

Harford Bank at a Glance

2010 Asset size	\$276,693,766
2010 Deposits	\$221,057,606
2010 Consumer and Residential Loans Outstanding	\$56,924,966
2010 Commercial Loans Outstanding	\$157,744,666
2010 Grants/charitable contributions	94 Different Organizations
2010 Taxes paid	\$1,023,284
2010 Cash and Stock Dividends paid	\$1,278,415
2010 Number of employees	67
2010 Number of employees and directors participating in civic groups, leadership positions and other volunteer efforts	75
2010 Volunteer hours in our communities	5,000 plus
Number of branches	8
Number of ATMs	8 + 10,000 ATMS surcharge free worldwide

The Banking Industry: A Vital Component of the U.S. Economy

No country can succeed economically without a healthy, sound, reliable and accessible banking system. With over 91,000 bank offices and branches, and over 400,000 ATMs, bank customers have convenient access to local financial services. With mobile and Internet banking, customers can reach their banks every minute of every day. Banks' physical presence in small towns and large cities across the country gives them a personal stake in the economic growth and vitality of nearly every community.

Harford Bank has 8 branches, all with ATM's. Harford Bank is part of the Money Pass network system that provides our customers with surcharge free access to over 10,000 ATM's worldwide.

Banks make loans to consumers to finance purchases of homes, education, cars and major appliances. Bank credit helps small businesses get started, grow and prosper. Banks help state and local governments fund a variety of public improvements like schools, roads, water and sewer and public health facilities. In each of these roles, banks support the creation of jobs and the growth of our economy.

How do I know that bank deposits are safe?

Bank deposits are FDIC-insured. No one has ever lost a penny of an FDIC-insured deposit. FDIC insurance now covers \$250,000 per depositor per insured bank. Banks, not taxpayers, pay for this insurance.

What about the increase in bank failures in the last few years?

The most important thing for bank customers is to know their money is safe. In the more than 75-year history of the FDIC, not a penny of insured deposits has ever been lost.

The severe economic recession has caused an increase in bank failures. While the total number of failures increased last year, the total cost of the failures was considerably less than in 2009. And the FDIC has significantly revised downward the expected cost of bank failures in 2011. The banking industry has paid for all the cost of the FDIC bank failures and paid more than three years of premiums in 2010 to assure that the FDIC has the resources to handle future failures.

The vast majority of America's 7,700 banks remain healthy. Ninety-five percent of banks are classified as "well capitalized," which is the highest regulatory designation possible.

How will the Dodd-Frank Act affect Harford Bank?

The Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, represents the most comprehensive financial regulatory reform measures taken since the great depression. The Dodd-Frank Act will dramatically affect all banks, large and small, because it will result in 5000 pages of new regulations. Costs to comply with the new regulations are going up dramatically. The Dodd-Frank Regulatory Reform Bill was named after Senator Christopher J. Dodd and U.S. Representative Barney Frank. The restrictions placed on the types of proprietary trading that financial institutions will be allowed to practice are intended to ensure Harford Bank's future as a safe and sound financial institution. Keep in mind that according to Congress, the primary reason for the passage of Dodd-Frank was to identify and limit risks and threats to the safety of the United States financial system.

Highlights of the Legislation

Consumer Protections with Authority and Independence:

Creates a new independent watchdog, housed at the Federal Reserve, with the authority to ensure American consumers get the clear, accurate information they need to shop for mortgages, credit cards, and other financial products, and protect them from hidden fees, abusive terms, and deceptive practices. This independent entity is known as the ***Consumer Financial Protection Bureau***.

STRONG CONSUMER FINANCIAL PROTECTION WATCHDOG

The Consumer Financial Protection Bureau

Independent Head: Led by an independent director appointed by the President and confirmed by the Senate.

Independent Budget: Dedicated budget paid by the Federal Reserve System.

Independent Rule Writing: Able to autonomously write rules for consumer protections governing all financial institutions – banks and non-banks – offering consumer financial services or products.

Examination and Enforcement: Authority to examine and enforce regulations for banks and credit unions with assets of over \$10 billion and all mortgage-related businesses (lenders, servicers, mortgage brokers, and foreclosure scam operators), payday lenders, and student lenders as well as other non-bank financial companies that are large, such as debt collectors and consumer reporting agencies. Banks and Credit Unions with assets of \$10 billion or less, such as Harford Bank will be examined for consumer complaints by the appropriate regulator. (FDIC)

Is More Regulation a Bad Thing?

We have to strike the right balance. Too much regulation can be as bad as too little regulation. Traditional Community banks, like Harford Bank, that stayed with sound banking practices should not face Wall Street-sized regulations. This increases banks' overhead, resulting in higher costs for everyone and takes resources away from local lending.

What is the difference between Harford Bank and an Investment bank?

Commercial banks and savings institutions are FDIC-insured. They accept deposits from consumers and businesses for checking and savings accounts and then lend it to consumers and businesses for autos, homes, manufacturing equipment, etc.

Investment banks operate differently. Their primary purpose is to facilitate the sale of stocks and bonds. These Wall Street firms act as agents for companies that want to raise capital, often by issuing stock or other securities. And they are not FDIC-insured.

Did Harford Bank take TARP money?

After careful deliberation, our bank's board of directors and senior management chose not to participate in the U.S. Treasury's TARP Capital Purchase Program. At the same time, we understand the intent of the program and are respectful of those institutions that participated. Harford Bank is a well capitalized, strong-performing institution. We are confident that our company is well positioned to work through the challenges of this difficult economic period. Given this and the requirements the program would have imposed on our business, we decided that our participation would not have been in the best interests of our stakeholders.

Bank Innovations Provide Convenience

Bank innovations, including ATMs and online, telephone and mobile banking, have brought tremendous convenience to consumers. Customers now have 24/7 access to their money, which helps them better manage their personal finances.

Harford Bank has 8 branches; all with ATM's and is part of the Money Pass network system that provides our customers with surcharge free access to over 10,000 ATM's worldwide. Harford Bank also offers on-line and telephone banking.

Banks Keep the Many Parts of the Economy Moving

More than 40 billion checks, valued at almost \$40 trillion, are processed every year. Additionally, electronic payments are growing fast and now account for over two-thirds of all payments. Debit card usage now exceeds all other forms of noncash payments, representing approximately 35 percent of total noncash payments. It is this confidence that payments will be honored that allows the free and efficient flow of commerce here and abroad.

Most Banks are Small Businesses Themselves and Small Business Lending

The 7,700 banks in the U.S. come in many varieties, including community, regional and money center banks, savings institutions, trust companies, and mutual savings banks. While headlines often portray banking as big, global firms, most banks are small. For example, the median-size bank employs only 37 people. Harford Bank has 80 employees.

Banks are the primary lender to small business. They hold more than \$620 million in small business loans, representing a quarter of all bank business loans. And the banking industry is the largest supplier of credit to farmer and ranchers. The presence of banks in small communities throughout our nation is critical to meeting the unique needs of small businesses. Banks and small business have a shared interest to help the community thrive.

Banks Contribute to U.S. Growth and Help Finance Government Expenditures

The banking industry itself is an important component of the economy, employing more than 2 million people. Banks also pay taxes to support government services, and paid over \$40 billion in federal, state and local income taxes in 2010

Banks Have a Long-Term Focus

Banks cannot be successful without developing and maintaining long-term relationships with customers. There are 2,732 banks – 35 percent of the banking industry – that have been in business for more than a century; 64 percent (4,935) of banks have been in existence for more than half a century. These numbers tell a dramatic story about the staying power of banks and their commitment to the communities they serve.

From the time the first bank was chartered in 1782, the U.S. banking industry has been a significant part of our nation's economy. By safeguarding the country's deposits and providing credit to consumers and businesses, the banking industry has helped finance U.S. economic and industrial development for centuries. Going forward, the industry will

offer an ever-expanding range of services as new technology makes new products possible and enhances the way products are offered.