

A man and a woman are sitting at a desk, looking at a document together. The man is on the left, wearing a dark suit jacket over a light blue shirt. The woman is on the right, wearing a white short-sleeved blouse. They are both smiling and looking at the document. The background is a blurred office setting with a stone wall.

We're a neighbor you can count on.

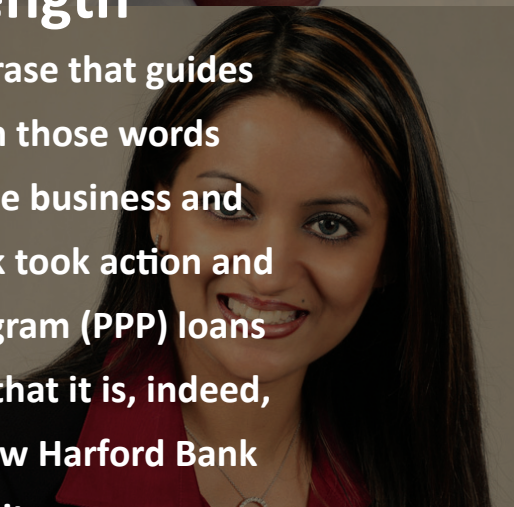
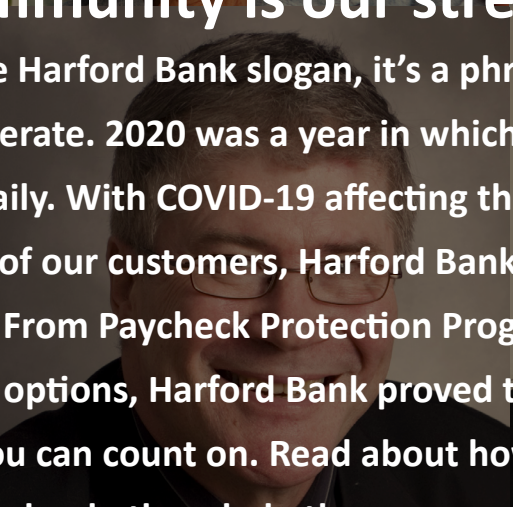
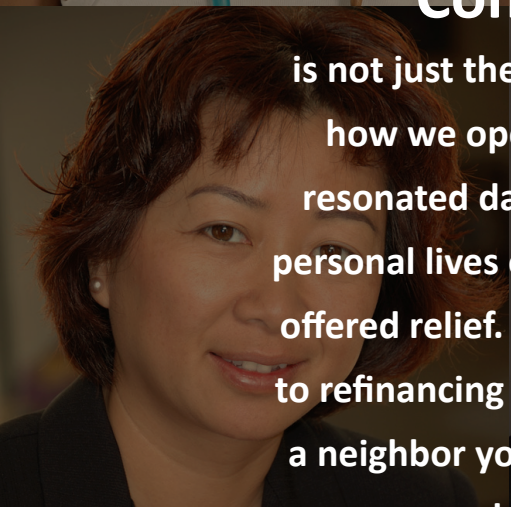
ANNUAL REPORT 2020





“Community is our strength”

is not just the Harford Bank slogan, it's a phrase that guides how we operate. 2020 was a year in which those words resonated daily. With COVID-19 affecting the business and personal lives of our customers, Harford Bank took action and offered relief. From Paycheck Protection Program (PPP) loans to refinancing options, Harford Bank proved that it is, indeed, a neighbor you can count on. Read about how Harford Bank helped others help the community.



TO OUR SHAREHOLDERS, CUSTOMERS AND FRIENDS,

Despite the historic challenges that confronted our national economy last year, Harford Bank is proud to announce that it earned \$3,197,406 in net income in 2020. This is the second-highest annual net income the Bank has ever earned, just shy of 2019's record net income of \$3,292,515. In achieving this result, the Bank reported record interest revenue and noninterest revenue, while setting aside more reserves for potential loan losses in one year than in any other year in its history.

Record interest revenue coupled with well-controlled interest expense resulted in net interest income of \$15,388,077 in 2020, the highest ever reported by Harford Bank. This was generated by a \$77,501,684 increase in net loan volume, a 27.3% increase compared to the prior year end. Small Business Administration Paycheck Protection Program (PPP) loans accounted for \$45,516,146 of this increase, and this is discussed in more detail below. Core loan growth of \$31,985,538, or 11.27% over the prior year end, is a testament to the efforts of our lending teams. Traditional loan demand understandably slowed nationwide in 2020, so it was no small feat to achieve quality double-digit percentage core loan growth, especially considering the thousands of hours our teams devoted to PPP loan delivery.

Noninterest revenue for 2020 increased by 20.7% year over year to \$1,759,159. Once again, this is the highest level ever reported by the Bank. Much of the increase is attributable to the Bank's first full year of offering secondary market residential mortgage products. Harford Bank has entered a referral arrangement with a large national mortgage lender which generates fee income and enables the Bank to offer a wider array of residential financing options to our customers. The Bank has a long history of helping local homeowners and prospective buyers with portfolio products that feature local servicing and the flexibility to help with unconventional loans that don't easily fit in the secondary market. Our referral arrangement now enables us to offer conventional secondary market loans, programs for first-time homebuyers, and FHA and VA mortgage loans. Most importantly, our local team of mortgage experts guide borrowers through the process, allowing Harford Bank to provide conventional products at a low cost with exceptional service.

As of December 31, 2020, our total assets increased by 28.8% to \$485,948,582 compared to \$377,287,666 at prior year end. Total deposits grew by \$124,976,760 year over year to \$437,817,696, a 39.9% increase. As was the case for the notable increases in total loans and interest revenue, much of the growth in total assets and deposits was driven by the PPP loan initiative. Our team advanced over 940 PPP loans totaling over \$69 million last year. These loans have an interest rate of only 1%, but the processing fees associated with them, combined with the relatively short duration of these assets, resulted in a considerable boost to interest revenue. When these loans were settled and advanced, many were deposited directly into Harford Bank deposit accounts. This helped push deposit levels to record highs, and those balances have been surprisingly durable. We do, however, expect more of these funds to be withdrawn as borrowers continue to utilize them to cover payroll and other costs in what we hope are the waning months of the pandemic.



Welcome One Emergency Shelter received \$2,000 thanks to the generosity of Harford Bank customers. The mission of the shelter is to provide safe, emergency shelter and to assist and empower individuals to obtain housing.

During a second-quarter promotion, Harford Bank was able to donate more than \$5,000 to community organizations by partnering with bank customers. Every home lending solution that settled during the promotional period allowed Harford Bank to donate \$200 to a charity chosen by their clients. We were humbled by our customers' empathy, compassion and willingness to help their neighbors.

The 2020 provision for loan losses of \$1,878,000 was \$1,683,000 more than the \$195,000 provision for loan losses recorded in 2019. The decision to set aside more reserves for potential loan losses was primarily driven by two factors - the economic uncertainty brought about by the COVID-19 pandemic, and concern about how this uncertainty might affect one large commercial credit. We continue to carefully monitor our loan portfolio for signs of distress, but we believe our December 31, 2020 allowance for loan losses of 1.40% of total gross loans is well-supported. We would note that although the allowance increased considerably over the December 31, 2019 level of 1.13% of total gross loans, our current allowance level is consistent with the average allowance reported by our national peer group of banks. 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.

This large increase in provision expense was the primary reason that, despite the record growth we saw in so many areas, we did see a decline in some profitability ratios. Return on average assets, a key measure of profitability, declined in 2020 to 0.72%, compared to 0.88% in 2019, as average assets grew at a greater rate than net income, again due in large part to PPP activities. Return on average stockholders' equity declined slightly in 2020 to 7.30%, compared to 7.94% for 2019, as average stockholders' equity grew at a greater rate than net income.

The economic uncertainty experienced in 2020 also affected our dividend payouts. In the first quarter of 2020, expecting a normal year, we paid a \$0.17 per share cash dividend. In the second quarter, during what was arguably the most uncertain stage of the pandemic and its devastating economic impact, we reduced the cash dividend to \$0.08 per share. In the third quarter, as economic conditions became somewhat clearer, we raised the cash dividend to \$0.10 per share. And finally, in the fourth quarter, as our financial results improved, we restored the cash dividend to \$0.17 per share. In total for 2020, tempered by an abundance of caution during the year, our continued profitability allowed us to pay four regular cash dividends for the year totaling \$0.52 per share. This compares to \$0.68 per share for the four regular cash dividends paid in 2019.

Our total capital grew 6.3% to \$45,196,497 as of December 31, 2020, compared to \$42,528,150 at prior year end. The book value of the Bank's common stock at year end 2020 was \$31.52 per share, compared to \$29.87 in 2019. The December 31, 2020 closing market price of our stock was \$21.25. We do not believe this price adequately reflects our true enterprise value, and we are committed to do everything we can to maximize the value of your investment in Harford Bank. One way we hope to do this is to enhance communications, which is why you have begun receiving shareholder letters on a quarterly basis. We will continue to find ways to share the news of our progress with a wider audience, including utilizing additional delivery methods such as email, an enhanced web page, and expanded use of social media. We think we have a compelling story to tell.

A few words about 2021. In last year's 2019 annual shareholder letter, we announced our plan

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UPPER BAY COUNSELING & SUPPORT SERVICES, INC.

Upper Bay Counseling & Support Services (UBCSS) is a nonprofit organization offering behavioral health services in Cecil and Harford counties. Like many businesses, 2020 was a challenging year for UBCSS. With so many clients counting on them, shutting down during the coronavirus pandemic was not an option, so Upper Bay Counseling turned to Harford Bank for a PPP loan to help keep them afloat. “PPP was literally a lifesaver for this organization,” said Suanne Blumberg, CEO, Upper Bay Counseling & Support Services. The PPP loan enabled UBCSS to retain and re-hire more than 170 employees, and provide uninterrupted aid to 3,700 individuals in 2020.

The dedicated Upper Bay Counseling & Support Services staff was committed to doing whatever it took to provide for those in need. Some employees pitched in to sew masks. Others procured personal protective equipment to keep up with the demand for PPE supplies for Upper Bay Counseling’s residential facility which requires 24/7

face-to-face assistance. UBCSS chefs even prepared meals daily for more than 100 adult at-risk patients dealing with serious mental illness who faced food insecurity. These meals were then delivered so homebound patients would be assured of at least one decent meal a day.

UBCSS also found itself having to pivot to remote strategies in order to continue to provide crucial services to its clients. With no time to spare, the company quickly invested in equipment necessary to enable more than 80 clinicians to suddenly work from home. Laptops, desktops and cameras were set up, and secure networks were established in order to ensure that treatment could continue for Upper Bay Counseling’s patients. But counseling is a two-way street; clients, too, needed access to telehealth, and for those who required IT help, UBCSS lent a hand. Within two weeks, Upper Bay Counseling & Support Services was back to the business of helping individuals, strengthening families, and uniting communities.

“Our anxiety was through the roof, but working with Harford Bank was a blessing...They understood the [PPP] program and made things simple [for us].”

*Upper Bay Counseling & Support Services, Inc.
—Suanne Blumberg*

THE HUMANE SOCIETY OF HARFORD COUNTY, INC.

The Humane Society of Harford County relies on in-person fundraising events to keep their shelter open. When all events were cancelled in 2020, Executive Director Jennifer Swanson knew that obtaining a PPP loan would be the only way for the nonprofit to survive. After a frustrating experience with another bank, she reached out to Harford Bank.

“The Humane Society was not even a customer at Harford Bank, but that didn’t matter. I never felt like a faceless, nameless business. They made it so easy, and we had the money within days,” said Swanson.

Due to COVID-19 restrictions, The Humane Society was forced to suspend on-site volunteer activities, so keeping staff was imperative. Thanks to the PPP loan, The Humane Society was able to retain 23 employees without cutting care and services for the homeless animals.

The pandemic had a significant impact on operations, but the shelter was able to maintain a 90% live release rate for the fifth consecutive year—an amazing accomplishment since public access to the premises was limited.

The ultimate goal of The Humane Society is to ensure that the community’s neediest animals are receiving the loving care they deserve. In 2020, 817 animals were adopted and 322 animals were reclaimed. Mission accomplished.

THE BOYS & GIRLS CLUBS OF HARFORD & CECIL COUNTIES

“Without question, we were in a financial crisis [when COVID-19 surged],” noted Derek DeWitt, Executive Director of The Boys & Girls Clubs of Harford & Cecil Counties. Securing a PPP loan from Harford Bank allowed the clubs to bring back staff that had been furloughed, and to maintain youth development programs that families rely on.

“If it wasn’t for the PPP loan and the tremendous help from Harford Bank, the result would have been a catastrophic loss of services for the community.”

*The Boys & Girls Clubs of Harford & Cecil Counties
—Derek DeWitt*

Innovative solutions let the clubs continue to support young people during coronavirus lockdowns and mandates. “Tele-mentoring” was initiated, and the clubs launched “Club on the Go” which makes daily trips to neighborhoods from Elkton to Edgewood delivering food, on-demand programming, and Club bags filled with fun.

The Boys & Girls Clubs of Harford & Cecil Counties not only work to inspire children, they also make an impact on communities. Throughout the pandemic, the club stepped up and offered free child care for first responders, healthcare workers and essential personnel, giving parents peace of mind during unpredictable times.

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to open our ninth branch location in the Southfield Park Shopping Center in Elkton. We met our goal of opening that office on March 2, 2020. A mere eighteen days later we closed all Bank branch lobbies to routine foot traffic due to the pandemic. Despite this change in plans, our resourceful Southfield team has done an excellent job expanding our Cecil County outreach and developing new relationships. They are poised to make a noticeable impact post-pandemic.

Our physical expansion plans continue in 2021 with the anticipated opening of the Bank's tenth office in Jarrettsville, Maryland. We have purchased a facility and have begun the process of converting the building to a branch and loan production office which we hope to have fully operational by the third quarter of 2021. Our business development teams have cultivated strong relationships with many of the business owners and consumers in the northern regions of Harford County. We believe this location will enable us to deepen those relationships as we make ourselves more accessible to an important part of our market.

The Bank is also engaged in two important initiatives which will commence in 2021 and will extend into 2022. The first is a conversion of our core banking system. This is a significant undertaking which will result in not only greater operational efficiencies but will enhance the customer experience and provide expanded digital access and convenience. The second is a customized, bank wide training program designed to improve the level of service offered by every Harford Bank employee. Both projects require a considerable investment of time, effort, and resources. When they are fully implemented, our team will deliver consistently exceptional service, whether through traditional or digital channels.

Finally, we would be remiss if we did not provide an update on PPP. The latest round of PPP lending commenced on January 11, 2021 and applications will be accepted until March 31, 2021. We do not expect the same level of borrowing as we saw last year, but our team has again performed exceptionally to date, settling hundreds of loans totaling tens of millions of dollars. The small businesses in our market have used this money to retain employees and keep commerce afloat in our region. Please see the short stories a few of our customers shared in this report.

As always, we wish to thank our entire team for their truly remarkable efforts in 2020. Our talented and dedicated staff, officers, and directors worked together to overcome adversity and quickly adapt to a series of unanticipated challenges that required fast and flexible solutions. We're proud to say our team more than rose to the occasion.

On behalf of all of us at Harford Bank, we thank you for your continued trust and support.



JOHN S. KARAS
CHAIRMAN



MICHAEL F. ALLEN
PRESIDENT

Forward-Looking Statements:

The statements contained herein that are not historical financial information may be deemed to constitute forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements do not represent historical facts, but are statements about management's beliefs, plans and objectives about the future, as well as its assumptions and judgments concerning such beliefs, plans and objectives. These statements are evidenced by terms such as "anticipate," "estimate," "will," "should," "expect," "believe," "intend," and similar expressions. Although these statements reflect management's good faith beliefs and projections, they are not guarantees of future performance and they may not prove true. These projections involve risk and uncertainties that could cause actual results to differ materially from those addressed in the forward-looking statements. For a discussion of these risks and uncertainties, see the section of the periodic reports that Harford Bank files with the Federal Deposit Insurance Corporation entitled "Risk Factors".

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Principal in B. Michael & Sons, Inc.
JAABB Karas Family, LLC
Two Boats, LLC

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STEPHANIE NOVAK HAU

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Management, Inc.

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Certified Public Accountant
Partner, Henninger & Henninger, LLC

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President, The Mill of Bel Air

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Broker/Co-owner
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Retired President
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Retired Chief Executive Officer
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NEIL L. CHRIST, CPA

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"Community is our Strength"

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