit risk is alleviated through portfolio diversification, limiting exposure to any single industry or customer, collateral protection and strong underwriting criteria. The following discussion provides information and statistics on the overall quality of the Bank's loan portfolio. Note 1 to the Consolidated Financial Statements describes the accounting policies related to nonperforming loans and charge-offs and describes the methodologies used to develop the allowance for loan losses. Management believes the policies governing nonperforming loans and charge-offs are consistent with regulatory standards. The amount of the allowance for loan losses and the resulting provision are reviewed and approved quarterly by the Board of Directors.

The allowance is increased by provisions for loan losses charged to expense and recoveries of loans previously charged-off. Provisions for loan losses are made to bring the allowance for loan losses within the range of balances that are considered appropriate based upon the allowance methodology and to reflect losses within the loan portfolio as of the balance sheet date.

The adequacy of the allowance for loan losses is determined based upon management's estimate of the inherent risks associated with lending activities, estimated fair value of collateral, past experience and present indicators such as loan delinquency trends, nonaccrual loans and current market conditions. Management believes the allowance is adequate; however, future changes in the composition of the loan portfolio and financial condition of borrowers may result in additions to the allowance. Examination of the portfolio and allowance by the Bank's regulators and consultants engaged by the Bank may result in the need for additional provisions based upon information available at the time of examination.

Risk Elements of Loan Portfolio

	2008	2007
<u>Nonaccrual loans</u>		
Commercial	\$ -	\$ 98,917
Real estate	936,764	-
Consumer	3,160	33,805
	<u>939,924</u>	<u>132,722</u>
<u>Past due 90 days</u>		
Commercial	-	-
Real estate	-	-
Consumer	-	8,573
	<u>-</u>	<u>8,573</u>
<u>Troubled debt restructured loans</u>		
Commercial	\$ -	\$ -
Real estate	3,187,083	-
Consumer	-	-
	<u>3,187,083</u>	<u>-</u>
Total nonperforming loans	<u>\$ 4,127,007</u>	<u>\$ 141,295</u>
Interest not accrued on nonaccrual loans	<u>\$ 27,022</u>	<u>\$ 35,829</u>

The troubled debt restructured loans are to one borrower and secured by real estate. No loss of interest or principal is expected. The weighted average rate on these loans was 7.33%. The restructured rate will be 6% for one year at which time it is anticipated that the loans will revert to the original rates. The variance in the interest rate between 7.33% and 6% for the one year period has been forgiven. When the loans were restructured, accrued interest in the amount of \$89,526 was written off. The Bank hopes to collect this interest at a later date. The Bank obtained additional collateral when the loans were renegotiated.

The following table provides information regarding the "Allocation of the Allowance for Loan Losses" as of December 31, 2008 and 2007.

Allocation of Allowance for Loan Losses

	2008	PERCENTAGE	2007	PERCENTAGE
Real Estate				
Construction, land development and other land loans	\$ 53,126	2.87%	\$ 58,812	3.86%
Secured by farmland	6,638	.36%	7,432	.49%
Residential	468,652	25.30%	310,407	20.40%
Commercial	905,052	48.87%	734,034	48.24%
Commercial Loans	332,429	17.95%	213,320	14.02%
Mobile Home Loans	58,282	3.15%	53,128	3.49%
Personal Loans	15,612	.84%	25,979	1.71%
Commitments	12,313	.66%	10,927	.72%
Unallocated	-	-	107,652	7.07%
	\$1,852,104	100.00%	\$1,521,691	100.00%

Allowance for Loan Losses

	2008	2007
Balance at beginning of year	\$1,521,691	\$1,560,203
Loan losses:		
Commercial	-	243,394
Consumer	52,488	35,934
Total loan losses	52,488	279,328
Recoveries on loans previously charged off		
Commercial	32,000	3,000
Consumer	30,909	27,316
Total loan recoveries	62,909	30,316
Net loan losses	(10,421)	249,012
Provision for loan losses charged to expense	319,992	210,500
Balance at end of year	\$1,852,104	\$1,521,691
Allowance for loan losses to loans outstanding at end of year	.91%	.88%
Net loan losses to average loans	-	.02%

Deposits

Total deposits at December 31, 2008 were \$183,910,460, an increase of 5.25% over total deposits at December 31, 2007. The Bank primarily utilizes core deposits to fund its earning assets. For the years ended December 31, 2008 and 2007, average deposits provided funding for approximately 87.17% and 95.53% of average earning assets, respectively. Average deposits increased 1.77% in 2008 compared to a 2.96% increase in 2007. The most significant growth in 2008 occurred in the average balance of money market accounts, which increased \$4,298,089 or 36.48%, compared to an increase of \$4,078,000 or 18.97% in 2007. The average balance of time deposits increased 4.46% or \$3,126,485 in 2008 compared to an increase of \$11,456,000 or 19.53% in 2007. The average balance of other interest-bearing deposits declined \$310,664 or .07% during 2008, compared to a decrease of \$4,641,678 or 9.91% during 2007. The average balance of noninterest-bearing demand deposits decreased \$4,010,016 or 10.75% in 2008, compared to a decrease of \$5,858,279 or 13.58% in 2007.

The following table sets forth the deposits of the Bank by category as of December 31.

	2008		2007	
	AMOUNT	PERCENT	AMOUNT	PERCENT
Demand deposits	\$ 31,151,164	16.94%	\$ 33,957,804	19.43%
Money market and NOW	53,410,248	29.04%	48,024,214	27.48%
Savings	21,354,707	11.61%	21,457,676	12.28%
Certificates of deposit	77,994,341	42.41%	71,304,675	40.81%
Total deposits	\$183,910,460	100.00%	\$174,744,369	100.00%

The maturity distribution of the Bank's time deposits at December 31 is shown in the following table.

Certificates of Deposits	Maturing within Twelve months	Maturing over one Year to three years	Maturing over three To five years	Total
2008	\$58,689,460	\$11,465,611	\$7,839,270	\$77,994,341
2007	53,807,706	12,883,549	4,613,420	71,304,675

Certificates of deposit greater than \$100,000, included in the table above, totaled \$31,998,651 at December 31, 2008, compared to \$29,998,446 at December 31, 2007.

Capital Management

The Bank continues to maintain capital at levels in excess of the minimum risk based capital requirements adopted by the federal banking agencies. Total stockholders' equity was \$23,692,638 at December 31, 2008, which was 2.39% or \$552,811 higher than the previous year. The components of this increase were net income of \$1,725,592 and stock options exercised and dividends reinvested in the amount of \$624,806 plus stock compensation expense totaling \$37,064, reduced by cash dividends of \$884,168 and \$950,483 for stock repurchases.

The following table compares the Bank's capital ratios as of December 31 to the regulatory requirements.

(Dollars in thousands)	2008	2007	Minimum Regulatory Requirements	Well Capitalized Requirements
Tier 1 capital	\$ 23,692	\$ 23,140		
Tier 2 capital	1,852	1,522		
Total Capital	\$ 25,544	\$ 24,662		
Risk-adjusted assets	209,480	177,872		
Tier 1 risk based capital ratio	11.3%	13.0%	4.0%	6%
Total risk based capital ratio	12.2%	13.9%	8.0%	10%
Tier 1 Capital	\$ 23,692	\$ 23,140		
Adjusted average assets	237,874	208,609		
Leverage capital ratio	10.0%	11.1%	4.0%	5%

Market Risk Management

The Bank's principal market risk is the fluctuation of interest rates and the impact such fluctuation would have on the Bank's lending, investing and deposit activities. The Bank's profitability is dependent on the Bank's net interest income, which can be significantly and adversely impacted by rising interest rate fluctuations to the extent that interest-bearing liabilities mature or reprice at different intervals than do interest-earning assets. The Bank's Asset/Liability Committee oversees the management of interest rate risk. The primary purpose of this committee is to manage the exposure of net interest margins to unexpected changes due to interest rate fluctuations. These efforts affect the loan pricing and deposit rate policies of the Bank as well as the asset mix, volume guidelines, liquidity and capital planning.

The following table summarizes the Bank's interest sensitivity at December 31, 2007. Loans, federal funds sold, time deposits and short-term borrowings are classified based upon contractual maturities if fixed-rate or earliest repricing date if variable rate. Investment securities are classified by contractual maturities or, if they have call provisions, by the most likely repricing date. The rate-sensitive position, or gap, is the difference in the volume of rate sensitive assets and liabilities at a given time interval. The general objective of gap management is to actively manage rate-sensitive assets and liabilities to reduce the impact of interest rate fluctuations on the net interest margin. The Bank's repricing gap is liability sensitive during the next 12 months; therefore, if interest rates increase, the net interest margin may decrease. Because all interest rates and yields do not adjust at the same velocity, the gap is only a general indicator of rate sensitivity.

- The "repricing gap" section analyzes the interest rate sensitivity of the Bank.
- The "maturity gap" section analyzes the liquidity position of the Bank.
- The "repricing gap" and the "maturity gap" are presented in the following table "Summary Gap"

Summary Gap Report – December 31, 2008

	<= 3 MONTHS	>3 – 12 MONTHS	>1 YEAR <=5 YEARS	AFTER 5 YEARS	TOTAL
Maturity Gap:					
Total Assets Maturing	\$ 10,630,808	\$ 19,972,858	\$ 52,110,155	\$158,619,782	\$241,333,603
Total Liabilities Maturing	24,096,866	44,068,043	42,590,596	130,578,098	241,333,603
Maturity Gap	(13,466,058)	(24,095,185)	9,519,559	28,041,684	-
Cumulative Maturity Gap	(13,466,058)	(37,561,243)	(28,041,684)	-	-
Cumulative Gap to Total Assets	(5.58)%	(15.56)%	(11.62)%	-	-
Repricing Gap:					
Total Assets Repricing	\$ 34,530,492	\$ 13,848,077	\$ 51,591,355	\$141,363,679	\$241,333,603
Total Liabilities Repricing	95,876,905	44,068,043	42,590,596	58,798,059	241,333,603
Repricing Gap	(61,346,413)	(30,219,966)	9,000,759	82,565,620	-
Cumulative Repricing Gap	(61,346,413)	(91,566,379)	(82,565,620)	-	-
Cumulative Gap to Total Assets	(25.42)%	(37.94)%	(34.21)%	-	-

In addition to gap analysis, the Bank utilizes simulation models to quantify the effect a hypothetical immediate plus or minus 300 basis point change in rates would have on net interest income and fair value of capital. The model takes into consideration the

effect of call features of investments as well as prepayments of loans. When actual changes in interest rates occur, the changes in interest earning assets and interest bearing liabilities may differ from the assumptions used in the model.

As of December 31, 2008, the sensitivity profile was as follows:

	+300 Basis Points	+200 Basis Points	+100 Basis Points	-100 Basis Points	-200 Basis Points	-300 Basis Points	Policy Limit
% Change in Net Interest Income	3.30%	3.72%	1.86%	(1.10)%	(.86%)	(.98)%	
ROA YTD	.806%	.816%	.774%	.707%	.712%	.709%	+ .50%
% Change in Fair Value of Capital	.34% **	3.24% **	6.26%	12.62%	16.04%	19.66%	+5.00%

**The fair value of capital is below the Bank's policy guideline of 5% when interest rates were shocked +200 and +300 basis points. This variance is due to increased fixed rate loan funding during the year ending 2008.

Liquidity Management; Contractual Obligations and Off-Balance Sheet Transactions

Liquidity describes the ability of the Bank to meet financial obligations that arise during the normal course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of customers and to fund current and planned expenditures. Liquidity is derived through increased customer deposits, maturities in the investment portfolio, loan repayments and income from earning assets. To the extent that deposits are not adequate to fund customer loan demand, liquidity needs can be met in the short-term funds markets. The Bank has arrangements with correspondent banks whereby it has \$5,000,000 available in federal funds lines of credit. The Bank is also a member of the Federal Home Bank of Atlanta, which provides another source of liquidity.

At December 31, 2008, the Bank's net loan to deposit ratio was 109.63%, which is approximately 11.33 percentage points higher than one year ago. Cash and cash equivalents were \$9,375,701 at December 31, 2008 which was a decrease of \$1,977,063 over the same period in 2007.

In addition to deposits, the Bank has various financial obligations, including contractual obligations and commitments that may require future cash payments. In the normal course of business, to meet the financing needs of its customers, the Bank is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit, lines of credit, and standby letters of credit. The Bank's exposure to credit loss in the event of nonperformance by the other party to these financial instruments is represented by the contractual amount of the instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Bank generally requires collateral or other security to support the financial instruments with credit risk. The amount of collateral or other security is determined based on management's credit evaluation of the counterparty. The Bank evaluates each customer's creditworthiness on a case-by-case basis.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit and other commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the letters of credit and commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Further information about these arrangements is provided in Note 5 to the Notes to Financial Statements, which are incorporated by reference into Item 8 of Part II of this annual report.

Management does not believe that any of the foregoing arrangements have or are reasonably likely to have a current or future effect on the Bank's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

The following tables present, as of December 31, 2008, significant fixed and determinable contractual obligations to third parties by payment date.

Payments Due By Period

Contractual Obligations	Total	Less than One Year	1-3 Years	3-5 Years	More than 5 Years
Time Deposits \$100,000 and Over	\$31,998,651	\$24,796,307	\$3,405,321	\$3,797,023	-
FHLB Borrowing	30,142,858	857,142	1,285,716		28,000,000
Annual Rental Commitments Under Non-Cancelable Leases	1,488,288	115,489	224,756	230,350	917,693
Total	\$63,629,797	\$25,768,938	\$4,915,793	\$4,027,373	\$28,917,693

Amount of Commitment-Expiration by Period

Other Commitments	Total	Less than One Year	Greater than One Year
Commitments to Extend Credit	\$36,274,696	\$26,758,934	\$9,515,762
Standby Letter of Credit	1,740,635	1,740,635	-
Total	\$38,015,331	\$28,499,569	\$9,515,762

Management is not aware of any demands, commitments, events or uncertainties that will materially affect the Bank's ability to maintain liquidity at satisfactory levels.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

The information required by this item may be found in Item 7 of this Part II under the caption "Market Risk Management", which is incorporated herein by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information called for by this item is incorporated herein by reference to the Bank's Financial Statements and Notes thereto included in the Annual Report to Shareholders for the year ended December 31, 2007 (attached as Exhibit 13 to this annual report).

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

Item 9A(T). CONTROLS AND PROCEDURES.

The Bank maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Bank's reports filed under the Exchange Act with the FDIC, such as this annual report, is recorded, processed, summarized and reported within the time periods specified in those rules and forms, and that such information is accumulated and communicated to the Bank's management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate, to allow for timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of these disclosure controls as of December 31, 2007 was carried out under the supervision and with the participation of the Bank's management, including the CEO and the CFO. Based on that evaluation, the Bank's management, including the CEO and the CFO, has concluded that the Bank's disclosure controls and procedures are, in fact, effective at the reasonable assurance level.

During the fourth quarter of 2008, there was no change in the Bank's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.

As required by Section 404 of the Sarbanes-Oxley Act of 2002, management has performed an evaluation and testing of the Bank's internal control over financial reporting as of December 31, 2008. Management's report on the Bank's internal control over financial reporting is included on the following page.

Management's Report on Internal Control Over Financial Reporting

Management of Harford Bank (the "Bank") is responsible for the preparation, integrity and fair presentation of the financial statements included in this annual report. The Bank's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and, as such, include some amounts that are based on the best estimates and judgments of management.

The Bank's management is responsible for establishing and maintaining adequate internal control over financial reporting. This internal control system is designed to provide reasonable assurance to management and the Board of Directors regarding the reliability of the Bank's financial reporting and the preparation and presentation of financial statements for external reporting purposes in conformity with accounting principles generally accepted in the United States of America, as well as to safeguard assets from unauthorized use or disposition. The system of internal control over financial reporting is evaluated for effectiveness by management and tested for reliability through a program of internal audit with actions taken to correct potential deficiencies as they are identified. Because of inherent limitations in any internal control system, no matter how well designed, misstatement due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2008 based upon criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on this assessment and on the foregoing criteria, management has concluded that, as of December 31, 2008 the Bank's internal control over financial reporting is effective.

February 24, 2009

/s/ Charles H. Jacobs, Jr.
President and Chief Executive Officer

/s/ Charlotte A. Mock
Executive Vice President and Chief Financial Officer

Item 9B. OTHER INFORMATION.

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The Bank has adopted a code of ethics that applies to all of its directors and executive officers, including its principal executive officer and principal financial officer. The Bank will provide a copy of the Code of Ethics free of charge upon written request to Harford Bank, 8 West Bel Air Avenue, P.O. Box 640, Aberdeen, Maryland 21001, Attention: Charlotte Mock.

All other information required by this item is incorporated herein by reference to the Bank's definitive proxy statement to be filed with the FDIC pursuant to Regulation 14A for the 2008 Annual Meeting of Shareholders.

Item 11. EXECUTIVE COMPENSATION.

The information required by this item is incorporated herein by reference to the Bank's definitive proxy statement to be filed with the FDIC pursuant to Regulation 14A for the 2009 Annual Meeting of Shareholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information provided under the caption "Equity Compensation Plan Information" in Item 5 of Part II of this annual report is incorporated herein by reference. All other information required by this item is incorporated herein by reference to the Bank's definitive proxy statement to be filed with the FDIC pursuant to Regulation 14A for the 2009 Annual Meeting of Shareholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this item is incorporated herein by reference to the Bank's definitive proxy statement to be filed with the FDIC pursuant to Regulation 14A for the 2009 Annual Meeting of Shareholders.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this item is incorporated herein by reference to the Bank's definitive proxy statement to be filed with the FDIC pursuant to Regulation 14A for the 2009 Annual Meeting of Shareholders.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a)(1), (2) and (c). Financial statements and schedules:

Report of Independent Registered Public Accounting Firm

Balance Sheets at December 31, 2008, 2007 and 2006

Statements of Income -- Years Ended December 31, 2008, 2007 and 2006

Statements of Stockholders' Equity -- Years Ended December 31, 2008, 2007 and 2006

Statements of Cash Flows -- Years Ended December 31, 2008, 2007 and 2006

Notes to Financial Statements for the years ended December 31, 2008, 2007 and 2006

(a)(3) and (b). Exhibits required to be filed by Item 601 of Regulation S-K:

The list of Exhibits that immediately follows the Signatures to this annual report is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Harford Bank

By: /s/ Charles H. Jacobs, Jr.
President

Date: March 6, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 6, 2008.

/s/ Charles H. Jacobs, Jr.
Director and President

/s/ Charlotte A. Mock
Executive Vice President/CFO

/s/ John S. Karas
Chairman of the Board of Directors

/s/ Tony L. Bennett, Director

/s/ Carolyn W. Evans, Director

/s/ Richard F. Foard, Jr., Director

/s/ Henry S. Holloway, Director

/s/ Timothy N. Hopkins, Director

/s/ Franklin J. Hajek, Director

/s/ Stephen K. Nolan, Director

Joan A. Ryder, Director

Talmadge E. Simons, Director

/s/ C. Wayne Tapscott, Director

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Bank's Annual Report on Form 10-KSB for the year ended December 31, 2001).
3.2	Amended and Restated By-Laws (incorporated by reference to Exhibit 3.2 of the Bank's Current Report on Form 8-K filed with the FDIC on February 21, 2006).
10.1	Harford National Bank Incentive Stock Option Plan (incorporated by reference to Harford National Bank's registration statement on Form S-8 filed with the Office of the Comptroller of the Currency on November 4, 1997).
10.2	Harford National Bank Director Stock Purchase Plan (incorporated by reference to Harford National Bank's registration statement on Form S-8 filed with the Office of the Comptroller of the Currency on November 4, 1997).
10.3	Harford National Bank Employee Stock Purchase Plan (incorporated by reference to Harford National Bank's registration statement on Form S-8 filed with the Office of the Comptroller of the Currency on November 4, 1997).
10.4	Harford Bank 2004 Director Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.4 of the Bank's Annual Report on Form 10-KSB for the year ended December 31, 2004).
10.5	Harford Bank Directors' Deferral Plan (incorporated by reference to Exhibit 10.1 of the Bank's Current Report on Form 8-K filed with the FDIC on August 8, 2006).
10.6	Rabbi Trust for the Directors' Deferral Plan (incorporated by reference to Exhibit 10.2 of the Bank's Current Report on Form 8-K filed with the FDIC on August 8, 2006).
10.7	Form of Director Joint Beneficiary Designation Agreement dated July 20, 2006 (incorporated by reference to Exhibit 10.3 of the Bank's Current Report on Form 8-K filed with the FDIC on August 8, 2006).
10.8	Executive Joint Beneficiary Designation Agreement dated July 20, 2006 for Charles H. Jacobs, Jr. (incorporated by reference to Exhibit 10.4 of the Bank's Current Report on Form 8-K filed with the FDIC on August 8, 2006).
10.9	Form of Executive Joint Beneficiary Designation Agreement dated July 20, 2006, as amended, for Charlotte A. Mock and Donald H. Young (incorporated by reference to Exhibit 10.5 of the Bank's Current Report on Form 8-K filed with the FDIC on August 8, 2006).
10.10	Form of Executive Joint Beneficiary Designation Agreement dated July 20, 2006 for Ronald Walker, Sandra Osborn, and Michael Tomaszewski (incorporated by reference to Exhibit 10.6 of the Bank's Current Report on Form 8-K filed with the FDIC on August 8, 2006).
10.11	Amended and Restated Supplemental Executive Retirement Plan Agreement for Charles H. Jacobs, Jr. (incorporated by reference to Exhibit 10.1 of the Bank's Current Report on Form 8-K filed with the FDIC on January 7, 2008).
10.12	Amended and Restated Supplemental Executive Retirement Plan Agreement for Charlotte A. Mock (incorporated by reference to Exhibit 10.2 of the Bank's Current Report on Form 8-K filed with the FDIC on January 7, 2008).
10.13	Amended and Restated Supplemental Executive Retirement Plan Agreement for Donald H. Young (incorporated by reference to Exhibit 10.3 of the Bank's Current Report on Form 8-K filed with the FDIC on January 7, 2008).
10.14	Amended and Restated Supplemental Executive Retirement Plan Agreement for Ronald Walker (filed herewith).

- 10.15 Amended and Restated Supplemental Executive Retirement Plan Agreement for Sandra Osborn (filed herewith).
- 10.16 Amended and Restated Supplemental Executive Retirement Plan Agreement for Michael Tomaszewski (filed herewith).
- 10.17 Harford Bank Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.7 of the Bank's Current Report on Form 8-K files with the FDIC on August 8, 2006).
- 11 Statement regarding the Computation of Per Share Earnings (incorporated herein by reference to the Bank's Annual Report to Shareholders for the year ended December 31, 2007, filed herewith as Exhibit 13).
- 13 Annual Report to Shareholders for the year ended December 31, 2007 (filed herewith).
- 31.1 Certifications of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certifications of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification of the Periodic Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
- 99.1 Harford National Bank Dividend Reinvestment Plan (incorporated herein by reference to Harford National Bank's registration statement on Form S-3 filed with the Office of the Comptroller of the Currency on January 25, 1999).

Exhibit 10.15

**Certifications of the President
Pursuant to Securities Exchange Act Rules 13a-1 and 15d-14
As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Charles H. Jacobs, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Harford Bank;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; and
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2008

/s/ Charles H. Jacobs, Jr.
President and Chief Executive Officer

**Certifications of the Chief Financial Officer
Pursuant to Securities Exchange Act Rules 13a-1 and 15d-14
As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Charlotte A. Mock, certify that:

1. I have reviewed this annual report on Form 10-K of Harford Bank;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; and
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2008

/s/ Charlotte A. Mock
Executive Vice President and Chief Financial Officer

**Certification of Periodic Report
Pursuant to 18 U.S.C. Section 1350
As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to, and for purposes only of, 18 U.S.C. § 1350, each of the undersigned hereby certifies that (i) the Annual Report of Harford Bank on Form 10-K for the year ended December 31, 2007 filed with the Federal Deposit Insurance Corporation (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Harford Bank.

Date: March 6, 2008

/s/ Charles H. Jacobs, Jr.
President and Chief Executive Officer

Date: March 6, 2008

/s/ Charlotte A. Mock
Executive Vice President and Chief Financial Officer