

Shaping our Future

At **Harford Bank** we take pride in being an independent, locally owned and managed full-service bank built upon the **innovative ideas** of our **dedicated** employees.

Our associates embrace the **mission** to deliver a **superior experience** for our customers, whether online, by phone, or in person. This year's annual report takes a **behind-the-scenes** look at a few of the many **people** committed to **providing the best** for our customers through every phase of their lives.



On behalf of the directors, officers and staff, we are proud to present Harford Bank's 2019 annual report. The Bank earned net income of \$3,292,515 in 2019, compared to \$3,190,058 in 2018, an increase of 3.21%. The increase in net income was a result of increased loan and investment income, non-interest income, well-controlled operating expenses, and a reduction in provision for loan losses.

As of December 31, 2019, our total assets increased by 3.49% to \$377,287,666, compared to \$364,570,664 at prior year end. Return on average assets, a key measure of profitability, declined slightly in 2019 to 0.88%, compared to 0.90% in 2018, as average assets grew at a greater rate than net income. Net loan volume increased slightly over last year, to \$283,679,922. Gross loan production was solid in 2019, but payoff volume increased, due in part to the Bank's unwillingness to compromise on its loan underwriting approach and pricing discipline. The Bank also elected to exit certain selected loan relationships. Year over year, deposits outstanding increased 5.43%. The Bank's stockholders' equity (book value) at year end was \$29.68 per share, compared to \$28.08 in 2018. Return on average stockholders' equity declined slightly in 2019 to 7.94%, compared to 8.28% for 2018, as average stockholders' equity grew at a greater rate than net income. As loans represent the major portion of our earning assets, it is important to emphasize that we have managed our loan losses effectively in recent years, as reflected in the analysis of loans and allowance for loan losses found in the notes to financial statements in the Annual Report on Form 10-K. The allowance for loan losses to total gross loans increased to 1.13% at December 31, 2019, compared to 1.07% at prior year end. The Bank's capital ratios exceed all regulatory requirements. As a result, the Bank continues to earn the highest rating of 5-stars from BauerFinancial, Inc., a firm that analyzes bank performance.

Our continued profitability, driven by the ongoing success of the Bank's core banking activities, allowed us to pay four regular cash dividends for the year totaling \$0.68 per share. This compares to \$0.65 per share for the four regular cash dividends paid in 2018. The last quarterly cash dividend was the 209th consecutive quarterly dividend paid by the Bank.

Management continues to pursue a strategy designed to enhance shareholder value by using earnings to grow capital and to finance growth and encouraging shareholders to participate in the Bank's dividend reinvestment plan (DRIP). When capital is not needed for these purposes, it is returned to the shareholders as dividends.

Harford Bank saw several changes in key management positions in 2019. Kara Macko, Assistant Vice President, was hired to manage our Hickory branch and assist with

Architectural
detail from Harford
Bank's Aberdeen
headquarters.



our business development efforts. Joseph Hoffman, Vice President, now heads our information technology team. Brian Claffee, Senior Vice President, joined us as manager of our retail banking services. Kara, Joe, and Brian are experienced, talented bankers and we are excited by the new perspectives and energy they've brought to our team.

We are pleased to announce that we recently executed a lease on our ninth branch location and our second in Cecil County. Our newest office will be located at 305 Augustine Herman Highway, Elkton, in the Southfield Park Shopping Center. Diajha Jones-Brewington, who will manage this office, has assembled a dynamic team and they are eager to expand our presence. The office is scheduled to open by March 1, 2020.

Chairman Karas and I, the entire Board, and the officers and employees of Harford Bank would like to recognize and thank Charles H. Jacobs, Jr., who stepped down as the Bank's President, a position he'd held for 20 years, as of July 1, 2019, and officially retired from Harford Bank on December 31, 2019. Chuck spent his entire 43-year banking career with Harford Bank and built an enduring culture and legacy. We are pleased that he will remain a member of our Board of Directors. Please see the article on Chuck later in this report.

Looking forward to 2020, our focus is on enhancing profitability and continuing to provide a competitive return to our shareholders, as we continue to plan for and shape our future. Read on to learn more about how we are placing greater emphasis on the importance of delivering a superior customer experience and how we are devoting the necessary resources to help attain that goal. As is demonstrated by our new branch in Cecil County, we will seek expansion opportunities wherever practical, both in our physical and digital presence. As always, we will remain focused on retaining customers, increasing core deposits, growing quality loan balances, and expanding capital. Achieving this growth will allow us to continue as an independent, locally owned and managed full-service bank. And, we will always work to place the highest importance on supporting the markets we serve through our volunteer and philanthropic efforts.

We would not have achieved our ongoing success without the commitment and dedication of our talented and devoted directors, officers and staff. On behalf of all of us at Harford Bank, we thank you for your continued trust and support.



MICHAEL F. ALLEN
PRESIDENT



JOHN S. KARAS
CHAIRMAN



The View from the Field

Our dedicated team of employees has been developing new approaches to support future growth throughout the organization. We sat down with [Lorrie Schenning](#), Chief Lending Officer, and [Brian Claffee](#), Manager of Retail Banking Services, as well as other members of our team to talk about how we're shaping the future of Harford Bank.



*“As a community bank,
our primary focus is on
providing an exceptional
customer experience. We
want to get to know our
customers and serve them
in a way nobody else has.”*

—LORRIE SCHENNING

SVP Chief Lending Officer

Lorrie Schenning
is the Chief Lending
Officer at Harford Bank
and she is responsible
for commercial and
business banking.

For decades, Harford Bank has been a prominent community bank in the northeastern Maryland region. What does the future look like for the bank?

Lorrie: We intend to expand our presence within our present market, and beyond. There is definitely a need and a desire for community banking in our area, and we are working on ways to provide a superior customer experience across all touch points. I know a lot of banks *say* they provide great service, but we are actually implementing new ways to deliver on that promise. We want to get to know our customers better and provide them with the services that best suit their needs through all stages of life. In markets where we don't have a physical branch we are looking at how we can expand our presence by opening loan production offices or new branches like we will be doing in our second Cecil County location.

Brian: I look at it as blending the past—the history and the strength of our community—with new ideas around how we can deepen our customer relationships. How can we better support our current customers? How can we help new customers? We're looking to turn from a transactional center to an advice-driven center in our community. For our existing customer base, that means building and maintaining meaningful relationships so that we can provide customers with the best advice at the right time, and our folks understand that.

How are the different areas of Harford Bank working together to better serve your customers and prospects?

Lorrie: We're focusing on improving our partnerships both internally and externally. We're exploring ways to work more collaboratively across teams within our organization so that we can better serve the needs of customers across all aspects of their banking experiences. For example, I may be focusing on their business banking needs, but I can partner with a branch manager to service their deposit needs or with Michael Sprouse, who leads loan administration, to service their mortgage needs. This approach helps us to better serve our customers as they have a true team of experts working to help them.

In terms of external partnerships, Harford Bank has always been very active in our community and we're part of a number of civic organizations. The Bank doesn't require employees to volunteer—we do it because we live and work in the community and we want to better our community.

Brian: We've created strong partnerships between our retail banking team, consumer lending team and business development team to give us the ability to work both on our own or across teams depending on the customer's specific needs. We've put in place some additional technology and processes to improve how we communicate with customers across these different departments so that we can stay in touch and offer our customers what they need when they need it.

“Even though we have over 80 people working in eight locations with a ninth on the way, it feels like we’re all working within the same four walls. We are all rowing our oars in the same direction at the same speed—there’s no stopping us.”

—BRIAN CLAFFEE

SVP Manager Retail Banking Services

Brian Claffee manages the retail banking activities at all of Harford Bank's locations.



“While the people in our departments have different responsibilities, everyone is motivated by serving the customer. Our goal is to work together to focus on those customers and help them with whatever needs they may have.”

—MICHAEL SPROUSE
SVP Loan Administration



With 29 years of experience in the banking industry, Mike Sprouse has served as Harford Bank's VP of Loan Administration for 14 years and was recently promoted to SVP Loan Administration in 2019.

What do you think the biggest changes will be for customers and employees over the next few years?

Lorrie: In order to create a superior customer experience, we're looking at each interaction that we have with our customers and exploring ways that we can improve them. How do we make customers walk out of here and have the wow factor? I think our employees have always understood what quality service is but we're trying constantly to improve by empowering and training our employees to better assist customers across all platforms. A lot of this is human nature, but bringing it to the front of mind is important, so we have developed a set of service standards to help guide all of our employees.

Brian: The biggest changes for employees will be to think a little differently about how we deliver services to our customers. It's not just about being nice and providing answers when asked a question. It's really about having deeper conversations with our customers about their overall financial wellness. If a customer has kids or grandkids and is trying to save money for college or is focused on saving for retirement—what does that savings plan look like? Is their current savings plan the best option for them? Having those deeper conversations is really what this is about.



Danielle Carroll is Harford Bank's Business Banker serving the Cecil County Market. Born and raised in Elkton, she began her career in community banking 18 years ago as a bank teller. She is an active member and volunteer in her community where she and her husband raise their 5 year old son.



“Our branches are the core of relationship banking in our communities. As in any relationship, a strong foundation of trust is key. Through trust, we help build a better tomorrow for our customers, communities and co-workers.”

—JORGE MELENDEZ
Elkton Branch Manager

Harford Bank has been around for the last 55+ years. How do you balance the traditional strengths of Harford Bank with the need to adapt to a changing banking environment?

Lorrie: It's really about balancing advances in technology with a personalized service experience, and understanding that each one of our markets may value these elements in different ways. We have a certain segment of customers where technology is number one—they want to check their bank statement online or submit checks in our mobile app. At the same time, we have a segment that may need a little more guidance on something like a car loan or mortgage, and for them, picking up the phone or walking in to talk to an expert in person is something they really value. So for us, it's providing all of the services that our customers value at a superior quality.

Brian: Local community banks provide a lot of the services that big banks don't want to do anymore—it's that high touch customer interaction that we absolutely

thrive on at Harford Bank and that separates us from a lot of other banking institutions. We've been a very stable community bank for a number of decades, but in order to continue to grow and to remain independent, we need to continue to differentiate ourselves from other institutions. That means implementing sales and service standards, training our staff, and hiring some new folks, too. It's going to be incumbent upon our senior team members to ensure that the pace of change doesn't leave anybody behind. We want to make sure that all of our team members are on the same page. We're also looking to hire business development officers in key areas like consumer lending and business banking to help advise customers and deepen those relationships that we have locally.

By and large, our bread and butter is still the customer base in our local community. Our board of directors and senior leaders are embedded in the community and we really are out and about and telling our story.

“As community bankers, our strength lies in our passion to help others. We work to build genuine connections with our customers so that we can better serve their needs throughout the course of their lives.”

—MARY ANN BOGARTY
VP Business Development

With over 28 years of experience in the banking industry, Mary Ann Bogarty is responsible for nurturing and developing relationships with her clients, co-workers and community partners.

Scott Elliott has been working in banking for 30 years. For the last 23, he has been working in Harford County in commercial lending and as a business development officer. He takes pride in his civic engagement within the Harford community.



“We build relationships with our customers directly and provide them the services they need when they need them most.”

—SCOTT ELLIOTT
VP Business Development

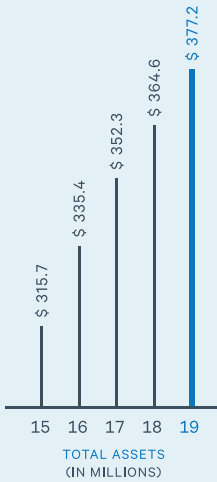
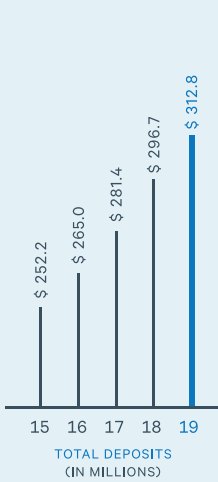
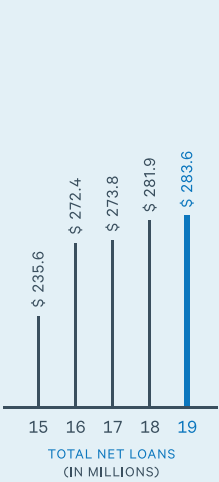
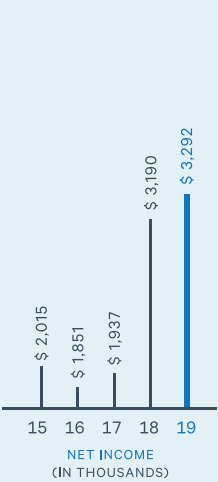
What is Harford Bank's greatest strength?

Lorrie: Without a doubt, it's our people. Our employees have years of experience and a level of knowledge and expertise that is second to none. They're all committed to providing exceptional customer service and to making Harford Bank the best bank in the area that we serve. I would say that we have the best team around.

Brian: I agree. Our biggest strength is really our people and the strong relationships we have with the community that have been built over the last 55 years. Our employees come from diverse backgrounds within the banking world and their unique ideas and perspectives will help us create a better banking experience for our customers and greater community in the future. Our retired president, Chuck Jacobs, set the stage for our strong community connections by making friends with everybody from the state legislature to the Maryland Bankers Association. He also fostered great relationships with local communities like the cities of Aberdeen and Havre de Grace. I know Mike Allen, our new president, looks to continue these relationships and develop new ones with the ongoing support of the board of directors and senior management.

FINANCIAL HIGHLIGHTS

DECEMBER 31,	2019	2018	% CHANGE 2019 OVER 2018
BALANCE SHEET			
TOTAL ASSETS	\$ 377,287,666	\$ 364,570,664	3.49%
AVERAGE TOTAL ASSETS	372,386,601	356,285,116	4.52%
TOTAL DEPOSITS	312,840,936	296,740,460	5.43%
TOTAL LOANS (NET)	283,679,923	281,951,036	0.61%
INVESTMENT SECURITIES	42,077,275	34,579,475	21.68%
STOCKHOLDERS' EQUITY	42,528,150	39,597,479	7.40%
AVERAGE STOCKHOLDERS' EQUITY	41,469,472	38,543,803	7.59%
INCOME STATEMENT			
NET INTEREST INCOME	\$ 13,697,739	\$ 13,358,831	2.54%
NONINTEREST REVENUE	1,433,702	1,289,082	11.22%
NONINTEREST EXPENSE	10,541,488	10,107,498	4.29%
NET INCOME	3,292,515	3,190,058	3.21%
PER SHARE DATA			
BASIC NET INCOME PER SHARE	\$ 2.32	\$ 2.27	2.20%
CASH DIVIDENDS DECLARED	0.51	0.66	-22.73%
STOCKHOLDERS' EQUITY (BOOK VALUE)	29.68	28.08	5.70%
KEY RATIOS			
RETURN ON AVERAGE ASSETS	0.88%	0.90%	
RETURN ON AVERAGE EQUITY	7.94%	8.28%	
NET LOANS TO TOTAL ASSETS	75.19%	77.34%	
STOCKHOLDERS' EQUITY TO TOTAL ASSETS	11.27%	10.86%	
ALLOWANCE FOR LOAN LOSSES TO TOTAL GROSS LOANS	1.13%	1.07%	
NET LOANS TO DEPOSITS	90.68%	95.02%	



“We thrive as a community bank when we help our communities thrive. I truly believe that community is our strength.”

—CHARLES H. JACOBS, JR.
Retired President

Charles H. “Chuck” Jacobs, Jr., joined Harford Bank as a teller in 1976 after graduating from the University of Maryland. At that time, the Bank had \$8.5 million in assets and two branches. After years of dedicated service, in October of 1999, Chuck was named President of the Bank. “They gave me a chance, and I was in the right spot at the right time,” said Jacobs about his promotion.

Chuck stepped down as President on July 1, 2019 and retired from the Harford Bank as of December 31, 2019. During his 43 years with the Bank, nearly 20 of those years as President, the Bank grew to \$377 million in assets and eight branches, with a ninth ready to open. He led Harford Bank through the recession of 2001 and the Great Recession of 2008-2009, always keeping the Bank profitable and never laying anyone off for economic reasons.

Perhaps more impressively, Chuck created a culture of safe and sound banking practices that continues to allow Harford Bank to remain independent. This is important to him, not just because it maximizes stockholder value, but because it allows the bank to continue to be a good corporate citizen. Supporting the communities we serve through philanthropy and volunteerism has always been one of his highest priorities. As Chuck often says, “We thrive as a community bank when we help our communities thrive. I truly believe that community is our strength.”

We are grateful that Chuck will continue to serve on our Board of Directors. All of us at Harford Bank wish to extend Chuck our sincere thanks for his years of leadership and guidance, and we look forward to our continued collaboration.



DIRECTORS

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Chairman of the Board
Harford Bank
Attorney-at-Law
Partner, Karas & Bradford
Principal in B. Michael & Sons, Inc.
JAABB Karas Family, LLC
Two Boats, LLC

MICHAEL F. ALLEN
President
Harford Bank

TONY L. BENNETT, CPCU, CIC
Managing Partner
Famous & Spang Associates
350 Granary, LLC

CAROLYN WILSON EVANS
Attorney-at-Law
Law Offices of Anthony J. DiPaula, P.A.

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Managing Member
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121 HMS Properties, LLC

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Chief Executive Officer
SURVICE Engineering Company

STEPHANIE NOVAK HAU
Chief Executive Officer/President
Chesapeake Environmental
Management, Inc.

LAURA L. HENNINGER
Attorney-at-Law
Certified Public Accountant
Partner, Henninger & Henninger, LLC

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President, The Mill of Bel Air

TIMOTHY N. HOPKINS
Broker/Co-owner
Streett Hopkins Real Estate, LLC

CHARLES H. JACOBS, JR.
Senior Advisor
Harford Bank

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Managing Member
The Kelly Group

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Vice President
EN Engineering, LLC

WAYNE TAPSCOTT
Partner
Paidon Products, Inc.
WCT & Sons, LLC

DIRECTORS EMERITI

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Certified Public Accountant
President
Frank Hajek & Associates, PA

JOAN A. RYDER
Broker/Owner
Joan Ryder & Associates
Real Estate, Inc.

TALMADGE E. SIMONS
Retired Chief Executive Officer
T.C. Simons, Inc.

DONALD H. YOUNG
Retired Senior Vice President
Harford Bank

EXECUTIVE OFFICERS

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President

NEIL L. CHRIST, CPA
Senior Vice President
Chief Financial Officer

LORRIE A. SCHENNING
Senior Vice President
Chief Lending Officer

OFFICERS

BRIAN D. CLAFFEE
Senior Vice President
Manager Retail Banking Services

SANDRA M. OSBORN
Senior Vice President
Operations

MICHAEL J. SPROUSE
Senior Vice President
Loan Administration

MARY ANN BOGARTY
Vice President
Business Development

M. SCOTT ELLIOTT
Vice President
Business Development

ALISON H. FAIR
Vice President
Senior Credit Officer

JOSEPH S. HOFFMAN
Vice President
Information Technology Officer

CALVIN M. TULL
Vice President
Human Resources

WENDY M. WELLS
Vice President
Branch Operations Manager

ASSISTANT VICE PRESIDENTS/ MANAGERS

TRACI L. BALLARD
Assistant Vice President
Senior Financial Analyst

TAMARRA M. BUCKLEY
Assistant Vice President
Loan Operations Manager

DANIELLE M. CARROLL
Assistant Vice President
Business Banker – Elkton

R. REID EDWARDS
Assistant Vice President
Senior Credit Analyst

M. SUE EVANS
Assistant Vice President
Manager – Aberdeen Branch

KARA E. MACKO
Assistant Vice President
Manager – Hickory Branch

GAIL M. O'KEEFE
Assistant Vice President
Manager – Joppatowne Branch

SHARON L. RAPPOSELLI
Assistant Vice President
Manager – Havre de Grace Branch

MARY C. TAYLOR
Assistant Vice President
Manager – Bel Air Branch

MARY KAY FISHPAUGH
Manager
Abingdon Branch

DIAJHA S. JONES-BREWINGTON
Manager
Elkton Southfield Branch

JORGE L. MELENDEZ
Manager
Elkton Branch

CRISTINA G. PALMER
Manager
Marketplace Branch

COMPLIANCE/AUDIT

DEAN L. JAGER
Vice President
Compliance/BSA Officer



VISION STATEMENT

Harford Bank will be an independent, locally owned and managed, full-service bank, responsive to the needs of our customers and our community. We are committed to delivering a superior customer experience, providing fulfilling careers, and a competitive return to our shareholders.

"Community is our Strength"

BANK DEPARTMENTS

Operations: 410-272-3500
Loans: 410-942-4000

STOCK TRANSFER AGENT

AMERICAN STOCK TRANSFER
AND TRUST COMPANY, LLC
www.astfinancial.com
1-888-750-0058

PHOTOGRAPHY

VICKIE GRAY IMAGES
vickiegrayimages.com

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ASHTON DESIGN
ashton-design.com



LOCATIONS

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ABINGDON

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BEL AIR

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ELKTON

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JOPPATOWNE

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Joppa, MD 21085
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