RECEIVED

COPY

Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

FRB RICHMOND

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies and top-tier savings and loan holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report.

I, Joseph Haskins, Jr.
Name of the Holding Company Director and Official

Chairman & CEO
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

3/27/15
Signature of Holding Company Director and Official

03/27/2015
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

☒ is included with the FR Y-6 report
☐ will be sent under separate cover
☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID 2008130
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2014
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address
Harbor Bankshares Corporation
Legal Title of Holding Company

25 West Fayette Street
(Mailing Address of the Holding Company) Street / P.O. Box

Baltimore	MD	21201
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

John G. McLean, Jr.	Vice President & Treasurer
Name	Title

443-923-0562
Area Code / Phone Number / Extension

410-951-1858
Area Code / FAX Number

jmclean@theharborbank.com
E-mail Address

www.theharborbank.com
Address (URL) for the Holding Company's web page

Does the reporter request confidential treatment for any portion of this submission?

☐ Yes Please identify the report items to which this request applies:

☐ In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.
☐ The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

☒ No

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.25 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

Harbor Bankshares Corporation
Annual Report of Bank Holding Companies
FR Y-6

Report Item I: Bank Holding Company Financial Statements

Information regarding Report Item I parts A and B are filed by incorporation from data contained in the accountant's annual report for Harbor Bankshares Corporation pages 1 through 43, and Harbor Bankshares Corporation Proxy statement. All documents are enclosed as an integral part of this report.

Report Item 2a: Organizational Chart

The Harbor Bank of Maryland Community Development Corporation
Baltimore, Maryland
Incorporated in Maryland

Harbor Bankshares Corporation
Baltimore, Maryland
Incorporated in Maryland

The Harbor Bank of Maryland
Baltimore, Maryland
Incorporated in Maryland

Harbor Bankshares Corporation Capital Trust
Wilmington, Delaware
Formed in Delaware

Harbor Community Capital LLC
***Harbor Community Fund I LLC**
***Harbor Community Fund II LLC**
***Harbor Community Fund III LLC**
***Harbor Community Fund IV LLC**
***Harbor Community Fund V LLC**
***Harbor Community Fund VI LLC**
***Harbor Community Fund VII LLC**
***Harbor Community Fund VIII LLC**
***Harbor Community Fund IX LLC**
***Harbor Community Fund X LLC**
***Harbor Community Fund XI LLC**
***Harbor Community Fund XII LLC**
***Harbor Community Fund XIII LLC**
***Harbor Community Fund XIV LLC**
***Harbor Community Fund XV LLC**
***Harbor Community Fund XVI LLC**
***Harbor Community Fund XVII LLC**
***Harbor Community Fund XVIII LLC**
***Harbor Community Fund XIX LLC**
***Harbor Community Fund XX LLC**
***The Harbor Bank of Baltimore Metropolitan Area Dev LLC**
***Harbor RE Fund LLC**
***Harbor Business Dev Fund LLC**
***The Harbor Leverage Fund II LLC**

Harbor Bankshares Corporation directly controls 100% of The Harbor Bank of Maryland and Harbor Bankshares Corporation Capital Trust voting stock and owns The Harbor Bank of Maryland Community Development Corporation by management control. Harbor Bankshares Corporation owns 100% of Harbor Community Capital LLC. Harbor Bankshares Corporation owns .01% of the above listed entities and has management control*.

All entities located to the right of the page were "Organized in Maryland" with the exception of The Harbor Leverage Fund II, LLC which was "Formed in Delaware".

FORM FR Y-6

HARBOR BANKSHARES CORPORATION

SUPPLEMENTAL INFORMATION TO ORGANIZATION CHART

Item (a)	**None**
Item (b)	**None**
Item (c)	**None**
Item (d)	**None**

Report Item 2b: Domestic Branch Listing

No corrections are noted to the list of domestic branches reported by the Federal Reserve Bank. For a listing of the branch report, please refer to Exhibit A.

Report Item 3(1): Stockholders

A) Joseph Haskins, Jr.
Baltimore, Maryland
United States of America

B) United States of America

C) 76,910 Shares 8.00%
Owned 69,871
Options 7,439

A) John Paterakis
Baltimore, Maryland
United States of America

B) United States of America

C) 180,900 Shares 18.71 %
Owned 180,900
Options 0

A) Edward St. John
Baltimore, Maryland
United States of America

B) United States of America

C) 96,228 Shares 9.96%
Owned 96,228
Options 0

Report Item 3(2): None

REPORT ITEM 4: DIRECTORS AND OFFICERS

NAME CITY & STATE	TITLE OR POSITION	PRINCIPAL OCCUPATION	PERCENT OF OWNERSHIP HARBOR BANKSHARES
Joseph Haskins, Jr. Baltimore, Maryland	Chairman, President and Chief Executive Officer of the Corporation and the Bank	Same	8.00%
John Paterakis Baltimore, Maryland	Chairman of the Executive Committee of the Corporation and The Harbor Bank of Maryland	President and Chief Executive Officer of H&S Bakery Company and Northeast Foods, Inc.	18.71%
John G. McLean, Jr. Baltimore, Maryland	Vice President & Treasurer of the Corporation and Senior Vice President and Cashier of The Harbor Bank of Maryland	Same	0.00%
George F. Vaeth, Jr. Columbia, Maryland	Secretary of the Corporation and The Harbor Bank of Maryland	Retired Architect with George Vaeth & Associates, Inc.	1.91%

REPORT ITEM 4: DIRECTORS AND OFFICERS (Continued)

NAME CITY & STATE	TITLE OR POSITION	PRINCIPAL OCCUPATION	PERCENT OF OWNERSHIP HARBOR BANKSHARES
James H. DeGraffenreidt **Washington, DC**	Director	Retired Chairman and CEO WGL Holdings, Inc.	1.24%
Louis J. Grasmick **Phoenix, Maryland**	Director	President and CEO Grasmick Lumber Co., Inc.	3.95%
Delores G. Kelley **Randallstown, Maryland**	Director	Senator, Maryland State Senate	1.04%
Erich March **Baltimore, Maryland**	Director	Vice President, William C. March Funeral Homes	1.82%
James Scott, Jr. **Columbia, Maryland**	Director	Principal Pennan and Scott P.C.	1.03%
Stanley W. Tucker **Baltimore, Maryland**	Director	President Meridian Management Group Inc.	.003%
Kevin M. Johnson **Hanover, Maryland**	Director	President Commercial Interiors, Inc.	1.33%

Report item 4.4b: None

Non-applicable information requested by Report Item 4 has been omitted.

REPORT ITEM 4: DIRECTORS AND OFFICERS (Continued)

DIRECTOR'S NAME	COMPANY	PERCENT OF OWNERSHIP
John Paterakis	Please see attached detail	
Louis J. Grasmick	Louis J. Grasmick Lumber Company, Inc.	50.51%
	Shugraham Rental General Partnership	50.00%
	Grantlou LLC (Market Place Drive – K.C.G.G. LLC, and Double T Diner)	50.00%
	Grantlou II LLC (Mt. Royal/Grahamp)	50.00%
	Grantlou III LLC (Glyndon/Reisterstown)	50.00%
	Grasmick Enterprises L.P.	67.30%
	Grasmick Acceptance Corp. (Greenvest)	50.00%
	Grahamp, Inc. (Safeway Lease) (T.B.E.)	33.33%
	Lougra Associates Ltd. Partnership	25.00%
Stanley W. Tucker	Meridian Management Group, Inc.	40.00%
	Morgan Advisory Group, LLC	25.00%
	MSBDFA Asset Management, LLC	40.00%
	MSBDFA Asset Management, LP (**this entity owns 1% of MMG Ventures, L.P.)	25.00%**
Erich March	Marcorp, Limited	25.00%
	March Funeral Homes	25.00%
	Marshal-March Funeral Homes	25.00%
	King Memorial Park, Inc.	25.00%
	March Funeral Home of Virginia	25.00%
	Still Water Chapel Furnishings	100.00%
	Maryland Service and Leasing, Inc.	25.00%
	Monetary Development, Inc.	25.00%
	Healthy Alternatives/Apples & Oranges	49.00%
James Scott, Jr.	Penan & Scott, P.C.	50.00%
	James Scott and Company, P.C.	100.00%
Joseph Haskins, Jr.	J.H. Enterprises, LLC	51.00%
	JR Westport	51.00%
Kevin M. Johnson	Commercial Interiors, Inc.	100.00%
	New Community Partners, LLC	100.00%
	Commercial Development, Inc.	100.00%

JOHN PATERAKIS

601 S. CAROLINE STREET • BALTIMORE, MARYLAND 21231

Companies having full control:

Vender REB Company, LLC
H&S Bakery
Crispy Bagel
Automatic Rolls of Virginia
Automatic Rolls of New Jersey
Automatic Rolls of Baltimore
Automatic Rolls of New England
Bake Rite Rolls
Northeast Foods
J&B Associates
H&S Properties
Mid Atlantic Baking Company
Schmidt Baking Company

Results: A list of branches for your holding company: HARBOR BANKSHARES CORPORATION (2008130) of BALTIMORE, MD.
The data are as of 12/31/2014. Data reflects information that was received and processed through 01/07/2015.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below.
2. If required, enter the date in the **Effective Date** column.

Actions

OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the Data Action column and the date when this information first became valid in the Effective Date column.
Close: If a branch listed was sold or closed, enter 'Close' in the Data Action column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
ok		Full Service (Head Office)	533124	HARBOR BANK OF MARYLAND, THE	25 WEST FAYETTE STREET	BALTIMORE	MD	21201	BALTIMORE CITY	UNITED STATES	16747	0	HARBOR BANK OF MARYLAND, THE	533124	
ok		Full Service	2241414	INNER HARBOR EAST OFFICE	1000 LANCASTER ST, SUITE C	BALTIMORE	MD	21202	BALTIMORE CITY	UNITED STATES	256879	7	HARBOR BANK OF MARYLAND, THE	533124	
ok		Full Service	445629	PIMLICO OFFICE	5000 PARK HEIGHTS AVE	BALTIMORE	MD	21215	BALTIMORE CITY	UNITED STATES	239823	1	HARBOR BANK OF MARYLAND, THE	533124	
ok		Full Service	3676312	RESEARCH PARK BRANCH	800 W BALTIMORE ST	BALTIMORE	MD	21201	BALTIMORE CITY	UNITED STATES	452529	10	HARBOR BANK OF MARYLAND, THE	533124	
ok		Full Service	2647230	SCIENCE & TECHNOLOGY EAST BRANCH	855 N. WOLFE STREET	BALTIMORE	MD	21205	BALTIMORE CITY	UNITED STATES	492774	11	HARBOR BANK OF MARYLAND, THE	533124	
ok		Full Service	998228	RANDALLSTOWN BRANCH	8530 LIBERTY ROAD	RANDALLSTOWN	MD	21133	BALTIMORE	UNITED STATES	227078	9	HARBOR BANK OF MARYLAND, THE	533124	
ok		Full Service	2424776	RIVERDALE BRANCH	6820 RIVERDALE ROAD	RIVERDALE	MD	20737	PRINCE GEORGES	UNITED STATES	287889	3	HARBOR BANK OF MARYLAND, THE	533124	

HARBOR BANKSHARES CORPORATION
AND SUBSIDIARIES

REPORT ON AUDITS OF
FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
of Harbor Bankshares Corporation
Baltimore, Maryland

We have audited the accompanying consolidated financial statements of Harbor Bankshares Corporation and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harbor Bankshares Corporation and Subsidiaries as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baltimore, Maryland
March 23, 2015

HARBOR BANKSHARES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

ASSETS

	2014	2013
Cash and due from banks	$ 19,584,999	$ 14,670,370
Federal funds sold	1,755,000	1,752,000
Interest-bearing deposits in other banks	11,067,661	22,069,274
Cash and cash equivalents	32,407,660	38,491,644
Investment securities -		
Available-for-sale, at fair value	31,088,101	29,643,808
Loans	153,466,235	155,084,232
Allowance for loan losses	(2,792,619)	(2,834,337)
Net Loans	150,673,616	152,249,895
Real estate acquired through foreclosure	89,005	2,064,015
Federal Home Loan Bank of Atlanta stock, at cost	444,100	523,700
Premises and equipment, net	3,582,651	3,913,227
Goodwill	370,000	370,000
Bank-owned life insurance	7,100,465	6,890,192
Deferred income taxes	6,817,149	7,562,639
Other assets	2,912,121	2,313,414
TOTAL ASSETS	$ 235,484,868	$ 244,022,534

LIABILITIES AND STOCKHOLDERS' EQUITY

	2014	2013
LIABILITIES:		
Deposits:		
Noninterest bearing demand	$ 48,487,972	$ 49,080,553
Interest-bearing transaction accounts	18,967,630	18,409,591
Savings and money markets	88,951,486	91,253,767
Time, $100,000 or more	21,272,006	27,382,224
Other time	20,255,390	23,771,678
Total deposits	197,934,484	209,897,813
Accrued interest payable	1,436,303	1,225,691
Federal Home Loan Bank borrowings	5,000,000	5,000,000
Junior subordinated debentures	7,217,000	7,217,000
Other liabilities	3,703,010	2,779,512
Total liabilities	215,290,797	226,120,016
STOCKHOLDERS' EQUITY:		
Preferred Stock (par value $0.01):		
Authorized 10,000 fixed rate cumulative perpetual preferred shares, Series A $1,000 per share liquidation preference; 6,800 shares issued and outstanding	6,800,000	6,800,000
Common stock (par value $0.01):		
Authorized 10,000,000 shares; issued and outstanding 955,809 at December 31, 2014 and 833,770 at December 31, 2013, respectively; in addition to 33,795 common nonvoting at December 31, 2014 and 2013	9,558	8,461
Additional paid-in capital	8,987,075	8,433,582
Retained earnings	4,792,053	3,941,062
Accumulated other comprehensive loss	(394,615)	(1,280,587)
Total stockholders' equity	20,194,071	17,902,518
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 235,484,868	$ 244,022,534

HARBOR BANKSHARES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
INTEREST INCOME:		
Interest and fees on loans	$ 8,740,578	$ 9,544,157
Interest on investments	597,529	607,738
Other interest income	76,714	57,424
Total interest income	9,414,821	10,209,319
INTEREST EXPENSE:		
Interest bearing transaction accounts	25,538	22,407
Savings and money markets	330,106	379,783
Time, $100,000 or more	131,160	263,514
Other time	175,746	320,007
Federal Home Loan Bank borrowings	100,375	100,375
Interest on junior subordinated debentures	248,033	248,033
Total interest expense	1,010,958	1,334,119
NET INTEREST INCOME	8,403,863	8,875,200
PROVISION FOR LOAN LOSSES	2,411,180	1,782,188
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,992,683	7,093,012
NONINTEREST INCOME:		
Management fees - New Market Tax Credits	4,256,853	1,390,524
Service charges on deposit accounts	129,815	293,949
Other service charges	436,971	446,726
Income from bank-owned life insurance	228,021	229,208
Income from Bank Enterprise award	355,000	323,000
Other income	212,043	23,895
Total noninterest income	5,618,703	2,707,302
NONINTEREST EXPENSES:		
Salaries and benefits	4,619,980	4,442,350
Advertising	247,809	220,293
Occupancy expense of premises	1,408,291	1,370,887
Equipment expense	215,438	256,954
Data processing fees	675,292	655,630
Professional fees	853,931	1,046,251
Write-downs, losses, and costs of real estate acquired through foreclosure	689,292	177,433
FDIC insurance	548,794	543,508
Telephone	193,433	195,187
Loan and collection expense	333,501	176,508
Other expenses	756,249	672,918
Total noninterest expenses	10,542,010	9,757,919
INCOME BEFORE INCOME TAXES	1,069,376	42,395
INCOME TAX EXPENSE (BENEFIT)	218,385	(45,800)
NET INCOME	$ 850,991	$ 88,195
PREFERRED STOCK DIVIDENDS	496,224	392,251
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ 354,767	$ (304,056)
BASIC INCOME (LOSS) PER COMMON SHARE	$ 0.36	$ (0.35)
DILUTED INCOME (LOSS) PER COMMON SHARE	$ 0.36	$ (0.35)

See accompanying notes.

HARBOR BANKSHARES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
NET INCOME:	$ 850,991	$ 88,195
Changes in unrealized gains (losses) on securities available for sale, net of income taxes of $(577,235) in 2014 and $834,338 in 2013	885,972	(1,315,765)
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 1,736,963	$ (1,227,570)

See accompanying notes.

HARBOR BANKSHARES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at January 1, 2013	$ 6,800,000	$ 8,461	$ 8,433,582	$ 3,852,867	$ 35,178	$ 19,130,088
Net income	-	-	-	88,195	-	88,195
Other comprehensive loss	-	-	-	-	(1,315,765)	(1,315,765)
Balance at December 31, 2013	6,800,000	8,461	8,433,582	3,941,062	(1,280,587)	17,902,518
Net income	-	-	-	850,991	-	850,991
Other comprehensive income	-	-	-	-	885,972	885,972
Common stock issued	-	1,097	553,493	-	-	554,590
Balance at December 31, 2014	$ 6,800,000	$ 9,558	$ 8,987,075	$ 4,792,053	$ (394,615)	$ 20,194,071

See accompanying notes.

HARBOR BANKSHARES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 850,991	$ 88,195
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	442,494	499,207
Provision for loan losses	2,411,180	1,782,188
Stock based compensation expense	22,650	-
Losses, write-downs and (gains) on other real estate owned, net	163,310	95,945
Loss on equity investment	20,000	-
Deferred income taxes	168,254	(91,639)
Increase in bank-owned life insurance	(210,273)	(211,459)
(Increase) decrease in other assets	(64,122)	428,424
Increase (decrease) in accrued interest payable and other liabilities	1,134,108	(1,163,128)
Net cash provided by operating activities	4,938,592	1,427,733
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption of FHLB stock	79,600	62,000
Purchases of securities available-for-sale	-	(6,890,791)
Proceeds from calls, maturities and principal payments of investment securities available-for-sale	(558,321)	4,591,250
Proceeds from principal payment of investment securities held-to-maturity	-	85,000
Repayment and proceeds from the sale of other real estate owned	2,285,331	306,363
Net (increase) decrease in loans	(1,308,531)	12,468,060
Purchases of premises and equipment	(111,918)	(66,213)
Net cash provided by investing activities	386,161	10,555,669
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in deposits	(11,963,327)	(4,169,233)
Proceeds from sale of common stock	554,590	-
Net cash used in financing activities	(11,408,737)	(4,169,233)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,083,984)	7,814,169
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	38,491,644	30,677,475
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 32,407,660	$ 38,491,644

Harbor Bankshares Corporation

Consolidated Statements of Cash Flows (Continued)
For the Years Ended December 31, 2014 and 2013

	2014	2013
Supplemental disclosure of cash flows information:		
Cash paid for income taxes	$ 10,211	$ 10,211
Cash paid for interest	$ 800,345	$ 1,182,471
Real estate acquired through foreclosure	$ 473,630	$ 2,017,339

See accompanying notes.

1. NATURE OF OPERATIONS

Harbor Bankshares Corporation (the "Corporation") is a bank holding company organized under the laws of the State of Maryland in 1992. The Corporation owns all of the outstanding stock of the Harbor Bank of Maryland (the "Bank") which owns all of the outstanding stock of the Bank's subsidiary, Harbor Financial Services. The Bank was incorporated under the laws of the State of Maryland in 1980 and began operations in 1982. The parent only financial statements of the corporation account for the subsidiaries using the equity method of accounting. Consolidated financial statements include the accounts of Harbor Bankshares Corporation and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

The Bank is a commercial bank headquartered in Baltimore, Maryland. The deposits of the Bank are insured by the Federal Deposit Insurance Corporation. The Bank conducts general banking business in seven locations and primarily serves the Baltimore, Maryland metropolitan area. The Bank also has a branch in Riverdale, Prince George's County, Maryland. It offers checking, savings and time deposits, commercial real estate, personal, home improvement, automobile, and other installment and term loans. The Bank is also a member of a national ATM network. The retail nature of the Bank allows for diversification of depositors and borrowers so it is not dependent upon a single or a few customers.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Corporation and its subsidiary conform to U.S. generally accepted accounting principles. Certain reclassifications have been made to amounts previously reported to conform to the classifications made in 2014. The following is a summary of the more significant accounting policies:

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Corporation considers all highly liquid debt instruments and money market funds to be cash equivalents. Cash and due from banks, federal funds sold, and interest bearing deposits in other banks have overnight maturities and are generally in excess of amounts that would be recoverable under Federal Deposit Insurance Corporation ("FDIC") insurance.

Investment Securities

Debt securities that the Corporation has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Debt and equity securities are classified as trading securities if bought and held principally for the purpose of selling them in the near term. Trading securities are reported at estimated fair value, with unrealized gains and losses included in earnings. Debt securities not classified as held to maturity and debt and equity securities not classified as trading securities are considered available-for-sale and are reported at estimated fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity, net of tax effects, in accumulated other comprehensive income.

The Corporation designates securities into one of the three categories at the time of purchase. If a decline in value of an individual security classified as held-to-maturity or available-for-sale is judged to be other-than-temporary, the cost basis of that security is reduced to its fair value and the amount of the write-down is reflected in earnings. Estimated fair value is determined based on bid prices published in financial newspapers or bid quotations received from securities dealers. Gains or losses on the sales of investments are calculated using a specific identification basis and are determined on a trade-date basis. Premiums and discounts on investment and mortgage-backed securities are amortized over the term of the security using methods that approximate the interest method.

Management reviews all debt securities that are in an unrealized loss position for other-than-temporary impairment and evaluates outstanding available-for-sale and held-to-maturity securities for other-than-temporary impairment on at least a quarterly basis. An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization and previous other-than-temporary impairments. After an investment security is determined to be impaired, management evaluates whether the decline in value is other-than-temporary. In estimating other-than-temporary impairment losses for debt securities, management considers whether the Company (1) has the intent to sell the security, or (2) will more likely than not be required to sell the security before its anticipated recovery, or (3) will suffer a credit loss as the present value of the cash flows expected to be collected from the security are less than its amortized cost basis. Declines in the fair value of available-for-sale debt securities that are deemed other-than-temporary are recognized in the consolidated statement of operations in net securities gains/(losses) in the period in which the determination is made. Such impairment charges include the impact of declines in both credit quality and liquidity.

Loans

Loans are stated at their principal balance outstanding net of any deferred fees and costs. Interest income on loans is accrued at the contractual rate based on the principal outstanding. The Corporation places loans on non-accrual when any portion of the principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full. Interest accrual may also be discontinued earlier if, in management's opinion, collection is unlikely.

Loans are considered impaired when, based on current information; it is probable that the Corporation will not collect all principal and interest payments according to contractual terms. Generally, loans are considered impaired once principal or interest payments become ninety days or more past due and they are placed on non-accrual. Management also considers the financial condition of the borrower, cash flows of the loan and the value of the related collateral. Impaired loans do not include large groups of smaller balance homogeneous credits such as residential real estate and consumer installment loans, which are evaluated collectively for impairment. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (ninety days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided by the collateral. Generally, the Corporation's impairment on such loans is measured by reference to the fair value of the collateral. Income on impaired loans is recognized on the cash basis and is first applied against the principal balance outstanding.

Discounts and premiums on purchased loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments.

Allowance for Loan Losses

The allowance for loan losses represents an amount which, in management's judgment, will be adequate to absorb probable losses on existing loans that may become uncollectible. The allowance for loan losses consists of an allocated component and an unallocated component. The components of the allowance for loan losses represent an estimation done as prescribed in accounting guidance issued by the Financial Accounting Standards Board ("FASB"). The adequacy of the allowance for loan losses is determined through careful and continuous review and evaluation of the loan portfolio and involves the balancing of a number of factors as outlined below to establish a prudent level. Loans deemed uncollectible are charged against, while recoveries are credited to, the allowance. Management adjusts the level of the allowance through the provision for loan losses, which is recorded as a current period operating expense. The Corporation's methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance, specific allowances and the unallocated allowance.

The formula allowance is calculated by applying loss factors to corresponding categories of outstanding loans. Loss factors are based on the Corporation's historical loss experience. The use of these loss factors is intended to reduce the difference between estimated losses inherent in the portfolio and observed losses.

Specific allowances are established in cases where management has identified significant conditions or circumstances related to a loan that management believes indicate the probability that a loss may be incurred in an amount different from the amount determined by application of the formula allowance. Management determines fair value of the loan and recognizes any impairment in accordance with FASB's accounting guidance, and recognizes any such impairment as a specific allowance. For other problem graded credits, allowances are established according to the application of credit risk factors. These factors are set by management to reflect its assessment of the relative level of risk inherent in each grade.

The unallocated allowance is based upon management's evaluation of various conditions that are not directly measured in the determination of the formula and specific allowances. Such conditions include general economic and business conditions affecting key lending areas, credit quality trends (including trends in delinquencies and nonperforming loans expected to result from existing conditions), loans volumes and concentrations, specific industry conditions within portfolio categories, recent loss experience in particular loan categories, duration of the current business cycle, bank regulatory examination results, findings of internal loan examiners, and management's judgment with respect to various other conditions including loan administration and management and the quality of risk identification systems. Executive management reviews these conditions quarterly.

Management believes that the allowance for loan losses is adequate. However, the determination of the allowance requires significant judgment, and estimates of probable losses inherent in the loan portfolio can vary significantly from the amounts actually observed. While management uses available information to recognize probable losses, future additions to the allowance may be necessary based on changes in the loans comprising the loan portfolio and changes in the financial condition of borrowers, such as may result from changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's loan portfolio and allowance for loan losses. Such review may result in recognition of additions to the allowance based on their judgments of information available to them at the time of their examination.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization computed using the straight-line method. Premises and equipment are depreciated over the useful lives of the assets, except for leasehold improvements which are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Useful lives range from three to fifteen years for furniture, fixtures and equipment, and building improvements and forty years for buildings. The costs of major renewals and betterments are capitalized, while the costs of ordinary maintenance and repairs are expensed as incurred.

Federal Home Loan Bank of Atlanta Stock

The Bank, as a member of the Federal Home Loan Bank system, is required to maintain an investment in capital stock of the Federal Home Loan Bank of Atlanta ("FHLB") in varying amounts based on balances of outstanding home loans and on amounts borrowed from the FHLB. Because no ready market exists for this stock and it has no quoted market value, the Bank's investment in this stock is carried at cost.

Investments Accounted for by the Equity Method

The Corporation's equity investments are accounted for under the equity method of accounting in accordance with FASB's accounting guidance. Under this method, the investment is adjusted to recognize the Corporation's share of the income or losses in the entity. Write downs are recognized when the Corporation believes that a permanent impairment in value has occurred.

Real Estate Acquired Through Foreclosure

Real estate acquired through foreclosure comprises properties acquired in partial or total satisfaction of problem loans. The properties are recorded at the lower of cost or fair value at the date acquired. Losses arising at the time of acquisition of such properties are charged against the allowance for loan losses. Subsequent write-downs that may be required are added to a valuation reserve. Gains and losses realized from the sale of real estate acquired through foreclosure, as well as valuation adjustments, are included in noninterest income. Expenses of operation are included in noninterest expense.

Goodwill

Goodwill represents the excess of the cost of assets acquired in business combinations accounted for under the purchase method over the fair value of the net assets at dates of acquisition and is annually tested for impairment. The carrying value of goodwill is reviewed by the Bank for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, as prescribed in accounting guidance issued by FASB. As of December 31, 2010, due to a reduction of the Corporation's fair value below the recorded amount of equity, the Bank determined that a portion of its goodwill was impaired and therefore recorded an impairment loss of $2.137 million. The fair value of the remaining goodwill was determined based on comparable sales value of the deposits and fixed assets held at one of the previously acquired branches. As of December 31, 2014 and 2013, the Corporation determined that there was no additional impairment and the value of its goodwill remains at $370,000.

Bank-Owned Life Insurance

The Corporation is the beneficiary of insurance policies on the lives of certain officers of the Corporation. The Corporation has recognized the amount that could be realized under the insurance policies as an asset in the consolidated balance sheets. Appreciation in the value of the insurance policies is classified in non-interest income.

Income Taxes

Income tax expense is based on the results of operations, adjusted for permanent differences between items of income or expense reported in the financial statements and those reported for tax purposes. Under the liability method, deferred income taxes are determined based on the differences between the financial statement carrying amounts and the income tax basis of assets and liabilities and are measured at the enacted tax rates that will be in effect when these differences reverse. Deferred tax assets are recognized only to the extent that it is more likely than not that such amounts will be realized based upon consideration of available evidence, including tax planning strategies and other factors.

The Corporation recognizes a tax position as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely to be realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Corporation recognizes interest and penalties related to income tax matters in income tax expense.

Earnings Per Common Share

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted-average number of shares outstanding during the period. Diluted earnings per common share is determined using the weighted-average number of shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that might be issued upon exercise of common stock options.

Stock-Based Compensation

The Corporation applies the fair value recognition provisions as prescribed in accounting guidance issued by the FASB which requires the use of the fair value method for accounting for all stock-based compensation. The Company recognizes compensation expense for non-vested stock awards based on the fair value of the awards ratably over the service period of the award.

Advertising

Advertising costs are expensed as incurred. Advertising expense was $247,809 and $220,293 for the years ended December 31, 2014 and 2013, respectively.

Bank Enterprise Award ("BEA")

Income from BEA award is recognized in the fiscal year period in which the award is granted.

Business Segments

The Corporation has determined that its current business and operations consist of one business segment.

Recent Accounting Pronouncements

Accounting Standards Update (*"ASU"*) No. 2014-19, *"Revenue From Contracts With Customers."* ASU 2014-19 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principal of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services." The new guidance applies to all contracts with customers except those that are within the scope of other topics in GAAP. The amendment is effective for annual reporting periods, including interim reporting periods within those periods, beginning after December 15, 2016 and is not expected to have a material impact on the Company's Consolidated Financial Statements.

Subsequent Events

Subsequent events have been evaluated for potential recognition and/or disclosure through the date of the auditors' report which is the date these consolidated financial statements were available to be issued.

3. RESTRICTIONS ON CASH AND DUE FROM BANKS

The Bank is required by Federal Reserve to maintain a reserve balance based principally on deposit liabilities. The balance maintained is included in cash and due from banks. The reserve balances kept at the Federal Reserve Bank as of December 31, 2014 and 2013 were $10,025,000 and 21,025,000, respectively with a restricted amount of $25,000 for each year.

4. INVESTMENT SECURITIES

The amortized cost and estimated fair values of investments securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Balance at December 31, 2014				
Available-for-sale:				
U.S. government agencies	$ 27,771,553	$ -	$ (571,123)	$ 27,200,430
State and municipals	3,968,265	-	(80,594)	3,887,671
Total	$ 31,739,818	$ -	$ (651,717)	$ 31,088,101
Held-to-maturity:				
State and municipals	$ -	$ -	$ -	$ -
Balance at December 31, 2013				
Available-for-sale:				
U.S. government agencies	$ 27,770,205	$ -	$ (1,820,703)	$ 25,949,502
State and municipals	3,988,528	-	(294,222)	3,694,306
Total	$ 31,758,733	$ -	$ (2,114,925)	$ 29,643,808
Held-to-maturity:				
State and municipals	$ -	$ -	$ -	$ -

Securities, with unrealized losses segregated by length of impairment at December 31, 2014 and December 31, 2013 were as follows:

December 31, 2014

	Less than 12 Months		More than 12 Months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Available-for-sale:						
U.S. government agencies	$ -	$ -	$27,200,430	$ (571,123)	$27,200,430	$ (571,123)
State and municipals	$ -	$ -	$ 3,887,671	$ (80,594)	$ 3,887,671	$ (80,594)

December 31, 2013

	Less than 12 Months		More than 12 Months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Available-for-sale:						
U.S. government agencies	$25,949,502	$ (1,820,703)	$ -	$ -	$25,949,502	$ (1,820,703)
State and municipals	$ 3,694,306	$ (294,222)	$ -	$ -	$ 3,694,306	$ (294,222)

Declines in the fair value of available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses.

Management has the intent to hold the securities classified as available-for-sale for a period of time sufficient for a recovery of cost and will not more likely than not be required to sell the securities before their anticipated recovery. The fair value is expected to recover as the debt securities approach their maturity date or repricing date. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2014, management believes the impairment detailed in the table above are temporary and no impairment loss has been realized in the Corporation's consolidated statements of operations.

The amortized cost and estimated fair value of debt securities at December 31, 2014, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers have the right to call or repay obligations without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Available-for-sale:		
Due after three years through five years	$ 13,492,253	$ 13,354,239
Due after five years through ten years	14,249,983	13,851,345
Due after ten years	3,997,582	3,882,517
Total	$ 31,739,818	$ 31,088,101

Securities with a fair value of $18,442,666 at December 31, 2014 have been pledged as collateral for money market and certificate of deposit accounts.

The only investments to a single issuer that exceed 10% of stockholders' equity are to federal government sponsored entities.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consist of the following at December 31:

	2014	2013
Real estate loans:		
Construction and land development	$ 5,283,657	$ 4,407,258
Commercial	85,456,946	83,684,998
Residential	28,271,119	26,538,520
	119,011,722	114,630,776
Commercial and industrial	32,082,233	38,396,619
Consumer	2,372,280	2,056,837
Total loans	153,466,235	155,084,232
Less allowance for loan losses	(2,792,619)	(2,834,337)
	$ 150,673,616	$ 152,249,895

The Bank has segregated its loan portfolio into five segments, including construction and land development, commercial real estate, residential real estate, commercial and industrial, and consumer. The Corporation primarily serves the Baltimore-Maryland Metropolitan area; therefore, exposure to credit risk is significantly affected by changes in this market area.

Construction lending includes lending for construction and development of residential properties (including multifamily), although the Bank does lend funds for the construction of commercial properties, including faith based properties. The Bank has financed the construction of non-residential properties on a case by case basis. Loan proceeds are disbursed during the construction phase according to a draw schedule based on the stage of completion. Construction loans are underwritten on the basis of the estimated value of the property as completed.

The Bank offers fixed and adjustable conventional mortgage loans on one-to-four family residential dwellings. Most loans are originated on properties located in the Bank's primary market area. These loans are offered for terms ranging from five to thirty years, amortized on a monthly basis with interest and principal due each month.

The Bank originates commercial real estate loans in its market area. These loans are generally larger and involve greater risks than residential real estate loans. Because payments on these loans are often dependent on the successful operation or management of the property, repayment of such loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks in a variety of ways, including limiting the size and loan-to-value ratios. The loans are typically originated with a five year maturity (five year call or balloon). The

Bank's commercial real estate loans are typically secured by retail or wholesale establishments, service industries, faith based properties and industrial or warehouse facilities.

The Bank offers secured and unsecured commercial business loans and lines of credit to businesses primarily located in its market area. Most business loans have terms of one to five years, with lines of credit that can be open for longer periods. The security for a business loan depends on the amount borrowed, the business involved, and the strength of the borrower. Commercial business lending entails significant risk, as the payments on such loans may depend upon successful operation or management of the business involved. The Bank attempts to limit its risk of loss on such loans by limiting the amount and the term, and by requiring personal guarantees of the principals of the business.

The Bank's consumer loans consist of automobile loans, deposit account loans, and installment loans. The loans are generally offered for terms of up to five years at fixed interest rates. Consumer loans are generally originated at higher interest rates than residential mortgage loans because of their higher risk. Repossessed collateral for a defaulted loan may not provide an adequate source of repayment as a result of damage, loss, or depreciation. In addition, collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy.

On an ongoing basis, the Bank assigns a grade to each of its loans. The internal grades are pass, special mention, substandard, and loss. Loans graded pass are high quality loans where the borrower exhibits a strong balance sheet position and good earnings and cash flow history. Loans graded special mention show potential weaknesses that deserve the Bank's close attention. If these potential weaknesses are not corrected, they may result in deterioration of the repayment prospects for the loan in the Bank's credit position at some future date. Substandard loans are inadequately protected by the current financial strength and paying capacity of the borrower or of the collateral pledged, if any. Substandard loans have a well defined weakness that could jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the weaknesses are not corrected. Loans graded doubtful have all the weaknesses inherent in substandard loans with the added characteristic that the weaknesses make collection or liquidation in full highly improbable. Assets graded loss are considered uncollectible and of such little value that their continuance as an asset is not warranted. The classification does not mean the loan has absolutely no recovery value, but that it is not practical to defer charging off the loan even though partial recovery may be affected in the future.

In accordance with new standards issued under the Disclosures of Credit Quality of Financing Receivables and the Allowance for Loan Losses, the following tables show credit quality indicators, the aging of receivables, and disaggregated balances of loan losses as of December 31, 2014 and 2013.

Information with respect to credit quality indicators is as follows:

As of December 31, 2014:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Credit risk profile by internally assigned grade:						
Pass	$ 4,841,420	$ 76,014,478	$ 27,831,365	$ 30,318,634	$ 2,372,280	$ 141,378,177
Special mention	-	3,667,926	-	174,734	-	3,842,660
Substandard	-	5,774,542	439,754	1,588,865	-	7,803,161
Doubtful	442,237	-	-	-	-	442,237
Total	$ 5,283,657	$ 85,456,946	$ 28,271,119	$ 32,082,233	$ 2,372,280	$ 153,466,235
Credit risk profile based on payment activity:						
Performing	$ 4,841,420	$ 81,862,694	$ 28,219,850	$ 32,067,043	$ 2,362,411	$ 149,353,418
Nonperforming	442,237	3,594,252	51,269	15,190	9,869	4,112,817
Total	$ 5,283,657	$ 85,456,946	$ 28,271,119	$ 32,082,233	$ 2,372,280	$ 153,466,235

As of December 31, 2013:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Credit risk profile by internally assigned grade:						
Pass	$ 3,415,061	$ 75,597,294	$ 26,148,960	$ 34,305,935	$ 2,056,837	$ 141,524,087
Special mention	-	4,061,161	-	-	-	4,061,161
Substandard	-	4,026,543	389,560	2,409,240	-	6,825,343
Doubtful	992,197	-	-	1,681,444	-	2,673,641
Total	$ 4,407,258	$ 83,684,998	$ 26,538,520	$ 38,396,619	$ 2,056,837	$ 155,084,232
Credit risk profile based on payment activity:						
Performing	$ 3,415,061	$ 82,376,496	$ 26,538,520	$ 35,339,551	$ 2,044,970	$ 149,714,598
Nonperforming	992,197	1,308,502	-	3,057,068	11,867	5,369,634
Total	$ 4,407,258	$ 83,684,998	$ 26,538,520	$ 38,396,619	$ 2,056,837	$ 155,084,232

Information on aging analysis of past due loans is as follows:

As of December 31, 2014:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
30-59 days past due	$ -	$ 1,053,128	$ -	$ 46,019	$ 22,155	$ 1,121,302
60-89 days past due	-	738,605	26,173	48,451	-	813,229
Greater than 90 days past due	442,237	2,576,947	51,269	908,661	9,869	3,988,983
Total past due	442,237	4,368,680	77,442	1,003,131	32,024	5,923,514
Current	4,841,420	81,088,266	28,193,677	31,079,102	2,340,256	147,542,721
Total loans receivable	$ 5,283,657	$ 85,456,946	$ 28,271,119	$ 32,082,233	$ 2,372,280	$ 153,466,235
Recorded investment > 90 days and accruing	$ -	$ -	$ -	$ -	$ 9,869	$ 9,869

As of December 31, 2013:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
30-59 days past due	$ -	$ 1,377,589	$ 319,739	$ 1,742,779	$ -	$ 3,440,107
60-89 days past due	-	473,630	-	456,564	-	930,194
Greater than 90 days past due	992,197	1,155,190	-	2,992,636	-	5,140,023
Total past due	992,197	3,006,409	319,739	5,191,979	-	9,510,324
Current	3,415,061	80,678,589	26,218,781	33,204,640	2,056,837	145,573,908
Total loans receivable	$ 4,407,258	$ 83,684,998	$ 26,538,520	$ 38,396,619	$ 2,056,837	$ 155,084,232
Recorded investment > 90 days and accruing	$ -	$ 659,528	$ -	$ -	$ 11,867	$ 671,395

The following table shows the allowance for loan losses and recorded investment in loans for each of the Bank's segments:

As of December 31, 2014:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning Balance	$ 230,238	$ 940,763	$ 156,221	$ 1,435,569	$ 64,152	$ 7,394	$ 2,834,337
Charge-offs	(454,660)	(400,000)	(72,678)	(1,681,445)	(29,760)	-	(2,638,543)
Recoveries	-	21,145	1,476	61,065	101,959	-	185,645
Provision	224,422	818,695	168,302	1,273,111	(75,810)	2,460	2,411,180
Ending Balance	$ -	$ 1,380,603	$ 253,321	$ 1,088,300	$ 60,541	$ 9,854	$ 2,792,619
Ending balance individually evaluated for impairment	$ -	$ 520,564	$ 120,726	$ 138,574	$ -	$ -	$ 779,864
Ending balance collectively evaluated for impairment	$ -	$ 860,039	$ 132,596	$ 949,725	$ 60,541	$ 9,854	$ 2,012,755
Loans receivable:							
Ending balance	$ 5,283,657	$ 85,456,946	$ 28,271,119	$ 32,082,233	$ 2,372,280	$ -	$ 153,466,235
Ending balance individually evaluated for impairment	$ 442,327	$ 6,090,447	$ 1,117,297	$ 1,634,884	$ -	$ -	$ 9,284,955
Ending balance collectively evaluated for impairment	$ 4,841,330	$ 79,366,499	$ 27,153,822	$ 30,447,349	$ 2,372,280	$ -	$ 144,181,280

As of December 31, 2013:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning Balance	$ 61,460	$ 1,537,649	$ 169,875	$ 1,458,530	$ 22,732	$ 12,278	$ 3,262,524
Charge-offs	(180,959)	(364,396)	(113,517)	(1,933,748)	(146,188)	-	(2,738,808)
Recoveries	-	94,279	10,412	391,249	32,493	-	528,433
Provision	349,737	(326,769)	89,451	1,519,538	155,115	(4,884)	1,782,188
Ending Balance	$ 230,238	$ 940,763	$ 156,221	$ 1,435,569	$ 64,152	$ 7,394	$ 2,834,337
Ending balance individually evaluated for impairment	$ 230,238	$ 228,675	$ 44,700	$ 459,044	$ -	$ -	$ 962,657
Ending balance collectively evaluated for impairment	$ -	$ 712,088	$ 111,521	$ 976,525	$ 64,152	$ 7,394	$ 1,871,680

As of December 31, 2013:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Loans receivable:							
Ending balance	$ 4,407,258	$ 83,684,998	$ 26,538,520	$ 38,396,619	$ 2,056,837	$ -	$ 155,084,232
Ending balance individually evaluated for impairment	$ 992,197	$ 5,119,392	$ 1,077,642	$ 4,140,080	$ -	$ -	$ 11,329,311
Ending balance collectively evaluated for impairment	$ 3,415,061	$ 78,565,606	$ 25,460,878	$ 34,256,539	$ 2,056,837	$ -	$ 143,754,921

Management reviews and identifies loans that require designation as nonperforming assets. Nonperforming assets include loans accounted for on a non-accrual basis, loans past due 90 days or more but still accruing, and other real estate owned. Information with respect to nonperforming assets at December 31, is as follows:

	2014	2013
Non-accrual loans	$ 4,102,948	$ 4,698,239
Loans 90 days or more past due and still accruing	9,869	671,395
Total nonperforming loans	4,112,817	5,369,634
Real estate acquired through foreclosure	89,005	2,064,015
Total nonperforming assets	$ 4,201,822	$ 7,433,649

The balance of non-accrual loans for each of the Bank's segments is as follows:

As of December 31, 2014:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Unpaid principal balance	$ 442,237	$ 2,697,366	$ 51,269	$ 912,076	$ -	$ 4,102,948

As of December 31, 2013:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Unpaid principal balance	$ 992,197	$ 643,361	$ -	$ 3,062,681	$ -	$ 4,698,239

Troubled debt restructured ("TDR") loans result from renewals or modifications for which concessions are granted. These concessions include offering an interest rate that is not considered to be a market rate or an extension to the maturity which would not otherwise be considered for other loans with similar credit risk. TDR loans are individually evaluated for impairment and specific reserves are included in the allowance for loan losses. The following table shows information on TDR loans:

As of December 31, 2014:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Troubled debt restructuring outstanding principal balance	$ 442,237	$ 6,475,252	$ 1,066,029	$ 786,979	$ -	$ 8,770,497
Number of loans	1	10	2	5	-	18
Pre-modification principal balance	$ 2,212,669	$ 6,766,707	$ 1,089,960	$ 820,171	$ -	$ 10,889,507
Post-modification principal balance	$ 2,212,669	$ 6,754,595	$ 1,046,619	$ 812,813	$ -	$ 10,826,696
Troubled debt restructurings that subsequently defaulted:						
Number of loans	1	2	-	1	-	4
Current principal balance	$ 442,237	$ 876,830	$ -	$ 3,414	$ -	$ 1,322,481

As of December 31, 2013:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Troubled debt restructuring outstanding principal balance	$ 992,197	$ 5,612,146	$ 1,077,641	$ 763,630	$ -	$ 8,445,614
Number of loans	1	10	2	3	-	16
Pre-modification principal balance	$ 2,212,669	$ 5,723,309	$ 1,089,960	$ 810,257	$ -	$ 9,836,195
Post-modification principal balance	$ 2,212,669	$ 5,672,737	$ 1,045,945	$ 802,359	$ -	$ 9,733,710
Troubled debt restructurings that subsequently defaulted:						
Number of loans	1	2	-	1	-	4
Current principal balance	$ 992,197	$ 162,234	$ -	$ 81,444	$ -	$ 1,235,875

Impaired loans include loans that management has identified where it is probable that all amounts due will not be collected in accordance with the contractual terms of the loan. An impaired loan may involve deficiencies in the borrower's overall financial condition, payment history, support available from financial guarantors, changes in expected future cash flows or the fair market value of any collateral. Loans that are returns to accrual status are no longer considered to be impaired.

Information with respect to impaired loans at December 31, and for the years then ended is as follows:

	2014	2013
Impaired loans with a valuation allowance	$ 5,422,599	$ 7,607,979
Impaired loans without a valuation allowance	3,862,356	3,721,332
Total impaired loans	$ 9,284,955	$ 11,329,311
Allowance for loan losses related to impaired loans	$ 779,864	$ 962,657
Allowance for loan losses related to other than impaired loans	2,012,755	1,871,680
Total allowance for loan losses	$ 2,792,619	$ 2,834,337
Average impaired loans for the year	$ 10,820,859	$ 12,155,029
Interest income recognized on impaired loans	$ 492,398	$ 453,894

Information on impaired loans for each of the Bank's segments is as follows:

As of December 31, 2014:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Loans with a valuation allowance:						
Unpaid principal balance	$ -	$ 3,690,661	$ 1,066,028	$ 665,910	$ -	$ 5,422,599
Related allowance for loan losses	$ -	$ 520,564	$ 120,726	$ 138,574	$ -	$ 779,864
Average recorded investment	$ -	$ 3,731,954	$ 1,072,209	$ 675,009	$ -	$ 5,479,172
Interest income recognized	$ -	$ 157,694	$ 54,533	$ 41,549	$ -	$ 253,776
Loans without a valuation allowance:						
Unpaid principal balance	$ 442,327	$ 2,399,786	$ 51,269	$ 968,974	$ -	$ 3,862,356
Average recorded investment	$ 1,088,920	$ 2,826,463	$ 51,303	$ 1,375,001	$ -	$ 5,341,687
Interest income recognized	$ -	$ 102,098	$ 600	$ 135,924	$ -	$ 238,622

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Totals:						
Unpaid principal balance	$ 442,327	$ 6,090,447	$ 1,117,297	$ 1,634,884	$ -	$ 9,284,955
Related allowance for loan losses	$ -	$ 520,564	$ 120,726	$ 138,574	$ -	$ 779,864
Average recorded investment	$ 1,088,920	$ 6,558,417	$ 1,123,512	$ 2,050,010	$ -	$ 10,820,859
Interest income recognized	$ -	$ 259,792	$ 55,133	$ 177,473	$ -	$ 492,398

As of December 31, 2013:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Loans with a valuation allowance:						
Unpaid principal balance	$ 992,197	$ 3,174,509	$ 1,077,642	$ 2,363,631	$ -	$ 7,607,979
Related allowance for loan losses	$ 230,238	$ 228,675	$ 44,700	$ 459,044	$ -	$ 962,657
Average recorded investment	$ 1,873,252	$ 3,192,886	$ 1,082,468	$ 2,389,261	$ -	$ 8,537,867
Interest income recognized	$ -	$ 177,257	$ 55,806	$ 124,488	$ -	$ 357,551
Loans without a valuation allowance:						
Unpaid principal balance	$ -	$ 1,944,883	$ -	$ 1,776,449	$ -	$ 3,721,332
Average recorded investment	$ -	$ 1,967,158	$ -	$ 1,650,004	$ -	$ 3,617,162
Interest income recognized	$ -	$ 93,076	$ -	$ 3,267	$ -	$ 96,343
Totals:						
Unpaid principal balance	$ 992,197	$ 5,119,392	$ 1,077,642	$ 4,140,080	$ -	$ 11,329,311
Related allowance for loan losses	$ 230,238	$ 228,675	$ 44,700	$ 459,044	$ -	$ 962,657
Average recorded investment	$ 1,873,252	$ 5,160,044	$ 1,082,468	$ 4,039,265	$ -	$ 12,155,029
Interest income recognized	$ -	$ 270,333	$ 55,806	$ 127,755	$ -	$ 453,894

The Bank has granted loans to certain officers and directors of the Bank and their associates. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability. The aggregate dollar amount of these loans was $5,345,762 and $5,696,797 at December 31, 2014 and 2013, respectively. During 2014, no new loans were made while repayments totaled $351,035. During 2013, no new loans were made while repayments totaled $3,388,584.

Loans serviced for others by the Corporation under its New Market Tax Credits Program totaled $121,520,000 at December 31, 2014 and $84,227,000 as of December 31, 2013.

6. PREMISES AND EQUIPMENT

The major classes of premises and equipment at December 31, are summarized as follows:

	2014	2013
Land	$ 631,900	$ 631,900
Buildings	2,265,463	2,265,463
Furniture, fixtures and equipment	3,067,044	3,026,091
Leasehold improvements	6,318,440	6,247,475
	12,282,847	12,170,929
Less accumulated depreciation and amortization	8,700,196	8,257,702
	$ 3,582,651	$ 3,913,227

Depreciation and amortization expense was $442,494 and $499,207 for the years ended December 31, 2014 and 2013 respectively.

The Bank leases branch and office facilities. The lease agreements provide for the payment of utilities and taxes by the lessee. Future minimum payments for each of the five succeeding years under noncancelable operating leases consisted of the following at December 31, 2014:

2015	$ 444,675
2016	366,105
2017	186,522
2018	151,695
2019	126,695
Thereafter	406,779
	$ 1,682,471

Total rental expense under operating leases amounted to $506,096 and $488,647 for the years ended December 31, 2014 and 2013, respectively.

7. INVESTMENT ACCOUNTED FOR BY THE EQUITY METHOD

The Corporation owned a 10% interest in Alluvion Securities, LLC (the "LLC") which is primarily involved in assisting certain entities with loan placements and bond closing transactions. The investment was accounted for using the equity method of accounting, was included in other assets, and amounted to $20,000 as of December 31, 2013. Management charged off the remaining $20,000 investment as of December 31, 2014 to effectively end this relationship.

8. DEPOSITS

Maturities of time deposits as of December 31, 2014 are as of follows:

2015	$ 29,820,469
2016	7,226,607
2017	2,024,925
2018	1,579,320
2019	861,714
Thereafter	14,361
	$ 41,527,396

Deposits are the Corporation's primary funding source for loans and investment securities. The mix and repricing alternatives can significantly affect the cost of this source of funds and, therefore, impact the margin.

As of December 31, 2014, deposits to a single party exceeding 10% of total deposits approximated $36,000,000. The depositor is a related party to the Corporation.

Overdrawn demand deposits reclassified as loans receivable in the consolidated balance sheets amounted to $315,665 and $45,455 as of December 31, 2014 and 2013, respectively.

9. INCOME TAX

The Corporation's provision for income taxes for the years ended December 31, is summarized as follows:

	2014	2013
Taxes currently payable	$ 50,131	$ 45,839
Deferred tax expense (benefit)	168,254	(91,639)
Income tax expense (benefit) for the year	$ 218,385	$ (45,800)

A reconcilement of the difference between the statutory federal income tax rate and the effective tax rate for the Corporation is as follows:

	2014	2013
Federal income tax rate	34.0 %	(34.0) %
State income taxes, net of federal income tax effect	5.6	(5.6)
Decrease resulting from:		
Increase in value of bank-owned life insurance	(7.2)	(169.6)
Other	(12.0)	101.2
Effective tax rate	20.4 %	(108.0) %

Significant components of the Corporation's deferred tax liabilities and assets at December 31, are as follows:

	2014	2013
Deferred tax liabilities:		
Allowance for loan losses	$ 202,747	$ 78,254
Goodwill	99,886	80,146
Total gross deferred tax liabilities	302,633	158,400
Deferred tax assets:		
Net operating loss	4,166,862	4,162,505
Depreciation	1,357,198	1,307,380
Deferred compensation	842,970	835,959
Other real estate owned valuation	38,165	56,176
Nonaccrual loan interest	241,860	260,657
Other	215,626	264,025
Total gross deferred tax assets	6,862,681	6,886,702
Net deferred tax assets attributable to operations	$ 6,560,048	$ 6,728,302
Deferred tax on unrealized loss on investments charged to other comprehensive income	257,101	834,337
Net deferred income tax assets	$ 6,817,149	$ 7,562,639

The Corporation has net operating loss carryforwards for federal income tax purposes of approximately $9.9 million at December 31, 2014, which is available to offset future taxable income and which expire in 2028 through 2033. The Corporation expects to fully realize the benefits of these tax loss carryforwards before their expiration.

The Corporation's income tax returns are subject to review and examination by federal and state taxing authorities and are currently open to audit under the applicable statutes of limitations by the

Internal Revenue Service for the years ended December 31, 2011 through and including 2014. The years open to examination by state taxing authorities vary by jurisdiction.

10. FEDERAL HOME LOAN BANK BORROWING

The Bank has approved credit facilities of $18,350,000 and $19,260,000 with the Federal Home Loan Bank of Atlanta as of December 31, 2014 and 2013. Borrowings outstanding under these facilities totaled $5,000,000 as of December 31, 2014 and 2013, with interest of 1.98% which mature in 2018. Loans totaling $23,127,730 at December 31, 2014 have been pledged as collateral for these facilities.

11. JUNIOR SUBORDINATED DEBENTURES

On October 9, 2003, the Corporation issued floating rate junior subordinated debt securities due 2033 in the amount of $7.2 million. The debt securities were issued by the Corporation pursuant to an indenture, dated as of October 9, 2003, between the Corporation and Wilmington Trust Company. Upon the receipt of the net funds, the Corporation paid off long-term debt in the amount of $1.8 million, and invested $4.9 million as capital in the Bank, increasing the Bank's tier one capital. Payments from the debt securities are used to fund dividends on the Corporation's trust preferred securities. The interest rate on the debentures was 3.24% at December 31, 2014.

The Corporation exercised its right to defer interest payments on the debt securities beginning with the payment due February 8, 2010. This deferment is permitted by the terms of the junior subordinated debentures and does not constitute an event of default so long as there is no other event of default. Interest on the debt securities continues to accrue and is required to be paid in full prior to the expiration of the deferral period. The total deferral period may not exceed 20 consecutive quarters.

While in deferment, the Corporation, after obtaining regulatory approval, paid dividends on its Troubled Asset Relief Program ("TARP") preferred stock. Under the indenture and the trust preferred documents, the payment of dividend on junior securities, such as TARP preferred stock during the interest deferral period and while interest is due on the trust preferred can result in an event of default. An event of default may result in the trust preferred becoming immediately and fully due and an obligation to pay costs and expenses of collection. Attempts were made by the Corporation to cure the potential event of default including a request for permission from its regulators to pay all interest due on its trust preferred at the end of the extension period dated May 8, 2011, which was denied, and a request for the Department of Treasury to refund the TARP dividends previously made during the deferral period, which also was denied. The Corporation received a notice of an event of default from its trust preferred trustee during 2011 requesting the event of default be remedied. Since then, no action or demand for immediate repayment has been brought against the Corporation. The Corporation may not make any distributions of interest or principal on the subordinated debentures without the approval of the Federal Reserve Bank of Richmond. The Corporation has provided notice that it intends to continue to defer interest through February 8, 2015, the end of the deferment period.

12. EMPLOYEE BENEFIT PLANS

Stock Options

The Corporation has stock option award arrangements which provide for the granting of options to acquire common stock by directors and key employees. Option prices are equal to or greater than the estimated fair market value of the common stock at the date of the grant. Options are generally exercisable immediately after the date of the grant.

A summary of the Corporation's stock option as of December 31, 2014 and 2013 and changes during the years ended on those dates is presented below:

	2014		2013	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at the beginning of the year	16,100	$ 22.04	19,291	$ 21.38
Granted	-	-	-	-
Forfeited	-	-	-	-
Expired	(5,299)	(21.69)	(3,191)	(18.00)
Outstanding at end of year	10,801	$ 22.22	16,100	$ 22.04
Options exercisable at year-end	10,801	$ 22.22	16,100	$ 22.04
Weighted-average fair value of options granted during the year	-	$ -	-	$ -

The following table summarizes information about stock options outstanding at December 31, 2014:

Exercise Price Range	Options Outstanding	Weighted-Average Life (Years)	Options Exercisable	Weighted-Average Life (Years)
$12.49 - $25.00	10,801	2.14	10,801	2.14

There is no intrinsic value for the stock options outstanding as of December 31, 2014. There are no amounts of unearned stock-based compensation currently estimated to be expensed from 2014 related to unvested stock-based payment awards at December 31, 2014. There were no stock options exercised during 2014.

The Corporation had stock-based compensation expense of $22,650 for the year ended December 31, 2014, there was no stock-based compensation for the year ended December 31, 2013.

Profit Sharing Retirement Savings Plan

The Corporation has established a defined contribution plan covering employees meeting certain age and service eligibility requirements. The plan provides for cash deferrals qualifying under Section 401(k). Matching contributions made by the Corporation approximated $67,000 and $63,000 for the years ended December 31, 2014 and 2013, respectively.

Deferred Compensation

The Bank has entered into deferred compensation agreements with three of its executive officers. Under the agreements, the Bank is obligated to provide for the officers or their beneficiaries certain lump-sum benefit payments after the employee's death, disability or retirement. The estimated present value of future benefits to be paid is being accrued over the period from the effective date of the agreements until the full eligibility dates of the participants and totaled $2,138,198 and $2,119,038 at December 31, 2014 and 2013, respectively. The expense incurred for this plan for the years ended December 31, 2014 and 2013 was $17,772 and $18,045 respectively. The Bank is the beneficiary of life insurance policies, with aggregate cash surrender value of $7,100,465 at December 31, 2014, that were purchased as a method of partially financing benefits under this plan.

13. CONCENTRATIONS OF CREDIT RISK

Real estate loans were comprised of the following at December 31:

	2014	% of Loans Outstanding	2013	% of Loans Outstanding
Commercial real estate	$ 90,740,603	59.1%	$ 88,092,256	56.8%
Residential real estate	28,271,119	18.4	26,538,520	17.1
	$ 119,011,722	77.5%	$ 114,630,776	73.9%

Most of the real estate collateralizing these loans is within the greater Baltimore metropolitan area. Consequently, the Corporation and our borrowers are affected by the economic conditions prevailing in our market area.

14. PREFERRED STOCK

On July 17, 2009 the Corporation entered into and consummated a Letter Agreement (the "Purchase Agreement") with the United States Department of the Treasury (the "Treasury"), pursuant to which the Corporation issued 6,800 shares of the Corporation's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock"), having a liquidation amount per share equal to $1,000, for a total purchase price of $6,800,000. The Series A Preferred Stock pays cumulative dividends at a rate of 5% per year for the first five years and thereafter at a rate of 9% per year. No warrants to purchase preferred or common stock were issued in connection with the transaction. As a result of legislative changes during 2009, and subject to the issuance of implementing regulations and consultation with the Corporation's and Bank's federal regulators, the Corporation may, at its option, redeem the Series A Preferred Stock at the liquidation amount plus accrued and unpaid dividends. The Series A Preferred Stock is non-voting, except in limited circumstances. Prior to the third anniversary of issuance, unless the Corporation has redeemed all of the Series A Preferred Stock or the Treasury has transferred all of the Series A Preferred Stock to a third party, the consent of the Treasury will be required for the Corporation to increase its common stock dividend or repurchase its common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Purchase Agreement. Pursuant to an agreement signed between the Corporation and the Federal Reserve Bank of Richmond (the "FRB") during 2010, the Corporation is prohibited from declaring or paying any dividends, including preferred stock dividends, without the FRB's prior written approval. Preferred dividends arising during the years ended December 31, 2014 and 2013 were $496,224 and $392,251, respectively, none of which were declared and paid. As of December 31, 2014, cumulative unpaid preferred dividends in arrears totaled $1,864,416. Additional provisions from this agreement are described in Note 15; Regulatory Matters.

15. REGULATORY MATTERS

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). As of December 31, 2014, the capital levels of the Corporation and the Bank exceed all minimum capital adequacy requirements to which they are subject. There are no conditions or events since December 31, 2014 that management believes have changed the Bank's capital rating.

The Corporation's and the Bank's actual capital amounts and ratios are also presented in the table (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Minimum Amount	Required Ratio	Minimum Amount	Required Ratio
As of December 31, 2014:						
Total Capital (to risk-weighted total assets)						
Harbor Bankshares Corporation	$ 23,057	14.2 %	$ 12,999	8.0 %	$ 16,248	10.0 %
Harbor Bank of Maryland	$ 21,338	13.2 %	$ 12,984	8.0 %	$ 16,230	10.0 %

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Minimum Amount	Required Ratio	Minimum Amount	Required Ratio
Tier 1 Capital (to risk weighted assets)						
Harbor Bankshares Corporation	$ 17,833	11.0 %	$ 6,500	4.0 %	$ 9,749	6.0 %
Harbor Bank of Maryland	$ 19,300	11.9 %	$ 6,492	4.0 %	$ 9,738	6.0 %
Tier 1 Capital (to average assets)						
Harbor Bankshares Corporation	$ 17,833	8.0 %	$ 8,904	4.0 %	$ 11,130	5.0 %
Harbor Bank of Maryland	$ 19,300	8.7 %	$ 8,887	4.0 %	$ 11,109	5.0 %
As of December 31, 2013:						
Total Capital (to risk-weighted total assets)						
Harbor Bankshares Corporation	$ 21,733	13.2 %	$ 13,207	8.0 %	$ 16,508	10.0 %
Harbor Bank of Maryland	$ 22,126	13.4 %	$ 13,183	8.0 %	$ 16,478	10.0 %
Tier 1 Capital (to risk weighted assets)						
Harbor Bankshares Corporation	$ 16,478	9.9 %	$ 6,603	4.0 %	$ 9,905	6.0 %
Harbor Bank of Maryland	$ 20,057	12.2 %	$ 6,591	4.0 %	$ 9,887	6.0 %
Tier 1 Capital (to average assets)						
Harbor Bankshares Corporation	$ 16,478	7.0 %	$ 9,373	4.0 %	$ 11,716	5.0 %
Harbor Bank of Maryland	$ 20,057	8.6 %	$ 9,335	4.0 %	$ 11,669	5.0 %

Bank and holding company regulations, as well as Maryland law, impose certain restrictions on dividend payments by the Bank, as well as restricting extensions of credit and transfers of assets between the Bank and the Company. At December 31, 2014, the Bank is restricted from paying dividends to its parent company without regulatory approval.

On April 5, 2010, the Bank entered into a Consent Order (the "Order") with the Federal Deposit Insurance Corporation (the "FDIC") and the Maryland Commissioner of Financial Regulation (the "Commissioner"), which directs the Bank to (i) increase its capitalization, (ii) reduce nonperforming loans and concentrations in commercial real estate loans, (iii) strengthen management policies and practices, (iv) establish a comprehensive policy and methodology for determining an appropriate allowance for loan losses, and (v) increase its Board of Directors participation in the affairs of the Bank. As required by the Order, the Bank adopted a plan to achieve and maintain a Tier 1 Leverage Capital ratio of at least 8% of the Bank's average total assets and a Total Risk-Based Capital ratio of at least 12% of its Total Risk Weighted Assets by September 30, 2010. At December 31, 2014, the Bank exceeded the minimum required ratios and reported a Tier 1 Leverage Capital ratio of 8.7% and a Total Risk-Based Capital ratio of 13.2%. The Bank has submitted to regulatory agencies for non-objection a capital plan describing the manner in which the Bank will maintain the capital ratios directed by the Order. Within 60 days after the end of each calendar year, the Bank shall develop and fully implement a written profit plan consisting of goals and strategies consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by the Order. While the Order is in effect, the Bank may not pay dividends without the FDIC's prior consent; the Bank may not accept, renew, or roll over any brokered deposits or pay effective yields on deposits that are greater than those generally paid in its market. On February 13, 2013 the order was terminated and replaced with a Memorandum of Understanding, "MOU", which is still in effect as of December 31, 2014. The "MOU" provides for certain restrictions on dividend and interest payments and also debt and redemption of stock. Additionally, the "MOU" expresses management's fiduciary responsibility, requests progress reports to be filed by the Corporation within 45 days of each quarter end while under the "MOU" and compels the board of directors to monitor the Corporation's adherence to the memorandum.

Harbor Bankshares Corporation was also a party to a written agreement with the Federal Reserve Bank of Richmond (the "FRB Agreement"), which requires it to serve as a source of strength to the Bank, including taking steps to ensure that the Bank complies with the Consent Order entered into with the FDIC and the Division and any other supervisory action taken by the Bank's federal or state regulator. As noted above, the Bank had its consent order lifted and replaced with an "MOU", and accordingly Harbor Bankshares Corporation also had it's written agreement lifted and replaced with an "MOU". The agreement also prohibits the Corporation from taking any of the following actions without the FRB's prior written approval: (i) declaring or paying any dividends; (ii) taking dividends from the Bank; (iii) making any distributions of interest, principal or other sums on Harbor Bankshares Corporation's subordinated debentures or trust preferred securities; (iv) incurring, increasing or guaranteeing any debt; or (v) repurchasing or redeeming any shares of its stock.

16. EARNINGS PER COMMON SHARE

Basic and diluted loss per common share calculations for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
BASIC:		
Net income (loss) available to common stockholders	$ 354,767	$ (304,056)
Average common shares outstanding	989,604	867,565
Income (loss) per common share - basic	$ 0.36	$ (0.35)

	2014	2013
DILUTED:		
Net income (loss) available to common stockholders	$ 354,767	$ (304,056)
Average common shares outstanding	989,604	867,565
Stock option adjustment	-	-
Average common shares outstanding - diluted	989,604	867,565
Income (loss) per common share - basic	$ 0.36	$ (0.35)

Basic earnings per common share is calculated by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period.

Diluted earnings per common shares takes into consideration the pro forma dilution assuming the Corporation's outstanding in-the-money stock options were converted or exercised into common shares. The average price of the Corporation's common stock for the period is used to determined the dilutive effect of outstanding stock options. As of December 31, 2014 and 2013, the Corporation had 10,801 and 16,100 outstanding stock options, respectively. For the years ended December 31, 2014 and 2013, all options were antidilutive and excluded from the computation.

17. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Corporation has various outstanding credit commitments which are properly not reflected in the financial statements. These commitments are made to satisfy the financing needs of the Corporation's clients. The associated credit risk is controlled by subjecting such activity to the same credit and quality controls as exist for the Corporation's lending and investing activities. The commitments are generally variable rate and involve diverse business and consumer customers and are generally well collateralized. Management does not anticipate that losses, if any, which may occur as a result of these commitments would materially affect the stockholders' equity of the Corporation. Since a portion of the commitments have some likelihood of not being exercised, the amounts do not necessarily represent future cash requirements.

Loan and credit line commitments, totaled $12,461,792 at December 31, 2014 and $8,720,789 at December 31, 2013. These commitments are contingent upon continuing customer compliance with the terms of the agreement.

Commercial letters of credit, totaling $4,022,502 at December 31, 2014 and $4,030,865 at December 31, 2013, are obligations to make payments under certain conditions to meet contingencies related to customers' contractual agreements. They are primarily used to guarantee a customer's contractual and/or financial performance, and are seldom exercised.

18. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Corporation adopted accounting guidance that defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. Fair value should be based on the assumptions market participants would use when pricing an asset or liability. In support of this principle, the FASB established a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following table presents the Bank's assets measured at fair value on a recurring basis as of December 31, 2014 and 2013:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Mkts. for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Available-for-sale securities - U.S. government agencies	$ 31,088,101	$ -	$ 31,088,101	$ -
December 31, 2013				
Available-for-sale securities - U.S. government agencies	$ 29,643,808	$ -	$ 29,643,808	$ -

Securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Bank obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the terms and conditions of the security, among other things.

The following table presents the assets measured at fair value on a nonrecurring basis as of December 31, 2014 and 2013:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Mkts. for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Impaired loans (net of related allowances)	$ 8,505,091	$ -	$ 8,505,091	$ -
Real estate acquired through foreclosure	$ 89,005	$ -	$ 89,005	$ -

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Mkts. for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013				
Impaired loans (net of related allowances)	$ 10,366,654	$ -	$ 10,366,654	$ -
Real estate acquired through foreclosure	$ 2,064,015	$ -	$ 2,064,015	$ -

Loans for which it is probable that the Corporation will not collect all principal and interest due according to contractual terms are measured for impairment as prescribed by accounting guidance for accounting by creditors for impairment of a loan. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method. In our determination of fair value, we have categorized both methods of valuation as estimates based on Level 2 inputs.

The estimated fair value of real estate acquired through foreclosure is generally based upon independent appraisal of the collateral, listing prices, or discounted based on various economic factors consistent with management's loan review policies. These collateral values are considered to be estimated using Level 2 inputs.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting guidance requires the Corporation to disclose fair value information about financial instruments for which it is practicable to estimate, whether or not such fair values are reflected in the consolidated balance sheets. Estimated fair value amounts have been determined using available market information and other valuation methodologies. However, considerable judgment is required to interpret market data in developing the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amount that could be realized in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value amounts.

Cash and Due from Banks and Federal Funds Sold

The carrying amount approximated fair value.

Interest-Bearing Deposits in Other Banks

Due to their short-term nature, the carrying amount approximated fair value.

Investment Securities

The fair values of securities are based upon quoted market prices when available. If quoted market prices are not available, fair values are based upon quoted market prices of comparable instruments.

Loans

The fair value of the loan portfolio is estimated by discounting contractual cash flows adjusted for estimated prepayments. Assumptions regarding prepayment estimates and discount rates are judgmentally determined by using available market and historical information. The reserve for possible loan losses is allocated to the various components of the loan portfolio in determining the fair value.

FHLB of Atlanta Stock

Due to its restrictive nature, the fair value of FHLB of Atlanta Stock approximates its carrying value.

Accrued Interest Receivable

The carrying amount reported in the consolidated balance sheets is a reasonable estimate of fair value.

Bank-Owned Life Insurance

The carrying amount reported in the consolidated balance sheets represents cash to be received on the surrender value of life insurance policies and is reasonable estimate of value.

Deposits

The fair value for demand deposits is, by definition, equal to the amount payable on demand at the reporting date. The carrying amounts for savings and interest bearing demand deposits approximate their fair values at the reporting date. Fair values for certificates of deposit are estimated using discounted cash flow analysis, adjusted for estimated decay rates, that applies interest rates currently offered for funding sources with similar maturities. Assumptions regarding discount rates and decay estimates are judgmentally determined by using available market information.

Accrued Interest Payable

Accrued interest payable includes interest expensed but not yet paid for deposits and notes payable. The carrying amount approximates its fair value.

Junior Subordinated Debentures

Long-term debt is discounted on a cash flow approach based on market rates as of December 31, 2014 and 2013. As the long-term debt is subject to a floating rate which resets quarterly, the carrying amount approximates its fair value.

Federal Home Loan Bank Borrowings

Federal Home Loan Bank borrowings is discounted on a cash flow approach based on market rates as of December 31, 2014 and 2013.

Off-Balance Sheet Financial Instruments

The Corporation charges fees for commitments to extend credit. Interest rates on loans for which these commitments are extended are normally committed for periods of less than one month.

Fees charged on standby letters of credit and other financial guarantees are deemed to be immaterial and these guarantees are expected to be settled at face amount or expire unused. It is impractical to assign any fair value to these commitments.

The carrying values and estimated fair values of the Corporation's financial assets and liabilities are as follows:

		Fair Value Measurements at Reporting Date Using		
	Carrying Value	Quoted Prices in Active Mkts. for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Financial assets:				
Cash and due from banks	$ 19,584,999	$ 19,584,999	$ -	$ -
Federal funds sold	1,755,000	1,755,000	-	-
Interest bearing deposits in other banks	11,067,661	11,067,661	-	-
Investment securities				
Available-for-sale	31,088,101	-	31,088,101	-
Held-to-maturity	-	-	-	-
Loans, net of allowances	150,673,616	-	-	155,893,000
FHLB of Atlanta stock	444,100	444,100	-	-
Accrued interest receivable	766,548	766,548	-	-
Bank-owned life insurance	7,100,465	7,100,465	-	-
Financial liabilities:				
Deposits	197,934,484	-	-	199,936,000
Accrued interest payable	1,436,303	1,436,303	-	-
Junior subordinated debentures	7,217,000	7,217,000	-	-
Federal Home Loan Bank borrowings	5,000,000	-	5,140,460	-

		Fair Value Measurements at Reporting Date Using		
	Carrying Value	Quoted Prices in Active Mkts. for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013				
Financial assets:				
Cash and due from banks	$ 14,670,370	$ 14,670,370	$ -	$ -
Federal funds sold	1,752,000	1,752,000	-	-
Interest bearing deposits in other banks	22,069,274	22,069,274	-	-
Investment securities				
Available-for-sale	29,643,808	-	29,643,808	-
Held-to-maturity	-	-	-	-
Loans, net of allowances	152,249,895	-	-	154,665,000
FHLB of Atlanta stock	523,700	523,700	-	-
Accrued interest receivable	774,394	774,394	-	-
Bank-owned life insurance	6,890,192	6,890,192	-	-
Financial liabilities:				
Deposits	209,897,812	-	-	210,569,000
Accrued interest payable	1,225,691	1,225,691	-	-
Junior subordinated debentures	7,217,000	7,217,000	-	-
Federal Home Loan Bank borrowings	5,000,000	-	5,202,042	-

Off-Balance Sheet Financial Assets

	December 31, 2014		December 31, 2013	
	Estimated Amount	Estimated Fair Value	Estimated Amount	Estimated Fair Value
Commitments to extend credit and other unused commitments	$ 12,461,792	$ -	$ 8,720,789	$ -
Commercial letters of credit	4,022,502	-	4,030,865	-

20. RISKS AND CONTINGENCIES

The Corporation is party to certain legal actions in the course of business. Management of the Bank has been advised that certain employees may have installed and used unlicensed software in the performance of their duties at the Bank. In an effort to avoid litigation, the Bank is conducting an audit of all of its software and licenses. The financial impact of this potential litigation and settlement cannot be estimated at this time. Based on the information available at this time, it is management's opinion that the outcome of these matters, individually or in the aggregate, will not have a material effect on the results of operations or financial position of the corporation.

New Market Tax Credits Indemnifications

The Corporation has indemnified certain tax credit investors for certain Recapture Events in connection with the Corporation's participation in the Community Development Financial Institutions New Markets Tax Credit Program. The Corporation's indemnification obligation has been reduced from $12,449,384 to $9,382,884 as of December 31, 2014. The Corporation's compliance obligations associated with each indemnification will expire over time as shown in the schedule below. Events of Recapture include the Corporation or the applicable community development entity ("CDE") or subsidiary CDE ("sub-CDE") ceasing to be a CDE; redemption of investment in the sub-CDE; failure to meet certain compliance requirements; and indemnitor's gross negligence, fraud, willful misconduct, malfeasance, material violation of law, or bad faith action which results in a Recapture Event. In addition, the Corporation and sub-CDE income tax returns are subject to review and examination by federal and state taxing authorities and are currently open to audit under the applicable statutes of limitations by the Internal Revenue Service ("IRS") for the years ended December 31, 2011 through and including 2014. The Corporation's compliance obligations associated with $5,655,000 of indemnification expired in 2014, and is subject to IRS audit.

Maturities of compliance obligations as of December 31, 2014 are as of follows:

2015	$ -
2016	1,305,227
2017	1,492,052
2018	3,117,150
2019	879,955
2020	-
2021	2,588,500
	$ 9,382,884

The Corporation is in compliance with the rules and regulations of the Community Development Financial Institutions New Markets Tax Credit Program and engages experts on an annual basis to monitor such compliance. Management believes that the probability that the Corporation's indemnification obligations will be triggered is low.

21. SUBSEQUENT EVENTS

Subsequent to December 31, 2014 but prior to March 31, 2015, Harbor Bankshares Corporation paid $1,410,507 in order to bring current past due interest related to the trust preferred securities. With the