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FRB RICHMOND

Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). 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, top-tier savings and loan holding companies, and U.S. intermediate 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. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

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

Chairman, President & 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.*

Signature of Holding Company Director and Official

03/28/2018
Date of Signature

For holding companies _not_ *registered with the SEC–*
Indicate status of Annual Report to Shareholders:

- [x] 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, 2017
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.harborbank.com
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes | 0

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... [ ]
2. a letter justifying this request has been provided separately ... [ ]

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

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City State Zip Code

Physical Location (if different from mailing address)

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

Harbor Community Capital LLC
The Harbor Leverage Fund II LLC
The Harbor Leverage Fund III LLC
Harbor Parcel B Leverage Fund LLC
Harbor Community Fund I 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**

***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**
****The Harbor Bank of Baltimore Metropolitan Area Development LLC**
***Harbor RE Fund LLC**
***Harbor Business Development Fund LLC**

The Harbor Bank of Maryland
Baltimore, Maryland
Incorporated in Maryland

Harbor Bankshares Corporation Capital Trust
Wilmington, Delaware
Formed in Delaware

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., The Harbor Leverage Fund II LLC, The Harbor Leverage Fund III LLC, Harbor Parcel B Leverage Fund LLC, and Harbor Community Fund I LLC.

Harbor Bankshares Corporation owns 99% of and has management control of the above listed entities denoted by and asterisk (*).

Harbor Bankshares Corporation owns .01% and has management control of the above listed entities denoted by the double asterisk (**).

All entities located to the right of the page were "Organized in Maryland" with the exception of The Harbor Parcel B Leverage Fund LLC, The Harbor Leverage Fund II LLC, and The Harbor Leverage Fund III LLC, which were "Formed in Delaware". All of the referenced entities are located in Baltimore, Maryland.

None of the entities referenced above have a Legal Entity Identification (LEI) number as of December 31, 2017.

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 with At Least 5% Ownership (Voting Stock)

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

B) United States of America

C) 65,471 Shares 7.16%
Owned 70,746
Options 1,075

A) **John Paterakis (Deceased October 16, 2016)**
Baltimore, Maryland
United States of America

B) United States of America

C) 180,900 Shares 18.32 %
Owned 180,900
Options 0

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

B) United States of America

C) 96,228 Shares 9.74%
Owned 96,228
Options 0

A) **Joe Louis Gladney**
Baltimore, Maryland
United States of America

B) United States of America

C) 55,312 Shares 5.60%
Owned 55,312
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	7.16%
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.	1.86%
James H. DeGraffenreidt Washington, DC	Director	Retired Chairman and CEO WGL Holdings, Inc.	1.21%

REPORT ITEM 4: DIRECTORS AND OFFICERS (Continued)

NAME CITY & STATE	TITLE OR POSITION	PRINCIPAL OCCUPATION	PERCENT OF OWNERSHIP HARBOR BANKSHARES
Delores G. Kelley Randallstown, Maryland	Director	Senator, Maryland State Senate	1.01%
Erich March Baltimore, Maryland	Director	Vice President, William C. March Funeral Homes	1.78%
James Scott, Jr. Columbia, Maryland	Director	Principal Pennan and Scott P.C.	1.02%
Stanley W. Tucker Baltimore, Maryland	Director	President Meridian Management Group Inc	.005%
Kevin M. Johnson Hanover, Maryland	Director	President Commercial Interiors, Inc.	1.30%

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
Stanley W. Tucker	Meridian Management Group, Inc.	50.00%
	Morgan Advisory Group, LLC	33.33%
	MSBDFA Asset Management, LLC	50.00%
	MSBDFA Asset Management, LP (**this entity owns 1% of MMG Ventures, L.P.)	50.00%**
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%
	Maryland Service and Leasing, Inc.	25.00%
	Monetary Development, Inc.	25.00%
	e. March Productions,,LLC	100.00%
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%
Kevin M. Johnson	Commercial Interiors, Inc.	100.00%
	New Community Partners, LLC	100.00%
	Commercial Development, Inc.	100.00%

Results: A list of branches for your holding company: HARBOR BANKSHARES CORPORATION (2008130) of BALTIMORE, MD.
The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

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	

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Harbor Bankshares Corporation and Subsidiaries

Financial Statements

Years Ended December 31, 2017 and 2016

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Directors and Stockholders
Harbor Bankshares Corporation and Subsidiaries
Baltimore, Maryland

We have audited the accompanying consolidated financial statements of Harbor Bankshares Corporation and Subsidiaries (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditors' 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 2017 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, 2017, 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
Date

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Harbor Bankshares Corporation and Subsidiaries
Consolidated Balance Sheets
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 6,957,306	$ 15,499,607
Federal funds sold	1,785,000	1,766,000
Interest-bearing deposits in other banks	4,572,420	5,288,190
Cash and cash equivalents	13,314,726	22,553,797
Investment securities -		
Available-for-sale, at fair value	29,944,708	29,817,409
Loans	210,693,002	194,049,644
Allowance for loan losses	(2,232,083)	(2,578,724)
	208,460,919	191,470,920
Real estate acquired through foreclosure	150,000	1,009,235
Federal Home Loan Bank of Atlanta stock, at cost	1,089,100	483,700
Premises and equipment, net	2,797,403	3,092,472
Bank-owned life insurance	7,739,993	7,527,247
Deferred income taxes	853,020	1,380,575
Other assets	2,323,355	1,815,393
Total assets	$ 266,673,223	$ 259,150,748

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	2017	2016
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest bearing demand	$ 53,508,316	$ 59,131,631
Interest-bearing transaction accounts	26,649,974	20,411,395
Savings and money markets	71,839,709	86,428,217
Time, $250,000 or more	10,273,714	47,668,142
Other time	59,378,353	19,274,123
Total deposits	221,650,066	232,913,508
Accrued interest payable	292,606	262,828
Federal Home Loan Bank borrowings	20,000,000	5,000,000
Junior subordinated debentures	7,217,000	7,217,000
Other liabilities	5,136,206	2,584,122
Total liabilities	254,295,878	247,977,459
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 985,829 at December 31, 2017 and 2016; in addition to 33,795 common nonvoting at December 31, 2017 and 2016	9,858	9,858
Additional paid-in capital	9,224,525	9,224,525
Retained deficit	(2,648,321)	(3,741,350)
Accumulated other comprehensive loss	(1,008,718)	(1,119,745)
Total stockholders' equity	12,377,344	11,173,288
Total liabilities and stockholders' equity	$ 266,673,223	$ 259,150,748

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Harbor Bankshares Corporation and Subsidiaries
Consolidated Statements of Operations
December 31, 2017 and 2016

	2017	2016
Interest income:		
Interest and fees on loans	$ 9,633,779	$ 8,893,664
Interest on investments	648,486	689,179
Other interest income	87,275	82,095
Total interest income	10,369,540	9,664,938
Interest expense:		
Interest bearing transaction accounts	65,409	34,059
Savings and money markets	310,276	317,174
Time, $250,000 or more	551,055	346,863
Other time	176,954	190,234
Federal Home Loan Bank borrowings	124,525	100,100
Interest on junior subordinated debentures	249,392	249,392
Total interest expense	1,477,611	1,237,823
Net interest income	8,891,928	8,427,115
Provision for loan losses	450,000	-
Off balance sheet provision	120,000	-
Net interest income after provision for loan losses	8,321,928	8,427,115
Noninterest income:		
Management fees - New Market Tax Credits	3,818,324	162,014
Service charges on deposit accounts	166,645	148,220
Other service charges	422,899	372,657
Income from bank-owned life insurance	212,745	209,719
Income from Bank Enterprise award	112,489	-
Other income	661,124	386,784
Total noninterest income	5,394,226	1,279,395
Noninterest expenses:		
Salaries and benefits	5,545,600	5,486,224
Advertising	238,909	236,464
Occupancy expense of premises	1,298,921	1,348,631
Equipment expense	216,161	217,381
Data processing fees	1,350,911	1,191,876
Professional fees	1,539,152	987,649
FDIC insurance	483,330	506,039
Telephone	191,838	189,410
Loan and collection expense	116,979	98,847
Other expense	831,369	844,721

See accompanying notes.

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Total noninterest expense	11,813,171	11,107,242
Income (loss) before income taxes	$ 1,902,983	$ (1,400,734)
Income tax expense	809,954	6,040,875
Net income (loss)	$ 1,093,029	$ (7,441,609)
Preferred stock dividends not declared	1,031,638	950,302
Net income (loss) attributable to common stockholders	$ 61,391	$ (8,391,911)
Basic income (loss) per common share	$ 0.06	$ (8.23)
Diluted income (loss) per common share	$ 0.06	$ (8.23)

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Harbor Bankshares Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2017 and 2016

		2017		2016
Net income (loss):				
Changes in unrealized losses on securities available for sale, net of income taxes of $0 in 2017 and 2016		1,093,029	$	(7,441,609)
Total comprehensive income (loss)		111,027		(824,491)
	$	1,204,056	$	(8,266,100)

See accompanying notes.

Harbor Bankshares Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2017 and 2016

	Preferred Stock	Additional Common Stock	Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance, December 31, 2015	$ 6,800,000	$ 9,558	$ 9,014,825	$ 3,700,259	$ (295,254)	$ 19,229,388
Net loss	-	-	-	(7,441,609)	-	(7,441,609)
Other comprehensive loss	-	-	-	-	(824,491)	(824,491)
Common stock issued	-	300	209,700	-	-	210,000
Balance, December 31, 2016	6,800,000	9,858	9,224,525	(3,741,350)	(1,119,745)	11,173,288
Net Income	-	-	-	1,093,029		1,093,029
Other comprehensive income	-	-	-	-	111,027	111,027
Balance, December 31, 2017	$ 6,800,000	$ 9,858	$ 9,224,525	$ (2,648,321)	$ (1,008,718)	$ 12,377,344

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See accompanying notes.

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Harbor Bankshares Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Net income (loss)	$ 1,093,029	$ (7,441,609)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	348,261	388,482
Provision for loan losses	450,000	-
Off balance sheet provision	120,000	-
Gains and write-downs on other real estate owned, net	(192,414)	30,000
Decrease in deferred income taxes	527,555	6,040,874
Increase in bank-owned life insurance	(212,746)	(209,719)
(Increase) decrease in other assets	(524,234)	60,386
Increase (decrease) in accrued interest payable and other liabilities	2,581,861	(103,872)
Net cash provided by (used in) operating activities	4,191,312	(1,235,458)
Cash flows from investing activities:		
Purchase of FHLB stock	(605,400)	(47,100)
Purchases of securities available-for-sale	-	(32,979,131)
Proceeds from calls, maturities and principal payments of investment securities available-for-sale	-	41,000,000
Repayment and proceeds from the sale of other real estate owned	1,201,649	(60,515)
Net increase in loans	(17,709,999)	(31,307,724)
Purchases of premises and equipment	(53,191)	(159,391)
Net cash used in investing activities	(17,166,941)	(23,553,861)
Cash flows from financing activities:		
Net decrease in deposits	(11,263,442)	(21,093,371)
Net increase in advances from FHLB	15,000,000	-
Proceeds from sale of common stock	-	210,000
Net cash used in financing activities	3,736,558	(20,883,371)
Net decrease in cash equivalents	(9,239,071)	(45,672,690)
Cash and cash equivalents, beginning of period	22,553,797	68,226,487
Cash and cash equivalents, end of period	$ 13,314,726	$ 22,553,797
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 5,449	$ 5,449
Cash paid for interest	$ 1,198,442	$ 954,834

See accompanying notes.

Notes to Consolidated Financial Statements

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 subsidiaries conform to U.S. generally accepted accounting principles. Certain reclassifications have been made to amounts previously reported to conform to the classifications made in 2017. 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 Corporation (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 qualitative/environmental 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.

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 fair value on the date acquired, minus expected selling costs, 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 in value are expensed. 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.

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 Corporation 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 $238,909 and $236,464 for the years ended December 31, 2017 and 2016, respectively.

New market tax credit fee income

The fee income the Corporation receives related to the transfers of its New Market Tax Credits varies with each transaction but all are similar in nature. There are two basic types of fees associated with these transactions. The first is a "sub-allocation fee" that is paid to the Corporation when the tax credits are allocated to an entity at the time a qualified equity investment is made. This fee is recognized by the Corporation at the time of allocation. The second type of fee is paid to cover the administrative and servicing costs associated with compliance with the NMTC reporting requirements. This fee is recognized as the services are rendered.

Bank Enterprise Award ("BEA")

Income from BEA award is recognized in the fiscal year period in which the award is granted. The award for 2017 was $112,489.

Business segments

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

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, 2017 and 2016 were $25,000 and $2,024,479, 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, 2017				
Available-for-sale:				
U.S. government agencies	$ 27,046,006	$ -	$ (975,162)	$ 26,070,844
State and municipals	3,907,420	-	(33,556)	3,873,864
Total	$ 30,953,426	$ -	$ (1,008,718)	$ 29,944,708
Balance at December 31, 2016				
Available-for-sale:				
U.S. government agencies	$ 27,009,471	$ -	$ (1,095,839)	$ 25,913,632
State and municipals	3,927,683	-	(23,906)	3,903,777
Total	$ 30,937,154	$ -	$ (1,119,745)	$ 29,817,409

Securities, with unrealized losses segregated by length of impairment at December 31, 2017 and December 31, 2016 were as follows:

	Less than 12 Months		More than 12 Months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
December 31, 2017						
Available-for-sale:						
U.S. government Agencies	$ 3,437,050.	$ (62,949)	$22,633,794	$ (912,213)	$26,070,844	$ (975,162)
State and municipals	$ 2,184,662.	$ (12,497)	$ 1,689,202	$ (21,059)	$ 3,873,864	$ (33,556)
December 31, 2016						
Available-for-sale:						
U.S. government Agencies	$25,913,632	$(1,095,809)	$ -	$ -	$25,913,632	$(1,095,809)
State and municipals	$ 3,903,777	$ (23,906)	$ -	$ -	$ 3,903,777	$ (23,906)

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 it is not likely they will 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, 2017, management believes the unrealized losses detailed in the table above are temporary and no 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, 2017, 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 months through one year	$ 1,500,000	$ 1,490,730
Due after one year through three years	1,589,659	1,573,761
Due after three years through five years	3,559,866	3,506,720
Due after five years through ten years	24,303,901	23,373,497
Total	$ 30,953,426	$ 29,944,708

Securities with a fair value of $24,602,181 at December 31, 2017 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:

	2017	2016
Real estate loans:		
Construction and land development	$ 9,300,918	$ 789,310
Commercial	101,889,210	83,636,510
Residential	65,847,956	71,249,268
	177,038,084	155,675,088
Commercial and industrial	31,811,744	36,309,281
Consumer	1,843,174	2,065,275
Total loans	210,693,002	194,049,644
Less allowance for loan losses	(2,232,083)	(2,578,724)
	$ 208,460,919	$ 191,470,920

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 Bank 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 nonresidential 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.

The following tables show credit quality indicators, the aging of receivables, and disaggregated balances of loan losses as of December 31, 2017 and 2016.

Information with respect to credit quality indicators is as follows:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
As of December 31, 2017:						
Credit risk profile by internally assigned grade:						
Pass	$ 9,300,918	$ 98,203,880	$ 65,779,781	$ 30,590,406	$ 1,843,174	$ 205,718,159
Special mention	-	134,028	68,175	-	-	202,203
Substandard	-	3,284,813	-	977,210	-	4,262,023
Doubtful	-	266,489	-	244,128	-	510,617
Total	$ 9,300,918	$ 101,889,210	$ 65,847,956	$ 31,811,744	$ 1,843,174	$ 210,693,002
Credit risk profile based on payment activity:						
Performing	$ 9,300,918	$ 101,310,876	$ 65,377,950	$ 30,714,596	$ 1,827,471	$ 208,531,811
Nonperforming	-	578,334	470,006	1,097,148	15,703	2,161,191
Total	$ 9,300,918	$101,889,210	$ 65,847,956	$ 31,811,744	$ 1,843,174	$ 210,693,002
As of December 31, 2016:						
Credit risk profile by internally assigned grade:						
Pass	$ 789,310	$75,067,722	$71,232,214	$34,401,962	$ 2,065,275	$183,556,482
Special mention	-	5,431,869	-	1,256,601	-	6,688,471
Substandard	-	2,720,430	-	51,718	-	2,772,148
Doubtful	-	416,489	17,054	599,000	-	1,032,543
Total	$ 789,310	$83,636,510	$71,249,268	$36,309,281	$ 2,065,275	$194,049,644
Credit risk profile based on payment activity:						
Performing	$ 789,310	$83,012,819	$71,207,693	$35,710,281	$ 2,048,042	$192,768,145
Nonperforming	-	623,691	41,575	599,000	17,233	1,281,499
Total	$ 789,310	$83,636,510	$71,249,268	$36,309,281	$ 2,065,275	$194,049,644

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

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
As of December 31, 2017:						
30-59 days past due	$ 4,079,009	$ 977,867	$ 2,722,342	$ 782,337	$ 2,012	$ 8,563,567
60-89 days past due	-	95,180	-	-	5,825	101,005
Greater than 90 days past due	-	578,334	470,006	1,097,148	15,703	2,161,191
Total past due	4,079,009	1,651,381	3,192,348	1,879,485	23,540	10,825,763
Current	5,221,909	100,237,829	62,655,608	29,932,259	1,819,634	199,867,239
Total loans receivable	$ 9,300,918	$101,889,210	$ 65,847,956	$ 31,811,744	$ 1,843,174	$ 210,693,002
Recorded investment >90 days and accruing	$ -	$ -	$ -	$ -	$ 15,703	$ 15,703

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
As of December 31, 2016:						
30-59 days past due	$ -	$ 71,921	$ 379,409	$ 119,867	$ 31,809	$ 603,006
60-89 days past due	-	51,316	114,299	-	6,850	172,465
Greater than 90 days past due	-	623,691	41,575	599,000	17,233	1,281,499
Total past due	-	746,928	535,283	718,867	55,892	2,056,970
Current	789,310	82,889,582	70,713,985	35,590,414	2,009,383	191,992,674
Total loans receivable	$ 789,310	$83,636,510	$71,249,268	$36,309,281	$ 2,065,275	$194,049,644
Recorded investment >90 days and accruing	$ -	$ -	$ -	$ -	$ 17,233	$ 17,233

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

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
December 31, 2017:							
Allowance for loan losses:							
Beginning balance	$ 9,215	$ 647,031	$ 290,771	$ 1,594,303	$ 23,880	$ 13,523	$ 2,578,723
Charge-offs	-	(410,000)	(17,053)	(350,000)	(44,942)	-	(821,995)
Recoveries	-	17,010	-	3,000	5,345	-	25,355
Provision	-	410,000	-	-	24,298	15,702	450,000
Ending balance	$ 9,215	$ 664,041	$ 273,718	$ 1,247,303	$ 8,581	$ 29,225	$ 2,232,083
Allowance for loan losses individually evaluated for impairment	$ -	$ 241,882	$ 28,539	$ 82,246	$ -	$ -	$ 352,667
Allowance for loan losses collectively evaluated for impairment	$ 9,215	$ 422,159	$ 245,178	$ 1,165,057	$ 8,581	$ 29,225	$ 1,879,416
Loans receivable:							
Ending balance	$ 9,300,918	$ 101,889,210	$ 65,847,956	$ 31,811,744	$ 1,843,174	$ -	$210,693,002
Ending balance individually evaluated for impairment	$ -	$ 5,812,559	$ 1,012,032	$ 1,246,534	$ -	$ -	$ 8,071,125
Ending balance collectively evaluated for impairment	$ 9,300,918	$ 96,076,651	$ 64,835,924	$ 30,565,210	$ 1,843,174	$ -	$202,621,877

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
December 31, 2016:							
Allowance for loan losses:							
Beginning balance	$ 9,215	$ 724,083	$ 324,294	$ 1,455,752	$ 25,057	$ 13,524	$ 2,551,925
Charge-offs	-	(88,753)	(34,215)	(59,448)	(3,284)	-	(185,700)
Recoveries	-	8,702	690	201,000	2,107	-	212,499
Provision	-	-	-	-	-	-	-
Ending balance	$ 9,215	$ 644,032	$ 290,769	$ 1,597,304	$ 23,880	$ 13,524	$ 2,578,724
Allowance for loan losses individually evaluated for impairment	$ -	$ 336,735	$ 31,280	$ 316,137	$ -	$ -	$ 684,152
Allowance for loan losses collectively evaluated for impairment	$ 9,215	$ 310,295	$ 259,491	$ 1,278,166	$ 23,880	$ 13,524	$ 1,894,572
Loans receivable:							
Ending balance	$ 789,310	$ 83,636,510	$ 71,249,268	$ 36,309,281	$ 2,065,275	$ -	$194,049,644
Ending balance individually evaluated for impairment	$ -	$ 4,925,747	$ 1,047,356	$ 690,548	$ -	$ -	$ 6,663,651
Ending balance collectively evaluated for impairment	$ 789,310	$ 78,710,763	$ 70,201,912	$ 35,618,733	$ 2,065,275	$ -	$187,385,993

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:

	2017	2016
Non-accrual loans	$ 2,145,488	$ 1,264,266
Loans 90 days or more past due and still accruing	15,703	17,233
Total nonperforming loans	2,161,191	1,281,499
Real estate acquired through foreclosure	150,000	1,009,235
Total nonperforming assets	$ 2,311,191	$ 2,290,734

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

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
As of December 31, 2017:						
Unpaid principal balance	$ -	$ 578,334	$ 470,006	$ 1,097,148	$ -	$ 2,145,488
As of December 31, 2016:						
Unpaid principal balance	$ -	$ 623,691	$ 41,575	$ 599,000	$ -	$ 1,264,266

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:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
As of December 31, 2017:						
Troubled debt restructuring outstanding principal, balance	$ -	$ 4,913,575	$ 1,012,032	$ 312,654	$ -	$ 6,238,261
Number of loans	-	9	2	3	-	14
Pre-modification principal balance	$ -	$ 6,617,040	$ 1,089,960	$ 810,257	$ -	$ 8,517,257
Post-modification principal balance	$ -	$ 6,570,898	$ 1,061,421	$ 810,257	$ -	$ 8,442,576
Troubled debt restructuring that subsequently defaulted:						
Number of loans	-	3	1	1	-	5
Current principal balance	$ -	$ 578,334	$ 369,638	$ 244,128	$ -	$ 1,192,100
As of December 31, 2016:						
Troubled debt restructuring outstanding principal, balance	$ -	$ 5,607,271	$ 1,030,302	$ 690,549	$ -	$ 7,328,122
Number of loans	-	9	2	4	-	15
Pre-modification principal balance	$ -	$ 6,617,040	$ 1,089,960	$ 850,917	$ -	$ 8,557,917
Post-modification principal balance	$ -	$ 6,503,173	$ 1,058,680	$ 850,917	$ -	$ 8,412,770
Troubled debt restructuring that subsequently defaulted:						
Number of loans	-	2	-	1	-	3
Current principal balance	$ -	$ 623,691	$ -	$ 599,000	$ -	$ 1,222,691

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:

	2017	2016
Impaired loans with a valuation allowance	$ 3,206,040	$ 4,517,528
Impaired loans without a valuation allowance	4,865,085	2,146,123
Total impaired loans	$ 8,071,125	$ 6,663,651
Allowance for loan losses related to impaired loans	$ 352,667	$ 684,152
Allowance for loan losses related to other than impaired loans	1,879,416	1,894,572
Total allowance for loan losses	$ 2,232,083	$ 2,578,724
Average impaired loans for the year	$ 9,594,833	$ 7,207,147
Interest income recognized on impaired loans	$ 485,956	$ 305,380

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

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
As of December 31, 2017:						
Loans with a valuation allowance:						
Unpaid principal balance	$ -	$ 1,332,898	$ 1,012,032	$ 861,110	$ -	$ 3,206,040
Related allowance for loan losses	$ -	$ 241,882	$ 28,539	$ 82,246	$ -	$ 352,667
Average recorded investment	$ -	$ 1,414,811	$ 1,020,501	$ 933,400	$ -	$ 3,368,712
Interest income recognized	$ -	$ 58,307	$ 44,590	$ 80,426	$ -	$ 183,323
Loans without a valuation allowance:						
Unpaid principal balance	$ -	$ 4,479,601	$ -	$ 385,424	$ -	$ 4,865,085
Average recorded Investment	$ -	$ 5,447,875	$ -	$ 778,246	$ -	$ 6,226,121
Interest income recognized	$ -	$ 272,690	$ -	$ 29,943	$ -	$ 302,633
Totals:						
Unpaid principal balance	$ -	$ 5,812,559	$ 1,012,032	$ 1,246,534	$ -	$ 8,071,125
Related allowance for loan losses	$ -	$ 241,882	$ 28,539	$ 82,246	$ -	$ 352,667
Average recorded investment	$ -	$ 6,862,685.	$ 1,020,501	$ 1,711,647	$ -	$ 9,594,833
Interest income recognized	$ -	$ 330,997	$ 44,590	$ 110,369	$ -	$ 485,956

As of December 31, 2016:						
Loans with a valuation allowance:						
Unpaid principal balance	$ -	$ 2,836,508	$ 1,030,302	$ 650,718	$ -	$ 4,517,528
Related allowance for loan losses	$ -	$ 336,735	$ 31,280	$ 316,137	$ -	$ 684,152
Average recorded investment	$ -	$ 2,958,017	$ 1,039,062	$ 660,789	$ -	$ 4,657,868
Interest income recognized	$ -	$ 144,968	$ 50,743	$ 11,843	$ -	$ 207,554
Loans without a valuation allowance:						
Unpaid principal balance	$ -	$ 2,089,239	$ 17,054	$ 39,830	$ -	$ 2,146,123
Average recorded Investment	$ -	$ 2,445,673	$ 51,268	$ 52,338	$ -	$ 2,549,279
Interest income recognized	$ -	$ 94,197	$ -	$ 3,629	$ -	$ 97,826
Totals:						
Unpaid principal balance	$ -	$ 4,925,747	$ 1,047,356	$ 690,548	$ -	$ 6,663,651
Related allowance for loan losses	$ -	$ 336,735	$ 31,280	$ 316,137	$ -	$ 684,152
Average recorded investment	$ -	$ 5,403,690	$ 1,090,330	$ 713,127	$ -	$ 7,207,147
Interest income recognized	$ -	$ 239,165	$ 50,743	$ 15,472	$ -	$ 305,380

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 were $2,711,395 and $4,314,509 at December 31, 2017 and 2016, respectively. During 2017, no new loans were made; however, one new loan totaling $240,000 was made during 2016. During 2017, repayments of $1,603,113 were made while repayments in 2016 totaled $850,262

Loans serviced for others by the Corporation under its New Market Tax Credits Program totaled $147,882,000 at December 31, 2017 and $121,520,000 at December 31, 2016.

6. Premises and Equipment

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

	2017	2016
Land	$ 631,900	$ 631,900
Buildings	2,265,463	2,265,463
Furniture, fixtures and equipment	3,362,835	3,316,582
Leasehold improvements	6,310,660	6,303,721
	12,570,858	12,517,666
Less accumulated depreciation and amortization	9,773,455	9,425,194
	$ 2,797,403	$ 3,092,472

Depreciation and amortization expense was $348,261 and $360,983 for the years ended December 31, 2017 and 2016 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, 2017:

2018	$ 544,434
2019	483,482
2020	437,006
2021	399,029
2022	191,193
Thereafter	100,365
	$ 2,155,509

Total rental expense under operating leases amounted to $512,903 and $530,346 for the years ended December 31, 2017 and 2016, respectively.

7. Deposits

Maturities of time deposits as of December 31, 2017 are as of follows:

2018	$ 50,403,911
2019	13,419,397
2020	2,349,276
2021	2,104,008
2022	2,034,236
Thereafter	284,437
	$ 70,595,265

Deposits are the Bank'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, 2017, deposits to a single party exceeding 10% of total deposits approximated $34,000,000 The depositor is a related party to the Bank. Accordingly, total related party deposits are estimated at $35,000,000-$40,000,000 as of December 31, 2017.

Overdrawn demand deposits reclassified as loans receivable in the consolidated balance sheets amounted to $41,221 and $28,545 as of December 31, 2017 and 2016, respectively.

8. Income Tax

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

	2017	2016
Taxes currently payable	$ 276,921	$ -
Deferred tax expense (benefit)	533,033	6,040,875
Income tax expense for the year	$ 809,954	$ 6,040,875

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

	2017	2016
Federal income tax statutory rate	34.0%	(34.0)%
State income taxes net of federal benefit	3.0%	(5.6)%
Alternative minimum tax	4.4%	0.0%
Increase in value of bank-owned life insurance	(3.8)%	(3.7)%
Other permanent differences	(0.7)%	0.0%
Change in valuation allowance and corporate tax rate	5.7%	474.6%
Effective tax rate	42.6%	431.3%

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

	2017	2016
Deferred tax assets:		
Net operating loss	$ 3,018,424	$ 5,029,358
Depreciation	982,158	1,380,591
Deferred compensation	590,477	846,420
Allowance for loan losses	97,212	-
Other real estate owned valuation	-	49,998
Nonaccrual loan interest	135,391	179,863
Goodwill	-	6,581
New market tax credit	774,908	-
Other	255,089	386,366
Total gross deferred tax assets	$ 5,853,659	$ 7,879,177
Net deferred tax assets attributable to operations	$ 5,853,659	$ 7,879,177
Deferred tax on unrealized loss on investments charged to other comprehensive income	277,784	-
Less valuation allowance	(5,278,423)	(6,498,624)
Net deferred income tax assets	$ 853,020	$ 1,380,575

The Corporation measures deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Accordingly the corporation's deferred tax assets and liabilities were remeasured to reflect the reduction in the U.S. corporate income tax rate from 34% to 21% effective for the tax year beginning January 1, 2018.

The Corporation has net operating loss carryforwards for federal income tax purposes of approximately $8.8 million at December 31, 2017, which is available to offset future taxable income and which expire in 2031 through 2036.

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2017. Such objective evidence limited the ability to consider other subjective evidence, such as our projections for future growth.

On the basis of this evaluation, as of December 31, 2017, a valuation allowance of $5,278,423 has been recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for growth.

9. Federal Home Loan Bank Borrowing

The Bank has approved credit facilities of $63,321,500 and $62,125,750 with the Federal Home Loan Bank of Atlanta as of December 31, 2017 and 2016, respectively. Borrowings outstanding under these facilities totaled $20,000,000 as of December 31, 2017 and $5,000,000 as 2016 respectively. The outstanding borrowings have a blended interest rate of 1.61%. $15,000,000 of the outstanding borrowings is set to mature in April 2018 with the remaining $5,000,000 maturing in June 2018. Loans totaling $59,214,940 at December 31, 2017 have been pledged as collateral for these facilities.

10. 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 approximately 4.34% at December 31, 2017.

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. After receiving regulator approval, a payment of $1,410,506 was made on January 29, 2015 to bring the obligation current. Additional quarterly payments totaling $300,047 and $267,389 were made during 2017 and 2016, respectively. The debt obligation remains current as of December 31, 2017.

11. 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, 2017 and 2016 and changes during the years ended on those dates is presented below:

	2017		2016	
	Shares	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**
Outstanding at the beginning of the year	**3,568**	**$ 18.48**	7,351	$ 21.83
Granted	-	-	-	-
Forfeited	-	-	-	-
Expired	**(1,707)**	**(25.00)**	(3,783)	(25.00)
Outstanding at end of year	**1,861**	**$ 12.49**	3,568	$ 18.48
Options exercisable at year-end	**1,861**	**$ 12.49**	3,568	$ 18.48
Weighted-average fair value of options granted during the year	-	$ -	-	$ -

The following table summarizes information about stock options outstanding at December 31, 2017:

Exercise Price Range	Options Outstanding	Weighted-Average Life (Years)	Options Exercisable	Weighted-Average Life (Years)
$12.49 - $25.00	1,861	.53	1,861	.53

There is no intrinsic value for the stock options outstanding as of December 31, 2017. There are no amounts of unearned stock-based compensation currently estimated to be expensed in 2018 related to unvested stock-based payment awards at December 31, 2017. There were no stock options exercised during 2017.

The Corporation did not have any stock-based compensation expense in the years ended December 31, 2017 or December 31, 2016.

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 $61,000 and $65,000 for the years ended December 31, 2017 and 2016, 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 $2,145,825 and $2,145,824 at December 31, 2017 and 2016, respectively. The expense incurred for this plan for the years ended December 31, 2017 and 2016 was $1 and $99,758, respectively. The

Bank is the beneficiary of life insurance policies, with aggregate cash surrender value of $7,739,993 at December 31, 2017, that were purchased as a method of partially financing benefits under this plan.

12. Concentrations of Credit Risk

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

	2017	% of Loans Outstanding	2016	% of Loans Outstanding
Commercial real estate	$ 111,190,128	52.8%	$ 84,425,820	43.5%
Residential real estate	65,847,956	31.2%	71,249,268	36.7%
	$ 177,038,084	84.0%	155,675,088	80.2%

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.

13. 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, 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, 2017 and 2016 were $1,031,638 and $950,302, respectively, none of which were declared and paid. As of December 31, 2017, cumulative unpaid preferred dividends in arrears totaled $4,492,747. Additional provisions from this agreement are described in Note 14; Regulatory Matters.

14. 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, 2017, 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, 2017 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, 2017:						
Total Capital (to risk-weighted total assets)						
Harbor Bankshares						
Corporation	$ 22,768	10.7%	$ 16,965	8.0%	$ 21,200	10.0%
Harbor Bank of Maryland	$ 23,373	11.1%	$ 16,915	8.0%	$ 21,140	10.0%
Tier 1 Capital (to risk weighted assets)						
Harbor Bankshares						
Corporation	$ 17,200	8.1%	$ 12,725	6.0%	$ 16,965	8.0%
Harbor Bank of Maryland	$ 20,991	9.9%	$ 12,685	6.0%	$ 16,915	8.0%
Common Equity Tier 1 Capital (to risk weighted assets)						
Harbor Bankshares						
Corporation	$ 17,200	8.1%	$ 9,550	4.5%	$ 13,785	6.5%
Harbor Bank of Maryland	$ 20,991	9.9%	$ 9,515	4.5%	$ 13,745	6.5%
Tier 1 Capital (to average assets)						
Harbor Bankshares						
Corporation	$ 17,200	6.5%	$ 10,600	4.0%	$ 13,250	5.0%
Harbor Bank of Maryland	$ 20,991	7.9%	$ 10,585	4.0%	$ 13,230	5.0%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Minimum Amount	Required Ratio	Minimum Amount	Required Ratio
As of December 31, 2016:						
Total Capital (to risk-weighted total assets)						
Harbor Bankshares						
Corporation	$ 21,280	11.0%	$ 15,445	8.0%	$ 19,304	10.0%
Harbor Bank of Maryland	$ 21,239	11.1%	$ 15,440	8.0%	$ 19,290	10.0%
Tier 1 Capital (to risk weighted assets)						
Harbor Bankshares						
Corporation	$ 15,665	8.1%	$ 11,585	6.0%	$ 15,445	8.0%
Harbor Bank of Maryland	$ 18,810	9.8%	$ 11,575	6.0%	$ 15,433	8.0%
Common Equity Tier 1 Capital (to risk weighted assets)						
Harbor Bankshares						

Corporation	$	15,665	8.1%	$	8,688	4.5%	$	12,548	6.5%
Harbor Bank of Maryland	$	18,810	9.8%	$	8,682	4.5%	$	12,540	6.5%
Tier 1 Capital (to average assets)									
Harbor Bankshares									
Corporation	$	15,665	6.2%	$	10,078	4.0%	$	12,598	5.0%
Harbor Bank of Maryland	$	18,810	7.3%	$	10,060	4.0%	$	12,575	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 Corporation. At December 31, 2017, 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. 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, 2017. 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.

15. Earnings Per Common Share

Basic and diluted loss per common share calculations for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Basic and diluted:		
Net income / (loss) available to common stockholders	$ 61,391	$ (8,391,910)
Average common shares outstanding	1,019,624	1,019,624
Loss per common share - basic	$ .06	$ (8.23)

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 determine the dilutive effect of outstanding stock options. As

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of December 31, 2017 and 2016, the Corporation had 1,861 and 3,568 outstanding stock options, respectively. For the years ended December 31, 2017 and 2016, all options were antidilutive and excluded from the computation.

16. 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 $23,919,119 at December 31, 2017 and $25,106,511 at December 31, 2016. These commitments are contingent upon continuing customer compliance with the terms of the agreement.

Commercial letters of credit, totaling $1,148,018 at December 31, 2017 and $5,568,549 at December 31, 2016, 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.

17. Fair Value Measurements

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:

1. 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.

2. 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.

3. 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, 2017 and 2016:

		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, 2017				
Available-for-sale securities - U.S. government agencies	$ 29,944,708	$ -	$ 29,944,708	$ -
December 31, 2016				
Available-for-sale securities - U.S. government agencies	$ 29,817,409	$ -	$ 29,817,409	$ -

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, 2017 and 2016:

		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, 2017				
Impaired loans (net of Related allowances)	$ 7,718,458	$ -	$ -	$ 7,718,458
Real estate acquired through foreclosure	$ 150,000	$ -	$ 150,000	$ -
December 31, 2016				
Impaired loans (net of Related allowances)	$ 5,979,499	$ -	$ -	$ 5,979,499
Real estate acquired through foreclosure	$ 1,009,235	$ -	$ 1,009,235	$ -

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 3 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.

18. 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.

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, 2017 and 2016. 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, 2017 and 2016.

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.

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

	Carrying Value	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Mkts. for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Financial assets:				
Cash and due from banks	$ 6,957,306	$ 6,957,306	$ -	$ -
Federal funds sold	1,785,000	1,785,000	-	-
Interest bearing deposits in other banks	4,572,420	4,572,420	-	-
Investment securities	29,944,708	-	29,944,708	-
Loans, net of allowances	208,460,919	-	-	203,782,000
FHLB of Atlanta stock	1,089,100	1,089,100	-	-
Accrued interest receivable	908,744	908,744	-	-
Financial liabilities:				
Deposits	$221,650,066	$ -	$ -	$221,650,066
Accrued interest payable	292,606	292,606	-	-
Junior subordinated debentures	7,217,000	-	7,217,000	-
Federal Home Loan Bank borrowings	20,000,000	-	20,002,954	-

	Carrying Value	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Mkts. for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016				
Financial assets:				
Cash and due from banks	$ 15,499,607	$ 15,499,607	$ -	$ -
Federal funds sold	1,766,000	1,766,000	-	-
Interest bearing deposits in other banks	5,288,190	5,288,190	-	-
Investment securities	29,817,409	-	29,817,409	-
Loans, net of allowances	191,470,920	-	-	199,265,000
FHLB of Atlanta stock	483,700	483,700	-	-
Accrued interest receivable	733,554	733,554	-	-
Financial liabilities:				
Deposits	$232,913,508	$ -	$ -	$229,340,000
Accrued interest payable	262,828	262,828	-	-
Junior subordinated debentures	7,217,000	-	7,217,000	-
Federal Home Loan Bank borrowings	5,000,000	-	5,043,444	-

Off-balance sheet financial assets

	December 31, 2017		December 31, 2016	
	Estimated Amount	Estimated Fair Value	Estimated Amount	Estimated Fair Value
Commitments to extend credit and other unused commitments	$ 23,919,119	$ -	$ 25,106,511	$ -
Commercial letters of credit	1,148,018	-	5,568,549	-

19. Risks And Contingencies

The Corporation is party to certain legal actions in the course of business. During 2017 all outstanding litigation against the Corporation was settled. Management is unaware of any additional outstanding risks and contingencies as of the date that the financial statements were available for issue.

New market tax credits indemnifications

The Corporation has indemnified certain tax credit investors for potential Recapture Events in connection with the Corporation's participation in the Community Development Financial Institutions New Markets Tax Credit Program. 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. The Corporation's indemnification obligations total $12,671,005 as of December 31, 2017. The Corporation's compliance obligations associated with each indemnification will expire over time as shown in the schedule below. During 2017, the Corporation's compliance obligations associated with $1,492,052 of indemnification expired and is subject to IRS audit.

Maturities of compliance obligations as of December 31, 2017 are as of follows:

2018	$ 3,117,150
2019	879,955
2020	-
2021	2,588,500
2022	-
2023	-
2024	6,085,400
	$ 12,671,005

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.

20. Subsequent Events

There were no reportable transactions or occurrences subsequent to the balance sheet date but prior to the financial statements being ready for release.