BUILDING GROWING SERVING

HARFORD BANK | ANNUAL REPORT 2021

COVER

PICTURED (CLOCKWISE FROM CENTER) MICHAEL ALLEN, *PRESIDENT*, **MARY KNIGHT,** *ENTERPRISE RISK MANAGEMENT OFFICER*, **JOSEPH HOFFMAN,** *IT OFFICER*, **LORRIE SCHENNING,** *CHIEF LENDING OFFICER*, **CALVIN TULL,** *HUMAN RESOURCES OFFICER*, **KIMBERLY DOVE,** *SERVICE DELIVERY ANALYST*, **ALISON FAIR,** *CHIEF CREDIT OFFICER*, **SANDRA OSBORN,** *OPERATIONS MANAGER*, **STEWART LEE,** *CHIEF ADMINISTRATIVE OFFICER*, **NEIL CHRIST,** *CFO*, **BRIAN CLAFFEE,** *MANAGER OF RETAIL BANKING SERVICES.*

Harford Bank

BUILDING GROWING SERVING

RESPONSIVE, DEPENDABLE, CARING These were just some of the words used to describe our team as they responded to the needs of so many during the COVID-19 pandemic. Harford Bank is fortunate to employ a talented group with diverse skills who were able to respond to last year's challenges quickly and effectively. By drawing on their depth of experience and working together, bank associates were able to offer their customers creative solutions and personalized service. Our communities know that Harford Bank is a neighbor they can count on.

In this annual report, meet some of our employees who are responsible for helping Harford Bank build, grow and serve.

TO OUR SHAREHOLDERS, CUSTOMERS & FRIENDS,

The impacts of the COVID-19 pandemic over the last two years have been dramatic and well documented. The effects on our local and national economies are still felt, and likely will be for some time. Because we are locally owned and managed, the Harford Bank team understands the unique challenges our communities faced from the pandemic. We are literally your neighbors, and we've all had to overcome the same obstacles.

This is why our team has been so motivated to help. In 2021, the Bank's charitable giving reached record levels, our employees and Directors continued to devote countless volunteer hours to help others, and Harford Bank once again excelled in assisting local businesses with over $41 million in second round SBA PPP loans. As we've said many times, our team viewed the PPP program not as a task, but as our mission.

This local focus did not go unnoticed. The residents and business owners in our communities were looking for help, and we did not let them down. Consequently, more people turned to us than ever before, accelerating asset growth at Harford Bank by over 52% over the last two years.

This growth positively impacted earnings. Harford Bank earned $5,340,997 in net income in 2021, compared to $3,197,406 in net income in 2020, an increase of 67%. This is the highest annual net income the Bank has ever earned, surpassing 2019's previous record net income of $3,292,515. In achieving this result, the Bank also reported record interest revenue and noninterest revenue.

Interest revenue, including deferred loan fees and costs, coupled with well-controlled interest expense, resulted in net interest income of $17,421,166 on a tax-equivalent basis in 2021. This was driven in part by core loan growth of $27,874,962, or 8.7% over the prior year end, and the reduction of interest expense due to repayment of all FHLB borrowings in late 2020. Net loan growth was restrained by a $26,214,301 reduction in outstanding SBA PPP loan balances from December 31, 2020, to December 31, 2021. This will be discussed in more detail below.

Noninterest revenue for 2021 increased by 11.8% year over year to $1,965,877. Once again, this is the highest level ever reported by the Bank. Much of the increase is attributable to the fee income generated by the Bank's referral arrangement for secondary market residential mortgage products. Harford Bank works with a large national mortgage lender to offer a wider array of residential financing options, including access to 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 conforming products at a low cost with exceptional service. Of course, we continue to offer portfolio products that feature local servicing and the flexibility to help with unconventional loans that don't easily fit in the secondary market.

The residents and business owners in our communities were looking for help, and we did not let them down. Consequently, more people turned to us than ever before, accelerating asset growth at Harford Bank by over 52% over the last two years.

As of December 31, 2021, our total assets increased by 18.4% to $575,175,112 compared to $485,948,582 at prior year end. Total deposits grew by $84,506,782 year over year to $522,324,478, a 19.3% increase. As was the case for the increases in loans and interest revenue, much of the growth in total assets and deposits was driven by the SBA PPP loan initiative. Our team originated over 690 SBA PPP loans totaling over $41 million early 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 long lasting. As noted above, the Bank's outstanding balance of SBA PPP loans declined sharply by year-end 2021 due to the initiation of the loan forgiveness process in the latter half of the year.

Harford Bank's 2020 provision for loan losses was $1,878,000, resulting in an allowance for loan losses of 1.39% of gross loans as of December 31, 2020. Shareholders will recall this decision was driven by the economic uncertainty brought about by the COVID-19 pandemic, and concern about how this uncertainty might affect one large commercial credit. We are pleased to report that credit quality trends allowed the Bank to set aside no additional provision expense in 2021. We carefully monitor the risk levels of our loan portfolio, and we believe our December 31, 2021, allowance for loan losses of 1.38% of total gross loans is well-supported. We continue to note that 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 continued to manage our loan losses effectively, 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.

Return on average assets, a key measure of profitability, increased to 1.00% for the year ended December 31, 2021, compared to 0.72% in 2020. Return on average stockholders' equity increased to 11.16% for the year ended December 31, 2021, compared to 7.30% for the same period in 2020.

Our total capital grew 9.6% to $49,546,535 as of December 31, 2021, compared to $45,196,497 at prior year end. The book value of the Bank's common stock at year end 2021 was $34.14 per share, compared to $31.52 per share in 2020.

Although economic uncertainty affected our dividend payouts in 2020, our continued profitability allowed us to pay four regular cash dividends in that year totaling $0.52 per share. This compared to $0.68 per share for the four regular cash dividends paid in 2019. We are pleased to report that in 2021, the combination of record net income, strong asset quality trends, and a more stable economic climate enabled the Bank to pay four regular cash dividends totaling $0.72 per share. In addition, we were able to declare a special dividend of $0.30 per share for a total dividend of $1.02 per share for 2021.

Growth was clearly the theme for Harford Bank in 2021. We opened our tenth branch office in December of last year in Jarrettsville, Maryland. This location gives us physical presence in an area of our market where historically we have had strong relationships, but a limited ability to conveniently serve those relationships. We have assembled an experienced team led by Branch Manager Amanda Parsons, a longtime Jarrettsville resident. This office has been well-received, and Harford Bank is grateful to the Jarrettsville community for extending us such a warm welcome.

The Bank's growth also allowed us to add members to our already talented team. Continued industry consolidation and branch closures provided us with the opportunity to hire seasoned bankers with expertise in multiple areas, including finance, operations, risk management, branch management, consumer and commercial lending, and administration. We are now well positioned for further growth.

In 2021 we substantially completed the conversion of our core banking system. This has enabled us to provide an enhanced customer experience and provide expanded digital access and convenience. It also offers opportunities for improved internal efficiencies. Converting a bank's core system is one of the most complicated and time-consuming projects a bank can undertake. It takes considerable planning, testing, hours of effort, and skilled leadership. We are proud to say our talented and hard-working team successfully executed this conversion on schedule and with little customer inconvenience—truly a remarkable achievement.

A new year always brings change, new challenges, and new opportunities. We are proud that our process for obtaining forgiveness for the SBA PPP loans has worked very smoothly, a testament to the quality of our people and systems. As the last of these loans leave our books in 2022, though, so does the fee income associated with them. The SBA PPP loans provided us with an unexpected but important boost to revenue the last two years. Our job now is to replace this income and profitably deploy our assets that have grown so rapidly. We intend to accomplish these goals by seeking opportunities to expand our geographic market and continuing to align ourselves with appropriate partners who offer enhanced noninterest income opportunities.

For example, we are excited to have entered a referral arrangement with The Kelly Group, whose founding partner, Bryan Kelly, is also a Director of Harford Bank. The Kelly Group is a highly respected registered investment adviser that offers fee-based financial planning, a service many of our customers seek and need. Most importantly, The Kelly Group's values and approach to business are virtually identical to Harford Bank's— both companies put community first and are committed to maintaining a nurturing culture.

Finally, we wish to thank our entire team for their tireless work. To have taken on and successfully executed a core conversion project during what, for many, was already one of the most challenging times in their careers, is amazing. Add to those their outsized SBA PPP accomplishments, and it is nothing less than extraordinary. We want to offer our sincere gratitude to them and our Board of Directors. Job truly well done.

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

BUILDING

When Lorrie Schenning accepted a job as a commercial business development officer in Harford County in 1993, she was pleased to return home. "I had been working in Baltimore for a couple of years, and it was a good place to start my banking career," she said, **"but I am Harford County to the core. I was born and raised here, and I've raised my family here. My roots run deep."** So started a successful lending career that has spanned almost 30 years.

One of the secrets to Lorrie's success has been her ability to build relationships, both inside and outside of the bank. Good community bankers understand what their customers want. More importantly, they understand what their customers need. The only way to develop those insights is to build authentic relationships with those they serve.

Equally as important are the relationships community bankers must build within the bank. Understanding customer needs is step one, but to meet those needs, a banker must be able to offer effective solutions. That requires collaboration.

As Ramona Johnson, manager of Harford Bank's Joppatowne branch, says, "No single banker can possibly know everything. **To be a great banker, you must listen effectively, identify the needs, then work with your team to develop solutions."**

When your team includes people like Lisa Bair, Spencer Brennan, and Stewart Lee, it's hard to go wrong. After spending a few years in other roles, Lisa recently took on the role of commercial business development officer, and she has flourished. **"Having a mentor like Lorrie, and being able to work with a pro like Ramona, has given me a huge advantage,"** she says. Spencer Brennan, manager of our Marketplace branch, agrees. "I love branch banking, but my ambition is to become a commercial business development officer. With mentors like this, I feel like this is the best place for me to make that transition."

PICTURED (STANDING L-R) LORRIE SCHENNING, RAMONA JOHNSON, SPENCER BRENNAN, LISA BAIR; (SEATED) STEWART LEE.

GROWING

Despite the trend in the financial services industry to close branches and reduce physical presence in markets, Harford Bank believes its customers still value the ability to see and talk to a person who genuinely wants to help.

For that reason, we opened two new branches over the last two years. We opened our second Cecil County branch in the Southfield Park Shopping Center in Elkton, Maryland, in 2020. We opened our tenth branch in Jarrettsville, Maryland, in December of 2021.

"As a longtime Jarrettsville resident, I am excited to have the opportunity to serve my neighbors," said Amanda Parsons, who manages our Jarrettsville branch. **"I know the people in this area appreciate relationships, and that is what we do best at Harford Bank."**

Harford Bank encourages its branch managers to be the presidents of their branches and to be the face of the bank in their respective markets. This gives them the flexibility to respond to their unique market needs, and to call upon the expertise of other team members when appropriate.

Tiffany Hanks, Ashley Mintzer, and Jamie Bennett, managers of our Hickory, Abingdon, and Havre de Grace branches, agree.

"The City of Havre de Grace continues to grow into one of the most vibrant areas in the region, and we've had the great fortune to grow along with them," said Jamie Bennett. "As branch manager, I am able to utilize the varied banking skills I've developed over the years. When I need additional expertise, I have an experienced and skilled group to call on."

Those resources include the approximately 100 years of combined lending experience of Fred Branscome, Don Shade, and Scott Elliott. Don and Fred specialize in consumer and mortgage lending, and Scott Elliott has been a highly respected commercial lender and community leader since the 1990s.

PICTURED (SEATED AT TABLE L-R) AMANDA PARSONS, JAMIE BENNETT, TIFFANY HANKS; (BEHIND L - R) DON SHADE , SCOTT ELLIOTT, ASHLEY MINTZER, FRED BRANSCOME.

Diajha Jones joined Harford Bank in early 2020. The bank was opening its ninth branch, and second in Cecil County, Maryland, in the Southfield Park Shopping Center in Elkton. Diajha was hired to manage the new branch, and she recalls, **"I'm proud to say we met our goal of opening by March 2, 2020**. Needless to say, I was not expecting to close the lobby doors 18 days later." But that is exactly what happened. The COVID-19 pandemic forced all businesses to abruptly change the way they operated. Diajha's branch team was no exception.

Like the rest of the world, the Harford Bank team's immediate priority was the safety of their employees and customers. The next priority was finding a way to continue providing great service to our customers within these new constraints. The bank's resourceful team adapted and successfully worked around the obstacles. Although lobby traffic was restricted, all branches remained open, and customers could be seen in person by appointment.

Then came the SBA's PPP loan program. Danielle Carroll, business banker and one of the key members of the bank's PPP team, recalls. "We had no idea how we were going to implement this program. Nobody did. There were few rules, few instructions, and banks were largely left to their own devices. But the Harford Bank team not only figured it out, **I think it's fair to say we overachieved!"**

That is not an overstatement. Because of the team's dedication and tireless devotion, they helped many hundreds of people with over $100 million in total PPP relief. Our team understood that these funds were critical for the survival of many local employers. **This was community service at its best.**

That service mentality has not waned. Diajha, Danielle, and Jorge Melendez, manager of our original Elkton branch, continue to dedicate themselves to serving the Cecil County community, both as representatives of the Harford Bank team and as volunteers and residents of Cecil County.

Stewart Lee, who recently joined Harford Bank, is a 35-year banker with wide-ranging experience in multiple areas of financial services. He also spent many years in the Cecil County market. He, along with consumer loan experts Fred Branscome and Don Shade, are great resources for our Cecil County team, a team dedicated to helping their neighbors.

SERVING

PICTURED (L-R) DON SHADE, JORGE MELENDEZ, DIAJHA JONES, FRED BRANSCOME, BRIAN CLAFFEE, STEWART LEE, DANIELLE CARROLL

Harford Bank

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.

DIRECTORS

JOHN S. KARAS
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.

RICHARD F. FOARD, JR.
Managing Member
Foard Enterprises, LLC
121 HMS Properties, LLC

JEFFREY W. FOULK
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

HENRY S. HOLLOWAY
President, The Mill of Bel Air

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

CHARLES H. JACOBS, JR.
Retired President
Harford Bank

BRYAN E. KELLY, CFP®
Managing Member
The Kelly Group

STEPHEN K. NOLAN
Vice President
EN Engineering, LLC

WAYNE TAPSCOTT
Partner
WCT & Sons, LLC

DIRECTORS EMERITI

FRANKLIN J. HAJEK, MBA
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.

EXECUTIVE OFFICERS

MICHAEL F. ALLEN
President

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

LORRIE A. SCHENNING
Executive Vice President
Chief Lending Officer

BUILDING
GROWING
SERVING

Harford Bank

"Community is our Strength"

ABERDEEN
8 W. Bel Air Avenue
Aberdeen, MD 21001
410-272-5000

ABINGDON
2905 Emmorton Road
Abingdon, MD 21009
410-569-7010

BEL AIR
505 S. Main Street
Bel Air, MD 21014
410-838-7001

BEL AIR
545 Marketplace Drive
Bel Air, MD 21014
410-893-0900

ELKTON
133 N. Bridge Street
Elkton, MD 21921
410-398-3426

ELKTON
305 Augustine Herman Hwy
Elkton, MD 21921
443-945-9955

HAVRE DE GRACE
960 Revolution Street
Havre de Grace, MD 21078
410-939-0300

HICKORY
1610 Conowingo Road
Bel Air, MD 21014
410-420-6605

JARRETTSVILLE
3891 Jarrettsville Pike
Jarrettsville, MD 21084
410-417-9490

JOPPATOWNE
501 Riviera Drive
Joppa, MD 21085
410-679-2070