FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, DC 20429

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2024

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ___________to___________

FDIC Certificate Number: 19101

HARFORD BANK
(Exact name of registrant as specified in its charter)

Maryland	52-0799113
(State or other jurisdiction of organization)	(IRS Employer incorporation or Identification No.)

8 West Bel Air Avenue, Aberdeen, Maryland 21001
(Address of principal executive offices)

(410) 272-5000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☐ No ☐ (Not Applicable)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☑	Smaller reporting company ☑
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.
1,492,082 shares of common stock as of November 1, 2024.

This Quarterly Report of Harford Bank (the "Bank") on Form 10-Q may contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Readers of this report should be aware of the speculative nature of "forward-looking statements". Statements that are not historical in nature, including those that include the words "anticipate", "estimate", "should", "expect", "believe", "intend", and similar expressions, are forward-looking statements and are based on current expectations, estimates and projections about, among other things, the industry and the markets in which the Bank operates, and they are not guarantees of future performance. Whether actual results will conform to expectations and predictions is subject to known and unknown risks and uncertainties, including risks and uncertainties discussed in this report; general economic, market, or business conditions; changes in interest rates, deposit flow, the cost of funds, and demand for loan products and financial services; changes in the Bank's competitive position or competitive actions by other companies; changes in the quality or composition of loan and investment portfolios; the ability to manage growth; changes in laws or regulations or policies of federal and state regulators and agencies; and other circumstances beyond the Bank's control. Consequently, all of the forward-looking statements made in this document are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated will be realized, or if substantially realized, will have the expected consequences on the Bank's business or operations. These and other risks are discussed in detail in the periodic reports that the Bank files with the Federal Deposit Insurance Corporation ("FDIC") (see Item 1A of Part II of this report for further information). Except as required by applicable laws, the Bank does not intend to publish updates or revisions of forward-looking statements it makes to reflect new information, future events or otherwise.

PART I

Item 1. Financial Statements

The information required by this item can be found beginning on page F-1 immediately following the signatures to this report and is incorporated herein by reference.

AVAILABLE INFORMATION

The Bank maintains an internet website at www.HarfordBank.com on which it makes available its most recent periodic report filed with the FDIC pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All of the periodic and other reports filed by the Bank with the FDIC pursuant to the Exchange Act are available through the FDIC's website at: https://efr.fdic.gov/fcxweb/efr/index.html, and are also available for public inspection at: Federal Deposit Insurance Corporation, Accounting and Securities Disclosure Section, Division of Supervision and Consumer Protection, 550 17th Street, NW, Washington, DC 20429.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read and reviewed in conjunction with the interim consolidated financial statements and the notes thereto included elsewhere in this report, and with Management's Discussion and Analysis of Financial Condition and Results of Operations, the audited consolidated financial statements and notes thereto, and the other statistical information contained in the Bank's Annual Report on Form 10-K for the year ended December 31, 2023.

The Bank is a Maryland-chartered bank with its principal office in Aberdeen, Harford County, Maryland. Through its nine branches, seven of which are located throughout Harford County and two of which are located in Cecil County, the Bank offers a full range of deposit services that are typically offered by most banks, savings and loan associations, and credit unions, including checking accounts, savings accounts, money market accounts and time deposits consisting of certificates of deposit of various types. In addition, the Bank offers Individual Retirement Accounts. All deposits are insured by the FDIC up to the maximum allowed by law. The Bank offers a full range of consumer and commercial loans, including fixed-rate consumer mortgage loans, variable rate home equity lines of credit, fixed rate home equity loans, and other consumer loans as well as commercial lines of credit, commercial mortgage loans, and real estate construction loans. Other banking services include safe deposit boxes, direct deposit of payroll and social security checks, on-line banking with bill pay service, mobile banking, drive-through banking services, automated teller machine services, Visa check (debit) cards, as well as Visa gift cards and Visa credit cards issued through a third-party provider.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The Bank's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and follow general practices within the industry in which the Bank operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, the consolidated financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported.

Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the consolidated financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices or are provided by other third-party sources, whenever available.

The most significant accounting policies followed by the Bank are presented in Note 1 to the consolidated financial statements appearing elsewhere in this report. These policies, along with the disclosures presented in the other notes to the consolidated financial statements and in this financial review, provide information on how significant assets and liabilities are valued in the consolidated financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for credit losses as the accounting area that requires the most subjective or complex judgments, and as such may be most subject to revision as new information becomes available.

The allowance for credit losses on loans represents management's estimate of probable expected loan losses inherent in the loan portfolio. Determining the amount of the allowance for credit losses on loans is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on individually evaluated loans, estimated losses on pools of homogeneous loans based on historical loss experience, consideration of current economic trends and conditions and reasonable and supportable forecasts, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the balance sheets. Note 1 to the consolidated financial statements describes the methodology used to determine the allowance for credit losses on loans.

RESULTS OF OPERATIONS

Summary

For the three-month period ended September 30, 2024, the Bank reported net income of $1,729,944, compared to $1,475,600 for the same period of 2023, an increase of $254,344, or 17.2%. The increase in net income was due primarily to an increase in net interest income of $513,156, an increase in the recovery of credit loss expense of $59,626 and an increase in noninterest revenue of $39,381, partially offset by an increase in noninterest expense of $339,751 and an increase in income tax expense of $18,068. Basic net income per share of common stock for the three-month period ended September 30, 2024 was $1.16, compared to $1.00 for the same period in 2023. Diluted net income per share of common stock for the three-month period ended September 30, 2024 was $1.16, compared to $0.99 for the same period in 2023.

For the nine-month period ended September 30, 2024, the Bank reported net income of $4,678,626, compared to $4,343,208 for the same period of 2023, an increase of $335,418, or 7.7%. The increase in net income was due primarily to an increase in net interest income of $555,007, a decrease in credit loss expense of $179,358, an increase in noninterest revenue of $30,083 and a decrease in income tax expense of $36,814, partially offset by an increase in noninterest expense of $465,844. The increase in noninterest expense for the nine-month period ended September 30, 2024 was due primarily to an increase in employee compensation and benefits incurred to attract and retain quality employees when compared to the same period of 2023. Basic net income per share of common stock for the nine-month period ended September 30, 2024 was $3.15, compared to $2.95 for the same period in 2023. Diluted net income per share of common stock for the nine-month period ended September 30, 2024 was $3.14, compared to $2.92 for the same period in 2023.

Annualized return on average assets was 0.90% for the nine-month period ended September 30, 2024, compared to 0.94% for the same period in 2023. Annualized return on average stockholders' equity was 10.18% for the nine-month period ended September 30, 2024, compared to 10.38% for the same period in 2023.

Details of the changes in the various components of net income are discussed below.

Net Interest Income and Net Interest Margin

The primary source of income for the Bank is net interest income, which is the difference between interest earned on interest-earning assets, such as investment securities and loans, and interest paid on interest-bearing sources of funds, such as deposits and borrowings. The level of net interest income is determined primarily by the average balance of interest-earning assets and funding sources and the various rate spreads between the interest-earning assets and the Bank's funding sources. Changes in net interest income from period-to-period result from increases or decreases in the volumes of interest-earning assets and interest-bearing liabilities, and increases or decreases in the average rates earned and paid on such assets and liabilities. The volumes of interest-earning assets and interest-bearing liabilities are affected by management's ability to effectively and efficiently manage the earning-asset portfolio (which includes loans), and the availability of particular sources of funds, such as noninterest-bearing deposits. Rates the Bank earns on cash, loans and investment securities, and the rates the Bank pays on interest-bearing deposits and other funding sources are highly correlated with the levels of, and changes in, the capital rate markets as well as rate actions undertaken by the Federal Reserve Bank's Federal Open Market Committee.

The table below entitled "Average Balances, Interest, and Yields" shows the Bank's average volume of interest-earning assets and interest-bearing liabilities for the three- and nine-month periods ended September 30, 2024 and 2023 and related interest income, interest expense, and yields.

Average Balances, Interest, and Yields

	For the Three Months Ended September 30, 2024			For the Three Months Ended September 30, 2023			For the Nine Months Ended September 30, 2024			For the Nine Months Ended September 30, 2023		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield	Average Balance	Interest	Yield	Average Balance	Interest	Yield
Assets												
FRB interest-bearing deposits	$ 83,808,572	$ 1,036,954	4.92%	$ 17,921,674	$ 166,915	3.70%	$ 61,860,578	$ 2,347,539	5.07%	$ 17,475,302	$ 504,556	3.86%
FHLBA interest-bearing deposits	337,319	4,717	5.56%	274,417	3,882	5.61%	236,864	9,856	5.56%	136,599	5,629	5.51%
Time deposits in other banks	352,089	431	0.49%	2,385,532	2,629	0.44%	1,096,076	4,059	0.49%	2,486,598	8,367	0.45%
Other	1,821,370	37,712	8.24%	2,152,357	38,439	7.09%	2,269,585	136,912	8.06%	1,184,162	61,057	6.89%
Investment securities:												
U.S. Treasury securities	10,315,549	21,723	0.84%	20,365,501	58,825	1.15%	12,956,322	100,857	1.04%	20,433,901	175,870	1.15%
U. S. government agency securities	31,315,957	117,837	1.50%	35,437,264	126,712	1.42%	33,003,875	360,323	1.46%	36,065,111	384,429	1.43%
Mortgage-backed and CMO securities	38,726,402	230,973	2.37%	43,102,145	249,252	2.29%	39,279,310	685,841	2.33%	44,670,670	781,866	2.34%
SBA asset-backed securities	9,304,582	42,467	1.82%	10,716,126	50,639	1.87%	9,632,517	155,439	2.16%	11,161,251	153,762	1.84%
State and municipal securities	3,546,754	15,984	1.79%	3,561,802	16,514	1.84%	3,550,507	48,021	1.81%	3,565,504	49,909	1.87%
Total investment securities	93,209,244	428,984	1.83%	113,182,838	501,942	1.76%	98,422,531	1,350,481	1.83%	115,896,437	1,545,836	1.78%
Loans:												
Overdrafts	56,299	-	0.00%	48,982	-	0.00%	60,935	-	0.00%	50,021	-	0.00%
Consumer	30,714,584	421,418	5.46%	31,379,282	413,338	5.23%	31,372,386	1,253,204	5.34%	24,376,739	936,992	5.14%
Credit lines	13,422,958	273,513	8.11%	12,806,822	261,344	8.10%	12,516,789	761,249	8.12%	13,910,047	804,875	7.74%
Commercial	67,827,670	1,335,526	7.83%	63,352,160	1,182,539	7.41%	70,565,907	4,129,221	7.82%	55,491,530	2,960,992	7.13%
Real estate	396,292,234	5,251,814	5.27%	381,681,591	4,563,559	4.74%	395,244,347	15,321,884	5.18%	366,774,720	12,638,832	4.61%
Other loan fees	-	58,635		-	52,522		-	221,442		-	200,738	
Total loans *	508,313,745	7,340,906	5.75%	489,268,837	6,473,302	5.25%	509,760,364	21,687,000	5.68%	460,603,057	17,542,429	5.09%
Allowance for credit losses on loans	(6,183,787)			(5,524,429)			(5,896,033)			(5,124,519)		
Total loans, net of allowance for credit losses on loans *	502,129,958	7,340,906	5.82%	483,744,408	6,473,302	5.31%	503,864,331	21,687,000	5.75%	455,478,538	17,542,429	5.15%
Total interest-earning assets	681,658,552	8,849,704	5.16%	619,661,226	7,187,109	4.60%	667,749,965	25,535,847	5.11%	592,657,636	19,667,874	4.44%
Noninterest-bearing cash	3,810,267			3,969,323			3,757,317			3,595,534		
Net bank premises and equipment	8,107,233			9,593,174			8,117,114			9,690,554		
Other assets	12,708,303			10,938,436			11,897,433			10,699,398		
Total assets	$ 706,284,355			$ 644,162,159			$ 691,521,829			$ 616,643,122		
Liabilities and Stockholders' Equity												
Interest-bearing deposits												
Checking	$ 132,435,274	64,251	0.19%	$ 130,874,051	27,753	0.08%	$ 131,306,053	171,278	0.17%	$ 134,709,814	74,795	0.07%
Savings	52,408,763	28,999	0.22%	61,822,281	33,423	0.21%	52,833,245	86,941	0.22%	65,303,898	106,121	0.22%
Money market	97,954,839	521,376	2.12%	87,472,620	428,883	1.95%	93,581,075	1,475,929	2.11%	90,412,252	742,482	1.10%
Certificates of deposit	176,461,429	2,004,739	4.52%	109,156,712	834,277	3.03%	163,131,345	5,351,229	4.38%	94,239,526	1,650,543	2.34%
Total interest-bearing deposits	459,260,305	2,619,365	2.27%	389,325,664	1,324,336	1.35%	440,851,718	7,085,377	2.15%	384,665,490	2,573,941	0.89%
FHLBA overnight borrowings	11,076,207	156,976	5.64%	40,184,902	566,368	5.59%	20,620,478	873,536	5.66%	18,417,623	757,233	5.50%
FHLBA term borrowings	17,000,000	204,632	4.79%	-	-	0.00%	17,000,000	609,448	4.79%	1,172,161	46,933	5.35%
Total borrowed funds	28,076,207	361,608	5.12%	40,184,902	566,368	5.59%	37,620,478	1,482,984	5.27%	19,589,784	804,166	5.49%
Total interest-bearing deposits and borrowed funds	487,336,512	2,980,973	2.43%	429,510,566	1,890,704	1.75%	478,472,196	8,568,361	2.39%	404,255,274	3,378,107	1.12%
Noninterest-bearing deposits	151,773,771			154,751,181			147,587,460			153,644,760		
Other liabilities	4,487,052			3,045,893			4,081,166			2,811,805		
Stockholders' equity	62,687,020			56,854,519			61,381,007			55,931,283		
Total liabilities and stockholders' equity	$ 706,284,355			$ 644,162,159			$ 691,521,829			$ 616,643,122		
Net interest spread			2.73%			2.85%			2.72%			3.32%
Net interest income		$ 5,868,731			$ 5,296,405			$ 16,967,486			$ 16,289,767	
Net margin on interest-earning assets			3.43%			3.39%			3.39%			3.67%

Interest on tax-exempt securities, loans and dividends are reported on a fully taxable equivalent basis.

* Includes non accrual loans.

Interest income, on a fully taxable equivalent basis, on total interest-earning assets for the three-month period ended September 30, 2024 was $8,849,704, compared to $7,187,109 for the same period in 2023, an increase of $1,662,595, or 23.1%. Interest income, on a fully taxable equivalent basis, on total interest-earning assets for the nine-month period ended September 30, 2024 was $25,535,847, compared to $19,667,874 for the same period in 2023, an increase of $5,867,973, or 29.8%.

Interest income, on a fully taxable equivalent basis, on net loans for the three-month period ended September 30, 2024 was $7,340,906, compared to $6,473,302 for the same period in 2023, representing an increase of $867,604, or 13.4%. The increase was due primarily to the $18,385,550, or 3.8%, increase in average balances of net loans for the three-month period ended September 30, 2024 when compared to the same period in 2023, coupled with the increase in the weighted average rate earned on net loans, on a fully taxable equivalent basis, of 51 basis points to 5.82% for the three-month period ended September 30, 2024 when compared to the same period in 2023. Interest income, on a fully taxable equivalent basis, on net loans for the nine-month period ended September 30, 2024 was $21,687,000, compared to $17,542,429 for the same period in 2023, representing an increase of $4,144,571, or 23.6%. The increase was due primarily to the $48,385,793, or 10.6%, increase in average balances of loans for the nine-month period ended September 30, 2024 when compared to the same period in 2023, coupled with an increase in the weighted average rate earned on loans, on a fully taxable equivalent basis, of 60 basis points to 5.75% for the nine-month period ended September 30, 2024 when compared to the same period in 2023. Net loan balances grew significantly in the final three quarters of 2023, and loan yields rose along with market yields over the same time period and as variable-rate loans reached their next repricing date.

Interest income, on a fully taxable equivalent basis, on interest-bearing deposits in the Federal Reserve Bank ("FRB") and the Federal Home Loan Bank of Atlanta ("FHLBA"), federal funds sold, and time deposits in other banks for the three-month period ended September 30, 2024 was $1,042,102, compared to $173,426 for the same period in 2023, representing an increase of $868,676, or 500.9%. The increase was due primarily to an increase of $63,916,357, or 310.6%, in average balances for these instruments for the three-month period ended September 30, 2024 when compared to the same period in 2023, coupled with an increase in the weighted average rate earned on these instruments, on a fully taxable equivalent basis, of 157 basis points to 4.91% for the three-month period ended September 30, 2024 when compared to the same period in 2023. Interest income, on a fully taxable equivalent basis, on interest-bearing deposits in the FRB and the FHLBA, federal funds sold, and time deposits in other banks on a fully taxable equivalent basis, for the nine-month period ended September 30, 2024 was $2,361,454, compared to $518,522 for the same period in 2023, representing an increase of $1,842,902, or 355.4%. The increase was due primarily to an increase of $43,095,019, or 214.4%, in average balances for these instruments for the nine-month period ended September 30, 2024 when compared to the same period in 2023, coupled with an increase in the weighted average rate earned on these instruments, on a fully taxable equivalent basis, of 154 basis points to 4.99% for the nine-month period ended September 30, 2024 when compared to the same period in 2023.

Interest income, on a fully taxable equivalent basis, on investment securities for the three-month period ended September 30, 2024 was $428,984, compared to $501,942 for the same period in 2023, representing a decrease of $72,958 or 14.5%. The decrease was due primarily to a decrease of $19,973,594, or 17.6%, in average balances for investment securities for the three-month period ended September 30, 2024 when compared to the same period in 2023, partially offset by an increase in the weighted average rate earned on investment securities, on a fully taxable equivalent basis, of seven basis points to 1.83% for the three-month period ended September 30, 2024 when compared to the same period in 2023. Interest income, on a fully taxable equivalent basis, on investment securities for the nine-month period ended September 30, 2024 was $1,350,481, compared to $1,545,836 for the same period in 2023, representing a decrease of $195,355, or 12.6%. The decrease was due primarily to a decrease of $17,473,906, or 15.1%, in average balances for investment securities for the nine-month period ended September 30, 2024 when compared to the same period in 2023, partially offset by an increase in the weighted average rate earned on investment securities, on a fully taxable equivalent basis, of five basis points to 1.83% for the nine-month period ended September 30, 2024 when compared to the same period in 2023. The Bank has allowed the investment portfolio to run off in 2024 and used the proceeds to pay down borrowed funds.

The Bank is a member of the FHLBA and is required to purchase capital stock of the FHLBA as a condition to obtaining a line of credit, and in proportion to the balance of borrowings outstanding. Dividends on FHLBA capital stock may be paid to member banks subject to the discretion of the Board of Directors of the FHLBA. Dividends received or accrued on stock issued by the FHLBA, on a fully taxable equivalent basis, for the three-month period ended September 30, 2024 were $37,712, compared to $38,439 for the same period in 2023, representing a decrease of $727, or 1.9%. The decrease was due primarily to a decrease of $330,987, or 15.4%, in the average balance of FHLBA capital stock for the three-month period ended September 30, 2024 when compared to the same period in 2023, partially offset by an increase in the weighted average rate earned on FHLBA capital stock, on a fully taxable equivalent basis, of 115 basis points to 8.24% for the three-month period ended September 30, 2024 when compared to the same period in 2023. Dividends received or accrued on stock issued by the FHLBA, on a fully taxable equivalent basis, for the nine-month period ended September 30, 2024 were $136,912, compared to $61,057 for the same period in 2023, an increase of $75,855, or 124.2%. The increase was due primarily to an increase of $1,085,423, or 91.7%, in the average balance of FHLBA capital stock for the nine-month period ended September 30, 2024 when compared to the same period in 2023, coupled with an increase in the weighted average rate earned on FHLBA capital stock, on a fully taxable equivalent basis, of 117 basis points to 8.06% for the nine-month period ended September 30, 2024 when compared to the same period in 2023.

Interest expense on interest-bearing deposit liabilities for the three-month period ended September 30, 2024 was $2,619,365, compared to $1,324,336 for the same period in 2023, representing an increase of $1,295,029, or 97.8%. The increase was due primarily to an increase of $69,934,641, or 18.0%, in the average balances of interest-bearing deposit liabilities for the three-month period ended September 30, 2024 when compared to the same period in 2023, coupled with an increase in the weighted average rate paid on these deposits of 92 basis points to 2.27% for the three-month period ended September 30, 2024 when compared to the same period in 2023. Interest expense on interest-bearing deposit liabilities for the nine-month period ended September 30, 2024 was $7,085,377, compared to $2,573,941 for the same period in 2023, representing an increase of $4,511,436, or 175.3%. The increase was due primarily to an increase of $56,186,228, or 14.6%, in the average balances of interest-bearing deposit liabilities for the nine-month period ended

September 30, 2024 when compared to the same period in 2023, coupled with an increase in the weighted average rate paid on these deposits of 126 basis points to 2.15% for the nine-month period ended September 30, 2024 when compared to the same period in 2023.

Interest expense on total borrowed funds for the three-month period ended September 30, 2024 was $361,608, compared to $566,368 for the same period in 2023, representing a decrease of $204,760, or 36.2%. The decrease was due primarily to a decrease of $12,108,695, or 30.1%, in the average balances of total borrowed funds for the three-month period ended September 30, 2024, coupled with a decrease in the weighted average rate paid on total borrowed funds of 47 basis points to 5.12% for the three-month period ended September 30, 2024 when compared to the same period in 2023. Interest expense on total borrowed funds for the nine-month period ended September 30, 2024 was $1,482,984, compared to $804,166 for the same period in 2023, representing an increase of $678,818, or 84.4%. The increase was due primarily to an increase of $18,030,694, or 92.0%, in the average balances of total borrowed funds for the nine-month period ended September 30, 2024, partially offset by a decrease in the weighted average rate paid on total borrowed funds of 22 basis points to 5.27% for the nine-month period ended September 30, 2024 when compared to the same period in 2023. The Bank used borrowed funds in 2023 to fund a portion of the loan growth experienced in 2023.

Net interest income, on a fully taxable equivalent basis, for the three-month period ended September 30, 2024 was $5,868,731, compared to $5,296,405 for the same period in 2023, representing an increase of $572,326, or 10.8%. Net interest income, on a fully taxable equivalent basis, for the nine-month period ended September 30, 2024 was $16,967,486, compared to $16,289,767 for the same period in 2023, representing an increase of $677,719, or 4.2%. Increases in interest income on earning assets in 2024 were mostly offset by increases in funding costs in 2024.

Net margin on interest-earning assets, on a fully taxable equivalent basis, for the three-month period September 30, 2024 was 3.43%, compared to 3.39% for the same period in 2023, representing an increase of four basis points. Net interest margin on interest-earning assets, on a fully taxable equivalent basis, for the nine-month period September 30, 2024 was 3.39% compared to 3.67% for the same period in 2024, representing a decrease of 28 basis points. The net interest margin may be adversely affected by increases in competition, volatile interest rates, decreases in loan demand, changes in the mix of earning assets, the Bank's cost of funds where it outpaces the return on the Bank's loans and investment securities, and other unpredictable changes in the marketplace.

The "net interest spread" is the rate earned on interest-earning assets less the rate paid on interest-bearing liabilities. The Bank's net interest spread, on a fully taxable equivalent basis, for the three-month period ended September 30, 2024 was 2.73%, compared to 2.85% for the same period in 2023, a decrease of 12 basis points. The Bank's net interest spread, on a fully taxable equivalent basis, for the nine-month period ended September 30, 2024 was 2.72%, compared to 3.32% for the same period in 2023, a decrease of 60 basis points.

Provision for Credit Losses on Loans

The provision for or recovery of credit losses on loans is determined by management as the amount to be added to or subtracted from, respectively, the allowance for credit losses on loans after net charge-offs (charge-offs less recoveries) have been deducted to bring the allowance for credit losses on loans to a level which, in management's best estimation, is necessary to absorb probable expected credit losses inherent in the existing loan portfolio. The Bank recorded recovery of credit losses on loans expense for the three-month period ended September 30, 2024 of $170,000, compared to a provision for credit losses on loans expense of $180,000 recorded for the same period of 2023. The Bank recorded provision for credit losses on loans expense for the nine-month period ended September 30, 2024 of $325,000, compared to $678,461 recorded for the same period of 2023. The difference in the amount of the provision for credit losses on loans between the 2024 and 2023 periods resulted from changes in the volume and mix of loans, management's assessment of the current and a reasonable and supportable forecast of market conditions, and management's analysis of the inherent risk within the loan portfolio.

Provision for Credit Losses on Off-Balance Sheet Items

The provision for or recovery of credit losses on off-balance sheet items is determined by management as the amount to be added to or subtracted from, respectively, the allowance for credit losses on off-balance sheet items to bring the allowance for credit losses on off-balance sheet items to a level which, in management's best estimation, is necessary to absorb probable expected losses inherent in off-balance sheet items. The Bank recorded provision for credit losses on off-balance sheet items expense for the three-month period ended September 30, 2024 of $63,724, compared to recovery of credit losses on off-balance sheet items expense of $226,650 recorded for the same period of 2023. The Bank recorded provision for credit losses on off-balance sheet items expense for the nine-month period ended September 30, 2024 of $23,687, compared to recovery of credit losses on off-balance sheet items expense of $150,416 recorded for the same period of 2023. The difference in the amount of the provision for or recovery of credit losses on off-balance sheet items between the 2024 and 2023 periods resulted from changes in the volume and mix of the components making up off-balance sheet items, management's assessment of the current and a reasonable and supportable forecast of market conditions, and management's analysis of the inherent risk within the components making up off-balance sheet items.

Noninterest Revenue

Noninterest revenue for the three-month period ended September 30, 2024 was $520,565, compared to $481,184 for the same period in 2023, representing an increase of $39,381, or 8.2%. Comparing the three-month period ended September 30, 2024 to the same period in 2023, the increase was due to increases of $15,155 in service charges on deposit accounts, $4,939 in debit card income, $303 in earnings on bank owned life insurance and $18,984 in other fees and commissions. Noninterest revenue for the nine-month period ended September 30, 2024 was $1,494,883, compared to $1,464,800 for the same period in 2023, representing an increase of $30,083, or 2.1%. Comparing the nine-month period ended September 30, 2024 to the same period in 2023, the increase was due to increases of $390 in service charges on deposit accounts, $20,072 in debit card income, $3,045 in earnings on bank owned life insurance and $6,576 in other fees and commissions.

Noninterest Expenses

Noninterest expenses for the three-month period ended September 30, 2024 were $4,141,304, compared to $3,801,553 for the same period in 2023, representing an increase of $339,751, or 8.9%. Comparing the three-month period ended September 30, 2024 to the same period in 2023, the increase in noninterest expenses was mainly attributable to increases in salaries and benefits expense of $205,904, occupancy expense of $41,908, furniture and equipment expense of $14,652, data processing expense of $41,002, professional fees of $21,048 and FDIC and state assessments of $46,579, partially offset by a decrease in other operating expenses of $20,203. Noninterest expenses for the nine-month period ended September 30, 2024 were $11,743,953, compared to $11,278,109 for the same period in 2023, representing an increase of $465,844, or 4.1%. Comparing the nine-month period ended September 30, 2024 to the same period in 2023, the increase in noninterest expenses was mainly attributable to increases in salaries and benefits expense of $319,478, occupancy expense of $59,362, data processing expense of $59,157, professional fees of $64,132 and FDIC and state assessments of $132,735, partially offset by decreases in director and committee fees expense of $18,126 and other operating expenses of $161,969. The decrease in other operating expenses for the nine months ended September 30, 2024 when compared to the same period in 2023 was primarily due to a reduction in internet banking expense resulting from a change in service provider which occurred in mid-2023.

Income Tax Expense

Income tax expense for the three-month period ended September 30, 2024 was $518,018, compared to $499,950 for the same period of 2023, representing an increase of $18,068, or 3.6%. The effective income tax rate was 23.04% for the three-month period ended September 30, 2024, compared to 25.31% for the same period in 2023. Income tax expense for the nine-month period ended September 30, 2024 was $1,427,897, compared to $1,464,711 for the same period of 2023, representing a decrease of $36,814, or 2.5%. The effective income tax rate was 23.38% for the nine-month period ended September 30, 2024, compared to 25.22% for the same period in 2023. Comparing the three- and nine-month periods ended September 30, 2024 to the same periods in 2023, the decrease in income tax expense was primarily attributable to the decrease in the Bank's effective income tax rate which was primarily due to an increase in income exempt from state income taxes.

FINANCIAL CONDITION

Assets

Total assets were $711,836,274 at September 30, 2024, compared to $665,617,205 at December 31, 2023, an increase of $46,219,069, or 6.9%.

The Bank invests excess cash balances in interest-bearing accounts at other banks and federal funds sold to correspondent banks. The balance of these instruments was $94,466,384 at September 30, 2024, compared to $30,427,507 at December 31, 2023, an increase of $64,038,877, or 210.5%.

Investment securities were $89,970,663 at September 30, 2024, compared to $106,495,906 at December 31, 2023, a decrease of $16,525,243, or 15.5%.

Loans

Loans, net of the allowance for credit losses on loans, were $500,196,775 at September 30, 2024, compared to $502,249,930 at December 31, 2023, a decrease of $2,053,155, or 0.4%. The average net loan portfolio represented 75.5% of average earning assets for the nine-month period ended September 30, 2024, compared to 76.9% for the same period in 2023.

The following table sets forth the major classifications of the Bank's loan portfolio.

	September 30, 2024		December 31, 2023	
	Amount	% of Total	Amount	% of Total
Real estate				
Construction, development and other land	$ 25,028,981	4.94%	$ 31,970,782	6.29%
Secured by farmland	8,112,950	1.60%	8,778,243	1.73%
Commercial	252,830,608	49.92%	254,009,724	49.98%
Residential	140,388,290	27.72%	134,764,915	26.52%
Commercial and Industrial	49,874,127	9.85%	46,110,314	9.07%
Other consumer	30,203,885	5.96%	32,515,311	6.40%
Overdrafts	54,713	0.01%	68,905	0.01%
Gross loans	506,493,554	100.00%	508,218,194	100.00%
Net deferred (fees) costs	(284,065)		(258,437)	
Allowance for credit losses on loans	(6,012,714)		(5,709,827)	
Net loans	$ 500,196,775		$ 502,249,930	
Allowance for credit losses on loans to gross loans	1.19%		1.12%	

Loan Credit Risk Management

The Bank's loan portfolio is subject to varying degrees of credit risk. The Bank seeks to mitigate credit risk through portfolio diversification, limiting exposure to any single industry or customer, collateral protection and strong underwriting criteria. The following discussion provides information and statistics on the overall quality of the Bank's loan portfolio. Notes 1 and 4 to the consolidated financial statements included elsewhere in this report describe the accounting policies related to nonperforming loans and charge-offs, and foreclosed and repossessed assets, and describes the methodologies used to develop the allowance for credit losses on loans. Management believes the policies governing nonperforming loans and charge-offs are consistent with industry and regulatory standards. The amount of the allowance for credit losses on loans and the resulting provision for or recovery of credit losses on loans expense are reviewed and approved quarterly by the Board of Directors.

The following table provides a comprehensive view of the allowance for credit losses on loans activity including the periodic activity of charge-offs and recoveries allocated by loan class for the three-month periods ended September 30, 2024 and 2023.

Three Months Ended: September 30, 2024	Unallocated	Construction, Development & Other Land	Commercial Real Estate & Farmland	Residential Real Estate	Commercial & Industrial	Other Consumer & Overdrafts	Total
Allowance for credit losses on loans:							
Beginning balance	$ 15,620	$ 705,005	$ 2,317,515	$ 1,577,875	$ 1,026,472	$ 548,198	$ 6,190,685
Charge-offs	-	-	-	-	-	(10,809)	(10,809)
Recoveries	-	-	-	2,200	-	638	2,838
Provision for (recovery of) credit losses on loans	(628)	(197,707)	(81,043)	76,642	21,061	11,675	(170,000)
Ending balance	$ 14,992	$ 507,298	$ 2,236,472	$ 1,656,717	$ 1,047,533	$ 549,702	$ 6,012,714
September 30, 2023							
Allowance for credit losses on loans:							
Beginning balance	$ 12,022	$ 383,462	$ 2,555,017	$ 1,212,050	$ 413,206	$ 813,632	$ 5,389,389
Charge-offs	-	-	-	-	-	(4,483)	(4,483)
Recoveries	-	-	-	2,766	-	3,404	6,170
Provision for (recovery of) credit losses on loans	48,795	53,879	41,373	(42,249)	30,634	47,568	180,000
Ending balance	$ 60,817	$ 437,341	$ 2,596,390	$ 1,172,567	$ 443,840	$ 860,121	$ 5,571,076

The following table provides a comprehensive view of the allowance for credit losses on loans activity including the periodic activity of charge-offs and recoveries allocated by loan class for the nine-month periods ended September 30, 2024 and 2023.

Nine Months Ended: September 30, 2024	Unallocated	Construction, Development & Other Land	Commercial Real Estate & Farmland	Residential Real Estate	Commercial & Industrial	Other Consumer & Overdrafts	Total
Allowance for credit losses on loans:							
Beginning balance	$ 8,660	$ 665,816	$ 2,086,568	$ 1,460,185	$ 895,946	$ 592,652	$ 5,709,827
Charge-offs	-	-	-	-	-	(33,227)	(33,227)
Recoveries	-	-	-	5,200	-	5,914	11,114
Provision for (recovery of) credit losses on loans	6,332	(158,518)	149,904	191,332	151,587	(15,637)	325,000
Ending balance	$ 14,992	$ 507,298	$ 2,236,472	$ 1,656,717	$ 1,047,533	$ 549,702	$ 6,012,714
September 30, 2023							
Allowance for credit losses on loans:							
Beginning balance	$ 13,670	$ 446,024	$ 2,550,667	$ 986,573	$ 452,861	$ 245,973	$ 4,695,768
Impact of ASU 2016-13 adoption	(13,670)	(112,669)	97,825	219,576	(146,758)	162,017	206,321
Charge-offs	-	-	-	(766)	-	(20,353)	(21,119)
Recoveries	-	-	-	5,266	-	6,379	11,645
Provision for (recovery of) credit losses on loans	60,817	103,986	(52,102)	(38,082)	137,737	466,105	678,461
Ending balance	$ 60,817	$ 437,341	$ 2,596,390	$ 1,172,567	$ 443,840	$ 860,121	$ 5,571,076

The following table presents net (charge-offs) recoveries and the average balances of loans for the periods indicated.

	Periodic Net (Charge-Offs) Recoveries	Average Total Loans	Annualized Net (Charge-Offs) Recoveries to Average Total Loans
Three months ended September 30, 2024	$ (7,971)	$ 508,313,745	-0.01%
Three months ended September 30, 2023	$ 1,687	$ 489,268,837	0.00%
Nine months ended September 30, 2024	$ (22,113)	$ 509,760,364	-0.01%
Nine months ended September 30, 2023	$ (9,474)	$ 460,603,057	0.00%

The following table presents the allocation of allowance for credit losses on loans and the balances of loans by loan class for loans that were individually and collectively evaluated at September 30, 2024 and December 31, 2023.

September 30, 2024	Unallocated	Construction, Development & Other Land	Commercial Real Estate & Farmland	Residential Real Estate	Commercial & Industrial	Other Consumer & Overdrafts	Total
Allowance balance allocated to loans:							
Individually evaluated	$ -	$ -	$ 160,000	$ -	$ 21,481	$ -	$ 181,481
Collectively evaluated	14,992	507,298	2,076,472	1,656,717	1,026,052	549,702	5,831,233
	$ 14,992	$ 507,298	$ 2,236,472	$ 1,656,717	$ 1,047,533	$ 549,702	$ 6,012,714
Loan balances:							
Individually evaluated		$ -	$ 8,756,288	$ 134,731	$ 147,967	$ -	$ 9,038,986
Collectively evaluated		25,028,981	252,187,270	140,253,559	49,726,160	30,258,598	497,454,568
		$25,028,981	$260,943,558	$140,388,290	$49,874,127	$30,258,598	$506,493,554
December 31, 2023							
Allowance balance allocated to loans:							
Individually evaluated	$ -	$ -	$ 56,000	$ -	$ 2,587	$ -	$ 58,587
Collectively evaluated	8,660	665,816	2,030,568	1,460,185	893,359	592,652	5,651,240
	$ 8,660	$ 665,816	$ 2,086,568	$ 1,460,185	$ 895,946	$ 592,652	$ 5,709,827
Loan balances:							
Individually evaluated		$ -	$ 8,381,335	$ 293,870	$ 233,843	$ 4,252	$ 8,913,300
Collectively evaluated		31,970,782	254,406,632	134,471,045	45,876,471	32,579,964	499,304,894
		$31,970,782	$262,787,967	$134,764,915	$46,110,314	$32,584,216	$508,218,194

The allowance for credit losses on loans is increased by provisions for credit losses on loans charged to expense and recoveries of credit losses on loans previously charged-off. The allowance for credit losses on loans is decreased by loan charge-offs and recovery of provision for credit losses on loans expense. Provision for or recovery of provision for credit losses on loans are made to bring the allowance for credit losses on loans within the range of balances that are considered appropriate based upon the allowance methodology and to reflect expected losses inherent in the loan portfolio as of the balance sheet date. Accordingly, the methodology is based on historical loss experience by loan classification and on specific loss allocations, with adjustments for current and reasonable and supportable forecast events and conditions, or the "expected loss" approach. Management's process for determining the appropriate level of the allowance for credit losses on loans is designed to account for credit losses over the expected life of loans. The provision for or recovery of provision for credit losses on loans reflects loan quality trends, including the levels of and trends related to non-accrual loans, past due loans, potential problem loans, and net charge-offs or recoveries, among other factors, and adjustments for current and reasonable and supportable forecast events and conditions. The provision for or recovery of provision for credit losses on loans also reflect the totality of actions taken on all loans for a particular period. The amount of the provision for or recovery of provision for credit losses on loans reflects not only the necessary increases or decreases in the allowance for credit losses on loans related to newly identified rated loans, but it also reflects actions taken related to other loans including, among other things, any necessary increases or decreases in required allowances for specific loans or loan pools.

The allowance for credit losses on loans was $6,012,714 at September 30, 2024, compared to $5,709,827 at December 31, 2023, an increase of $302,887, or 5.3%. The increase in allowance for credit losses on loans was due to recoveries of amounts previously charged-off of $11,114 and provision for credit losses on loans expense of $325,000, partially offset by amounts charged-off of $33,227. The "Allowance for Credit Losses on Loans to Gross Loans" ratio at September 30, 2024 was 1.19% compared to 1.12% at December 31, 2023. The increase in the balance and the ratio was primarily due to an increase in the amount of specific reserves allocated to individually evaluated loans. The allowance level reflects the results of management's assessment of current and forecasted market conditions and analysis of expected inherent risk within the loan portfolio performed during the quarter.

The adequacy of the allowance for credit losses on loans is determined based upon management's estimate of the expected inherent risks associated with lending activities, estimated fair value of collateral, past experience and present indicators such as loan delinquency trends, nonaccrual loans and current and reasonable and supportable forecast market conditions. Management believes that the allowance for credit losses on loans is adequate as of September 30, 2024; however, future changes in the composition of the loan portfolio and financial condition of borrowers may result in additions to or subtractions from the allowance. Examination of the loan portfolio and the allowance for credit losses on loans by regulatory agencies, auditors and consultants engaged by the Bank may result in the need for additional provision for or recovery of provision for credit losses on loans based upon information available at the time of examination.

Risk Elements of Loan Portfolio

The following table presents the payment status of loans by loan classification at the dates indicated.

September 30, 2024	30-59 Days Past Due	60-89 Days Past Due	90 Days and Over Past Due	Total Past Due	Current	Total Loans	Loans over 90 Days and Accruing
Construction, development and other land	$ -	$ -	$ -	$ -	$ 25,028,981	$ 25,028,981	$ -
Commercial real estate and farmland	808,621	84,292	-	892,913	260,050,645	260,943,558	-
Residential real estate	23,092	-	-	23,092	140,365,198	140,388,290	-
Commercial and Industrial	64,805	-	18,781	83,586	49,790,541	49,874,127	18,781
Other consumer and overdrafts	102,046	-	-	102,046	30,156,552	30,258,598	-
Total	$ 998,564	$ 84,292	$ 18,781	$ 1,101,637	$ 505,391,917	$ 506,493,554	$ 18,781
December 31, 2023							
Construction, development and other land	$ -	$ -	$ -	$ -	$ 31,970,782	$ 31,970,782	$ -
Commercial real estate and farmland	248,258	-	-	248,258	262,539,709	262,787,967	-
Residential real estate	35,286	-	-	35,286	134,729,629	134,764,915	-
Commercial and Industrial	-	102,139	-	102,139	46,008,175	46,110,314	-
Other consumer and overdrafts	144,576	-	-	144,576	32,439,640	32,584,216	-
Total	$ 428,120	$ 102,139	$ -	$ 530,259	$ 507,687,935	$ 508,218,194	$ -

The following table summarizes nonperforming loans, which includes non-accrual loans and accruing loans over 90 days past due and accruing, and other non-performing assets for the dates indicated.

Non-performing Assets	September 30, 2024	December 31, 2023
Non-performing loans by class		
Commercial real estate and farmland	$ 5,996,563	$ 6,362,441
Residential real estate	32,124	53,592
Commercial & industrial	18,781	102,139
Other consumer	-	4,252
Total non-performing loans	6,047,468	6,522,424
Foreclosed real estate	-	-
Repossessed assets	-	-
Total non-performing assets	$ 6,047,468	$ 6,522,424

Further information about the loan portfolio is provided in Note 4 to the consolidated financial statements included elsewhere in this report.

Off-Balance Sheet Arrangements

In the normal course of business, to meet the financing needs of its customers, the Bank is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit, the amount undrawn on lines of credit, and standby letters of credit. The Bank's exposure to credit loss in the event of nonperformance by the other party to these financial instruments is represented by the contractual amount of the instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Bank generally requires collateral or other security to support the financial instruments with credit risk. The amount of collateral or other security is determined based on management's credit evaluation of the counterparty. The Bank evaluates each customer's creditworthiness on a case-by-case basis.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit and other commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the letters of credit and commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Management does not believe that any of the foregoing arrangements are reasonably likely to have an impact on the Bank's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

As part of implementing the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-13 on January 1, 2023, the Bank created an allowance for credit losses on off-balance sheet items related to these financial instruments with off-balance sheet risk, which is reported as a liability on the consolidated statements of condition. The allowance for credit losses on off-balance sheet items was $530,337 at September 30, 2024, compared to $506,650 at December 31, 2023, an increase of $23,687, or 4.7%.

Further information about these arrangements is provided in Note 5 to the consolidated financial statements included elsewhere in this report.

Deposit Liabilities

Total deposit liabilities were $626,814,281 at September 30, 2024, compared to $554,308,636 at December 31, 2023, an increase of $72,505,645, or 13.1%. Noninterest-bearing deposit liabilities were $153,036,493 at September 30, 2024, compared to $145,916,027 at December 31, 2023, an increase of $7,120,466, or 4.9%. Interest-bearing deposit liabilities were $473,777,788 at September 30, 2024, compared to $408,392,609 at December 31, 2023, an increase of $65,385,179, or 16.0%, with most of that growth concentrated in certificates of deposit. The Bank utilizes deposits primarily to fund its earning assets. During the nine-month period ended September 30, 2024, average deposit liabilities provided funding for approximately 88.1% of average earning assets, compared to 90.8% for the comparable period of 2023.

Certificates of deposit greater than the FDIC deposit insurance limit of $250,000 at September 30, 2024 were $61,356,890, compared to $42,875,315 at December 31, 2023.

Capital

Total stockholders' equity was $63,047,009 at September 30, 2024, compared to $58,962,668 at December 31, 2023, an increase of $4,084,341, or 6.9%. The increase was due to earnings in the amount of $4,678,626 and stock transactions netting $429,663, partially offset by dividends declared and paid of $1,023,948.

The federal banking agencies have provided community banking organizations the option to phase in the regulatory capital impact of the adoption of ASU 2016-13, which was effective for the Bank on January 1, 2023. Under this option, the initial impact of adoption of ASU 2016-13 may be phased into the regulatory capital calculations evenly over a three year period, starting with the first required regulatory report as of March 31, 2023. The Bank has not elected to phase in the impact of ASU 2016-13 on regulatory capital.

In July 2013, the Board of Governors of the Federal Reserve System and the FDIC approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks ("Basel III"). Under the final rules, which became effective for the Bank on January 1, 2015 and fully phased-in as of January 1, 2019, minimum requirements increased for both the quantity and quality of capital held by the Bank. The rules included a new minimum Common Equity Tier 1 capital ratio ("CET1 ratio") of 4.5% which, with the capital conservation buffer of 2.5% of risk-weighted assets added, effectively results in a minimum CET1 ratio of 7.0%. Basel III raised the minimum Tier 1 capital ratio from 4.0% to 6.0% which, with the capital conservation buffer of 2.5% of risk-weighted assets added, effectively results in a minimum Tier 1 capital ratio of 8.5%. Basel III maintained the minimum total capital ratio of 8.0%, which, with the capital conservation buffer of 2.5% of risk-weighted assets added, effectively results in a minimum total capital ratio of 10.5%. Basel III maintained the minimum Tier 1 leverage capital ratio of 4.0%. Basel III also changed risk weights for certain assets and off-balance sheet exposures.

On September 17, 2019, the FDIC finalized a rule that introduced an optional simplified measure of capital adequacy for qualifying community banking organizations (i.e., the community bank leverage ratio framework, "CBLR framework"), as required by the Economic Growth, Regulatory Relief and Consumer Protection Act. The CBLR framework is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. To qualify for the CBLR framework, a community banking organization must have a Tier 1 leverage ratio of at least 9 percent, less than $10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital. The Bank has elected not to opt into the CBLR framework at this time.

The Bank continues to maintain capital at levels in excess of the minimum risk-based capital requirements adopted by the federal banking agencies and was considered to be "well capitalized" as of September 30, 2024. One measure of capital adequacy is the risk-based capital ratio, or the ratio of total capital to risk adjusted assets. Total capital is composed of both core capital (Tier 1) and supplemental capital (Tier 2). Total assets are adjusted for off-balance sheet items, such as letters of credit, and the different degrees of risk among various assets. Regulators require a minimum risk-based capital ratio of 10.50% including the fully phased-in amount of the capital conservation buffer, with 10.00% being the regulatory minimum for well-capitalized banks. At September 30, 2024, the Bank's risk-based capital ratio was 14.04%.

The CET1 capital ratio is the ratio of CET1 capital to risk adjusted assets. CET1 capital consists of common stock, surplus and undivided profits. Regulators require a minimum CET1 capital ratio of 7.00% including the fully phased-in amount of the capital conservation buffer, with 6.50% being the regulatory minimum for well-capitalized banks. At September 30, 2024, the Bank's CET1 capital ratio was 12.79%.

Tier 1 capital consists of CET1 capital plus certain additional Tier 1 capital instruments. The Tier 1 capital ratio is the ratio of Tier 1 capital to risk adjusted assets. The Bank had no additional Tier 1 capital instruments. Regulators require a minimum Tier 1 capital ratio of 8.50% including the fully phased-in amount of the capital conservation buffer, with 8.00% being the regulatory minimum for well-capitalized banks. At September 30, 2024, the Bank's Tier 1 capital ratio was 12.79%.

Another measure of capital adequacy is the leverage capital ratio, which is calculated by dividing average total assets for the most recent quarter into Tier 1 capital outstanding at the end of the quarter. The regulatory minimum for this ratio is 4.00%, with 5.00% being the regulatory minimum for well-capitalized banks. At September 30, 2024, the Bank's leverage capital ratio was 8.93%.

Management is not aware of any trends, favorable or unfavorable, that are likely to have a material effect on our financial condition or on our earnings. Further information about capital is provided in Note 14 to the consolidated financial statements included elsewhere in this report.

Liquidity

Liquidity describes the ability of the Bank to meet financial obligations that arise during the normal course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of customers and to fund current and planned expenditures. Liquidity is derived through increased customer deposits, maturities in the investment portfolio, loan repayments and income from earning assets. To the extent that deposits are not adequate to fund customer loan demand, liquidity needs can be met in short-term funds markets. The Bank has an arrangement with a correspondent bank whereby it has $3,000,000 available in unsecured federal funds lines of credit, and $5,000,000 available through a secured credit facility.

The Bank is a member of the FHLBA, which provides another source of liquidity. The Bank may borrow up to 25% of its reported total assets from the FHLBA through any combination of notes or line of credit advances. The line of credit interest rate is a variable rate set daily by the lender. The notes payable and the line of credit are secured by a floating lien on all of the Bank's eligible residential first mortgage loans, home equity loans and commercial real estate loans. The Bank is required to purchase shares of capital stock in the FHLBA as a condition to obtaining the line of credit, and in proportion to borrowings outstanding.

The Bank's FHLBA fixed-rate term borrowings are summarized as follows:

Maturity Date	Interest Rate	Interest Frequency	September 30, 2024	December 31, 2023
November 28, 2025	4.7800%	Quarterly	$ 10,000,000	$ 10,000,000
November 27, 2026	4.6105%	Quarterly	7,000,000	7,000,000
			$ 17,000,000	$ 17,000,000

The Bank had no FHLBA adjustable rate borrowings outstanding under the line of credit as of September 30, 2024. The Bank had $31.0 million in adjustable rate borrowings with no fixed maturity outstanding under the line of credit as of December 31, 2023, at an interest rate of 5.57%. Based on the value of available collateral as of September 30, 2024, the Bank could borrow an additional $86,601,493 from the FHLBA.

The Bank is eligible to borrow from the FRB Discount Window. This credit line is secured by the Bank's eligible consumer loan portfolio. Based on the value of available collateral as of September 30, 2024, the Bank could borrow $13,843,834 from the FRB Discount Window.

The Certificate of Deposit Account Registry Service ("CDARS") network is a form of brokered deposit program in which the Bank has been a participant since June 2005. In addition to providing Bank clients enhanced FDIC insurance coverage, being a participant in CDARS allows the Bank to fund its balance sheet through the One-Way Buy program. This program uses a competitive bid process to allocate funding. Management believes that this arrangement would be a viable source of funding provided that the Bank maintains its well-capitalized status. The Bank may borrow up to 10% of its reported total assets as of September 30, 2024, or $71,183,627.

Further information about borrowings and available lines of credit is provided in Note 9 to the consolidated financial statements included elsewhere in this report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Bank is a smaller reporting company and, as such, is not required to provide information called for by this item.

Item 4. Controls and Procedures.

The Bank maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Bank's reports filed under the Securities Exchange Act of 1934 with the FDIC, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in those rules and forms, and that such information is accumulated and communicated to the Bank's management, including its principal executive officer ("PEO") and its principal financial officer ("PFO"), as appropriate, to allow for timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of these disclosure controls and procedures as of September 30, 2024 was carried out under the supervision and with the participation of the Bank's management, including the PEO and the PFO. Based in that evaluation, the Bank's management, including the PEO and the PFO, has concluded that the Bank's disclosure controls and procedures are, in fact, effective at the reasonable assurance level.

During the three months ended September 30, 2024, there was no change in the Bank's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Bank is at times, in the ordinary course of business, subject to other legal actions that are normally associated with a financial institution, none of which, in management's opinion, is likely to have a material effect on the Bank's financial condition or future results of operations.

Item 1A. Risk Factors.

The risks and uncertainties to which the Bank's financial condition and operations are subject are discussed in detail in Item 1A of Part I of the Bank's Annual Report on Form 10-K for the year ended December 31, 2023. Management does not believe that any material changes in the Bank's risk factors have occurred since these risks were last discussed.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Section 3(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), exempts from the definition of "security" any securities issued by a bank, and the FDIC, as the Bank's primary federal regulator, does not require the registration of the Bank's securities prior to offer or sale. From time to time, the Bank sells shares of its common stock pursuant to its dividend reinvestment plan ("DRIP") and upon exercise of options granted under its 2008 Key Employee Stock Option Plan (the "2008 Key Employee Plan"), the 2015 Director Stock Option Plan (the "2015 Director Plan") and the 2020 Employee Stock Purchase Plan (the "2020 ESPP"). The DRIP was adopted before the Bank converted from a national banking association into a state chartered bank, and the Office of the Comptroller of the Currency required that the shares issuable under such plans be registered under the Securities Act prior to their offer and sale. On April 9, 2015, the Bank's Board of Directors adopted the 2015 Director Plan so that the Bank may incent non-employee directors through the grant of non-qualified stock options. The 2008 Key Employee Plan expired in April 2018 and no further grants may be made under the plan, but options granted under the 2008 Key Employee Plan remain outstanding and subject to exercise until April 2028. On May 20, 2020, the Bank's stockholders approved the 2020 ESPP that allows eligible employees to acquire in total up to 100,000 shares of the Bank's common stock at a discount through accumulated payroll deductions.

During the first quarter of 2024, a net total of 278 shares of common stock were sold pursuant to the DRIP at $32.00 per share, a total of 2,142 shares of common stock were sold pursuant to the exercise of options at an average exercise price of $19.77 per share, and a total of 580 shares of common stock were sold pursuant to the 2020 ESPP at a weighted-average price of $30.56 per share.

During the second quarter of 2024, a net total of 2,542 shares of common stock were sold pursuant to the DRIP at $32.70 per share, a total of 2,268 shares of common stock were sold pursuant to the exercise of options at an average exercise price of $16.33 per share, and a total of 485 shares of common stock were sold pursuant to the 2020 ESPP at a weighted-average price of $30.88 per share.

During the third quarter of 2024, a net total of 434 shares of common stock were sold pursuant to the DRIP at $34.00 per share, a total of 5,200 shares of common stock were sold pursuant to the exercise of options at an average exercise price of $27.85 per share, and a total of 558 shares of common stock were sold pursuant to the 2020 ESPP at a weighted-average price of $32.30 per share.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None of the Bank's directors or officers has informed the Bank that, during the quarter ended September 30, 2024, they adopted or terminated (i) any contract, instruction or written plan for the purchase or sale of securities of the registrant intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) promulgated under the Exchange Act or (ii) any "non-Rule 10b5-1 trading arrangement" (as defined in Item 408(c) of the Securities and Exchange Commission's Regulation S-K).

Item 6. Exhibits

The exhibits filed or furnished herewith are listed in the following Exhibit Index:

Exhibit No.	Description
Exhibit 31.1	Certifications of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
Exhibit 31.2	Certifications of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
Exhibit 32.1	Certification of the Periodic Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

SIGNATURES

Pursuant to the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HARFORD BANK

Date: November 6, 2024

/s/ Michael F. Allen
Michael F. Allen
President
(Principal Executive Officer)

Date: November 6, 2024

/s/ Neil L. Christ, CPA
Neil L. Christ, CPA
Senior Vice President and Chief Financial Officer
(Principal Financial Officer & Principal Accounting Officer)

HARFORD BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CONDITION

At:	September 30, 2024	December 31, 2023
	(Unaudited)	
ASSETS		
Cash and due from banks	$ 4,804,051	$ 3,833,802
Federal Reserve Bank deposit	93,804,094	27,864,800
Federal funds sold and Federal Home Loan Bank deposit	416,705	304,026
Cash and cash equivalents	99,024,850	32,002,628
Time deposits in other banks	245,585	2,258,681
Investment securities held to maturity, at amortized cost (fair value of $83,752,340 in 2024 and $97,655,442 in 2023)	89,970,663	106,495,906
Federal Home Loan Bank stock, at cost	1,273,500	2,720,700
Total loans, including deferred fees net of costs	506,209,489	507,959,757
Less: Allowance for credit losses on loans	(6,012,714)	(5,709,827)
Net loans	500,196,775	502,249,930
Bank premises and equipment, net	8,146,385	8,194,907
Income taxes refundable	240,716	-
Accrued interest receivable	1,591,632	1,825,679
Deferred income taxes	1,613,836	1,613,836
Bank owned life insurance	6,648,278	6,543,598
Other assets	2,884,054	1,711,340
Total assets	$ 711,836,274	$ 665,617,205
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	$ 153,036,493	$ 145,916,027
Interest-bearing	473,777,788	408,392,609
Total deposits	626,814,281	554,308,636
Federal Home Loan Bank overnight borrowings	-	31,000,000
Federal Home Loan Bank term borrowings	17,000,000	17,000,000
Accrued interest payable	790,926	712,066
Income taxes payable	-	770,131
Allowance for credit losses on off-balance sheet items	530,337	506,650
SERP liability	1,110,565	1,133,875
Other liabilities	2,543,156	1,223,179
Total liabilities	648,789,265	606,654,537
Stockholders' equity		
Common stock, par value $10 per share; authorized 5,000,000 shares; issued and outstanding 1,492,082 shares in 2024, and 1,477,595 shares in 2023	14,920,820	14,775,950
Surplus	18,149,536	17,864,742
Undivided profits	29,976,653	26,321,976
Total stockholders' equity	63,047,009	58,962,668
Total liabilities and stockholders' equity	$ 711,836,274	$ 665,617,205

The accompanying notes are an integral part of these consolidated financial statements.

HARFORD BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	For the Three Months Ended September 30, 2024	For the Three Months Ended September 30, 2023	For the Nine Months Ended September 30, 2024	For the Nine Months Ended September 30, 2023
Interest revenue				
Loans, including fees	$ 7,318,294	$ 6,457,153	$ 21,630,984	$ 17,491,878
Investment securities held to maturity	415,638	484,591	1,305,856	1,493,122
Federal funds sold and Federal Home Loan Bank deposit	4,410	3,629	9,213	5,262
Federal Reserve Bank deposit	969,371	156,037	2,194,540	471,672
Time deposits in other banks	431	2,629	4,059	8,367
Other	35,254	35,934	127,989	57,079
Total interest revenue	8,743,398	7,139,973	25,272,641	19,527,380
Interest expense				
Deposits	2,619,365	1,324,336	7,085,377	2,573,941
Borrowed funds	361,608	566,368	1,482,984	804,166
Total interest expense	2,980,973	1,890,704	8,568,361	3,378,107
Net interest income	5,762,425	5,249,269	16,704,280	16,149,273
Credit loss expense				
Provision for (recovery of) credit losses on loans	(170,000)	180,000	325,000	678,461
Provision for (recovery of) credit losses on off-balance sheet items	63,724	(226,650)	23,687	(150,416)
Total provision for (recovery of) credit loss expense	(106,276)	(46,650)	348,687	528,045
Net interest income after total provision for (recovery of) credit loss expense	5,868,701	5,295,919	16,355,593	15,621,228
Noninterest revenue				
Service charges on deposit accounts	222,678	207,523	614,207	613,817
Debit card income	147,574	142,635	431,936	411,864
Earnings on bank owned life insurance	35,451	35,148	104,680	101,635
Other fees and commissions	114,862	95,878	344,060	337,484
Total noninterest revenue	520,565	481,184	1,494,883	1,464,800
Noninterest expense				
Salaries and benefits	2,560,116	2,354,212	7,255,576	6,936,098
Occupancy	325,999	284,091	917,937	858,575
Furniture and equipment	234,180	219,528	681,963	675,682
Data processing expense	257,775	216,773	745,215	686,058
Professional fees	129,267	108,219	397,248	333,116
Director and committee fees	129,898	135,707	286,148	304,274
Stationery and supplies	13,680	16,019	45,240	49,880
FDIC and state assessments	152,977	106,398	433,929	301,194
Advertising	58,917	59,976	185,649	178,481
Loss on disposal of bank premises and equipment	93	2,025	4,291	2,025
Other operating	278,402	298,605	790,757	952,726
Total noninterest expense	4,141,304	3,801,553	11,743,953	11,278,109
Income before income taxes	2,247,962	1,975,550	6,106,523	5,807,919
Income taxes	518,018	499,950	1,427,897	1,464,711
Net income	$ 1,729,944	$ 1,475,600	$ 4,678,626	$ 4,343,208
Basic net income per common share	$ 1.16	$ 1.00	$ 3.15	$ 2.95
Diluted net income per common share	$ 1.16	$ 0.99	$ 3.14	$ 2.92

The accompanying notes are an integral part of these consolidated financial statements.

HARFORD BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)

	Common stock				
	Shares	Par value	Surplus	Undivided profits	Total Stockholders' Equity
Three Months Ended:					
September 30, 2024					
Balance at beginning of period	1,485,890	$ 14,858,900	$ 17,985,882	$ 28,589,661	$ 61,434,443
Net income				1,729,944	1,729,944
Cash dividends, $0.23 per share				(342,952)	(342,952)
Common stock issued:					
Shares issued under stock-based compensation plans and related tax effects	5,758	57,580	105,245	-	162,825
Stock sold and dividend reinvestment plan (DRIP)	2,193	21,930	52,627	-	74,557
Stock-based compensation expense			47,998	-	47,998
Stock acquired for DRIP administration	(1,759)	(17,590)	(42,216)	-	(59,806)
Balance at end of period	1,492,082	$ 14,920,820	$ 18,149,536	$ 29,976,653	$ 63,047,009
September 30, 2023					
Balance at beginning of period	1,476,311	$ 14,763,110	$ 17,777,493	$ 23,381,487	$ 55,922,090
Net income				1,475,600	1,475,600
Cash dividends, $0.22 per share				(324,790)	(324,790)
Common stock issued:					
Shares issued under stock-based compensation plans and related tax effects	564	5,640	11,991	-	17,631
Stock sold and dividend reinvestment plan (DRIP)	2,456	24,560	56,130	-	80,690
Stock-based compensation expense			59,557	-	59,557
Stock acquired for DRIP administration	(2,226)	(22,260)	(50,886)	-	(73,146)
Balance at end of period	1,477,105	$ 14,771,050	$ 17,854,285	$ 24,532,297	$ 57,157,632
Nine Months Ended:					
September 30, 2024					
Balance at beginning of period	1,477,595	$ 14,775,950	$ 17,864,742	$ 26,321,976	$ 58,962,668
Net income				4,678,626	4,678,626
Cash dividends, $0.69 per share				(1,023,949)	(1,023,949)
Common stock issued:					
Shares issued under stock-based compensation plans and related tax effects	11,233	112,330	162,588	-	274,918
Stock sold and dividend reinvestment plan (DRIP)	7,238	72,380	165,439	-	237,819
Stock-based compensation expense			47,998	-	47,998
Stock acquired for DRIP administration	(3,984)	(39,840)	(91,231)	-	(131,071)
Balance at end of period	1,492,082	$ 14,920,820	$ 18,149,536	$ 29,976,653	$ 63,047,009
September 30, 2023					
Balance at beginning of period	1,470,446	$ 14,704,460	$ 17,674,158	$ 21,668,070	$ 54,046,688
Transition adjustment pursuant to adoption of ASU 2016-13				(505,850)	(505,850)
Net income				4,343,208	4,343,208
Cash dividends, $0.66 per share				(973,131)	(973,131)
Common stock issued:					
Shares issued under stock-based compensation plans and related tax effects	3,420	34,200	46,022	-	80,222
Stock sold and dividend reinvestment plan (DRIP)	7,502	75,020	173,181	-	248,201
Stock-based compensation expense			59,557	-	59,557
Stock acquired for DRIP administration	(4,263)	(42,630)	(98,633)	-	(141,263)
Balance at end of period	1,477,105	$ 14,771,050	$ 17,854,285	$ 24,532,297	$ 57,157,632

The accompanying notes are an integral part of these consolidated financial statements.

HARFORD BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

For the Nine Months Ended September 30,	2024	2023
Cash flows provided by (used in) operating activities		
Interest received	$ 25,427,891	$ 19,083,774
Fees and commissions received	1,823,155	1,925,149
Interest paid	(8,489,501)	(2,892,148)
Cash paid to suppliers and employees	(11,315,300)	(11,801,387)
Income taxes paid	(2,438,744)	(1,240,538)
Net cash provided by (used in) operating activities	5,007,501	5,074,850
Cash flows provided by (used in) investing activities		
Proceeds from maturities of time deposits in other banks	2,003,000	250,000
Proceeds from calls and maturities of investment securities	17,833,904	8,534,694
Purchases of investment securities	(1,553,567)	-
Redemption (purchase) of FHLB stock	1,447,200	(2,224,300)
Loans originated, net of principal repayments	1,702,526	(70,414,434)
Net (decrease) increase in deferred loan fees and costs	31,156	(72,407)
Purchases of bank premises and equipment	(312,860)	(105,410)
Net cash provided by (used in) investing activities	21,151,359	(64,031,857)
Cash flows provided by (used in) financing activities		
Net (decrease) increase in time deposits	47,691,225	38,720,070
Net (decrease) increase in other deposits	24,814,420	(26,677,873)
Proceeds from borrowed funds	-	55,000,000
Repayments of borrowed funds	(31,000,000)	(12,000,000)
Dividends paid	(1,023,949)	(973,131)
Dividends reinvested	237,819	248,201
Shares issued under stock-based compensation plans and related tax effects	274,918	80,222
Stock acquired for DRIP administration	(131,071)	(141,263)
Net cash provided by (used in) financing activities	40,863,362	54,256,226
Net increase (decrease) in cash and cash equivalents	67,022,222	(4,700,781)
Cash and cash equivalents at beginning of period	32,002,628	28,444,396
Cash and cash equivalents at end of period	$ 99,024,850	$ 23,743,615

The accompanying notes are an integral part of these consolidated financial statements.

HARFORD BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited - continued)

For the Nine Months Ended September 30,	2024	2023
Reconciliation of net income to net cash provided by operating activities		
Net income	$ 4,678,626	$ 4,343,208
Adjustments to reconcile net income to net cash provided by operating activities		
Net amortization and accretion on loan fees and costs	(5,527)	(81,819)
Net amortization and accretion on time deposits in other banks	10,096	27,633
Net amortization and accretion on investment securities	244,906	321,086
Depreciation and amortization on bank premises and equipment and software	359,294	409,882
Earnings on bank owned life insurance	(104,680)	(101,635)
Provision for (recovery of) credit losses on loans	325,000	678,461
Provision for (recovery of) credit losses on off-balance sheet items	23,687	(150,416)
Loss (gain) on disposition of bank premises and equipment	4,291	2,025
Stock-based compensation expense	47,998	59,557
Decrease (increase) in		
Accrued interest receivable	234,047	(250,157)
Income taxes refundable	(240,716)	146,070
Other assets	(1,174,917)	(320,592)
Increase (decrease) in		
Accrued interest payable	78,860	485,959
Income taxes payable	(770,131)	78,103
SERP liability	(23,310)	(30,375)
Other liabilities	1,319,977	(542,140)
	$ 5,007,501	$ 5,074,850
Non-Cash Transactions:		
Transition adjustment pursuant to adoption of ASU 2016-13	$ -	$ 697,892

The accompanying notes are an integral part of these consolidated financial statements.

Harford Bank and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Nature of operations

Harford Bank (the "Bank") provides a full range of banking services to customers located in Harford County, Maryland, Cecil County, Maryland and surrounding areas.

Basis of presentation

The accounting and reporting policies reflected in the consolidated financial statements conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry, and, in the opinion of management, the consolidated financial statements reflect all adjustments necessary for a fair presentation of the Bank's financial position and results of operations. Management has evaluated subsequent events for potential recognition and/or disclosure through the date of issuance of the consolidated financial statements.

Principles of consolidation

The consolidated financial statements include the accounts of Harford Bank and its subsidiary, HB Trust, a Maryland Statutory Trust. Intercompany accounts and entries have been eliminated in the consolidated financial statements.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. These estimates and assumptions may affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. The estimates related to the allowance for credit losses, fair value of financial instruments and income taxes are particularly subject to change.

Current expected credit losses – Adoption of ASU 2016-13

Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-13, "Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments" affects financial assets with the contractual right to receive cash, including loans held for investment, held to maturity debt securities, and off-balance sheet credit exposures, unless specifically excluded from scope. Financial assets measured at an amortized cost basis are presented at the net amount expected to be collected. The allowance for credit losses ("ACL") is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value and the amount expected to be collected on the financial asset. The Bank has made the accounting policy election to exclude accrued interest receivable on financial assets from the estimate of credit losses.

The Bank adopted the Current Expected Credit Loss ("CECL") Standard using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures on January 1, 2023. Upon adoption, the Bank recognized an after-tax cumulative effect reduction to undivided profits totaling $505,850, as detailed in the table below.

The adoption of the CECL standard resulted in the following adjustments to the Bank's financial statements as of January 1, 2023.

At January 1, 2023	Changes in Consolidated Statements of Condition	Income Tax Effect	Changes to Undivided Profits
Allowance for credit losses on loans	$ 206,321	$ 56,774	$ 149,547
Allowance for credit losses on off-balance sheet items	491,571	135,268	356,303
	$ 697,892	$ 192,042	$ 505,850

Reclassifications

Certain reclassifications have been made to the 2023 consolidated financial statement presentation to conform to the current year's format. Total stockholders' equity and net income are unchanged due to these reclassifications.

1. Summary of Significant Accounting Policies - continued

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, deposits with other financial institutions that have an initial maturity of less than 90 days when acquired, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Time deposits in other banks

Negotiable time deposits in other banks are carried at cost and are generally placed in amounts of $250,000 or less to qualify for Federal Deposit Insurance Corporation ("FDIC") deposit insurance coverage. Non-negotiable time deposits placed with correspondent banks may exceed the $250,000 limit.

Investment securities

Management has classified all investment securities as held to maturity. Management has the intent and ability to hold all investment securities to maturity. These investment securities are recorded at amortized cost which is cost adjusted for amortization of premiums and accretion of discounts. Premiums and discounts are recognized in interest revenue using the interest method over the term of the securities, except that premiums on callable securities are amortized to the call price at the first call date. An allowance for credit losses on held to maturity investments is recognized when lifetime credit losses are expected, for an amount that reflects the expected lifetime credit losses.

Restricted equity securities

As a member of the Federal Home Loan Bank of Atlanta ("FHLBA"), the Bank is required to hold FHLBA stock as a condition of membership as well as in relation to the Bank's use of products and services. FHLBA stock is not publicly-traded and is sold and redeemed by the FHLBA at par. The Bank views its investment in FHLBA stock as a long-term investment and as a restricted equity security, which is carried at cost and periodically evaluated for impairment based on the ultimate recoverability of the par value. The Bank does not consider this investment to be impaired as of September 30, 2024, and no impairment has been recognized.

Loans and allowance for credit losses on loans

Loans are stated at unpaid principal balance adjusted for any interest amounts applied to principal on nonaccrual loans, any amounts partially charged-off, the allowance for credit losses on loans, and deferred origination fees and costs.

Interest on loans is accrued based on the principal amounts outstanding. Origination fees and costs are recognized as an adjustment to the related loan yield using an approximate interest method. The accrual of interest is discontinued when any portion of the principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full. Non-accrual loans may be considered for return to accrual status after a minimum six-month period of on-time payment performance provided that no amount of the loan has been charged-off. Past due status is based on the contractual terms of the loan. If collection of principal is evaluated as doubtful, all payments are applied to principal.

Loans are individually evaluated when they do not share similar risk characteristics with other loans collectively evaluated (generally collateral dependent), and when, based on current information, management considers it unlikely that the collection of principal and interest payments on these loans will be made according to contractual terms. Generally, loans are reviewed for individual evaluation when rated 6, Special Mention, or 7, Substandard, when 60 or more days past due, when the accrual of interest has been discontinued, and when the loan has been modified due to a borrower experiencing financial difficulty.

The allowance for credit losses on loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. Credit losses on loans are charged against the allowance for credit losses on loans when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for credit losses on loans.

1. Summary of Significant Accounting Policies – continued

Management estimates the required allowance for credit losses on loans using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience (past events) provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current conditions such as differences relating to underwriting standards, nature and volume of the loan portfolio, delinquency level and overall loan portfolio quality, or term as well as for changes in environmental conditions, such as changes in economic conditions that may affect the borrower's ability to pay, unemployment rates, property values, or other relevant factors. If the current economy or real estate market were to suffer a severe downturn, the provision for credit losses on loans would need to be increased.

The allowance for credit losses on loans is measured on a collective (pool) basis when similar risk characteristics exist. The Bank has identified portfolio segments based on collateral type and measures the allowance for credit losses on loans using Call Report-derived data. The Bank utilizes the discounted cash flow approach to calculate the expected loss for each loan within the pool. The Bank also considers qualitative adjustments to the historical loss rate for each loan portfolio segment, which are a combination of specific risk characteristics or current conditions at the reporting date that may differ from those in effect during the historical loss calculation period as well as forward looking projections for each pool based on a reasonable and supportable forecast based on objective economic data (primarily Federal Reserve Economic Data). The Bank uses a one-year forecast period, after which the loss factors revert to historical loss rates straight-line over four quarters. The total loss rate is the lifetime historical loss rate plus the total qualitative factor adjustments.

Some loans are not sufficiently similar in risk characteristics to other loans. These loans are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. Loans that are individually evaluated for which impairment is determined to exist will have a specific reserve allocated to them and included in the expected allowance for credit losses on loans.

An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable expected losses. The unallocated component of the allowance for credit losses on loans reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general expected losses in the loan portfolio. Allocation of a portion of the allowance for credit losses on loans to one category of loans does not preclude its availability to absorb expected losses in other categories.

Allowance for credit losses on off-balance sheet items

The Bank estimates expected credit losses on off-balance sheet items, which consist of contractual obligations to extend credit, loans which the Bank has approved but have not been funded, and letters of credit, over the contractual period during which the Bank is exposed to credit risk, unless that obligation is unconditionally cancellable by the Bank. The allowance for credit losses on off-balance sheet items is recorded as a liability and is adjusted each reporting period through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on off-balance sheet items expected to be funded over its estimated life. The loss rates used to determine the required allowance for credit losses on off-balance sheet items are essentially the same as those used on originated loans.

Bank premises and equipment

Land is carried at cost. Buildings and improvements, and furniture and equipment are recorded at cost, less accumulated depreciation computed principally by the straight-line method over the estimated useful lives of the assets. Leasehold improvements are generally depreciated over the lesser of the term of the respective leases or the estimated useful lives of the improvements. Software is recorded in other assets at cost and amortized using the straight-line method over three years.

Other real estate owned and other repossessed assets

Real estate acquired through foreclosure or by deed in lieu of foreclosure is recorded on the date acquired at the fair value less estimated costs to sell. Loan collateral, other than real estate, acquired through or in lieu of foreclosure is recorded in other assets on the date acquired at the fair value less estimated costs to sell. Losses incurred at the time of acquisition of the real estate property or other collateral are charged to the allowance for credit losses on loans. Subsequent reductions in the estimated value of the real estate property or other collateral are included in noninterest expense.

Harford Bank and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies – continued

Income taxes

The provision for income taxes includes taxes payable for the current year and deferred income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Interest and penalties incurred related to income taxes are included in income tax expense.

Management considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed income tax returns that require recognition or disclosure in the accompanying consolidated financial statements. The Bank's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

Advertising costs

Advertising costs are expensed as incurred.

Earnings per common share

Basic earnings per common share is determined by dividing net income by the weighted-average number of shares of common stock outstanding after giving retroactive effect to stock dividends for all periods presented. Diluted earnings per common share is computed using the weighted-average number of common shares determined for the basic earnings per common share computation plus the dilutive effect of common stock equivalents using the treasury stock method.

Stock-based compensation

The Bank accounts for director stock options under the fair value method of accounting using a Black-Scholes valuation model to measure stock-based compensation at the date of grant. The Bank accounts for stock-based compensation in accordance with FASB Accounting Standards Codification ("ASC") Topic 718, *Stock Compensation*. This standard requires public companies to recognize compensation expense related to stock-based compensation awards in their statements of income over the period during which an individual is required to provide service in exchange for such award.

Segment reporting

ASC Topic 280, *Segment Reporting*, requires reporting of selected information about operating segments in its financial reports issued to stockholders. Management has performed an analysis and determined that the Bank has only one operating segment, which is commercial banking. The Bank's chief operating decision makers use combined results to make operating and strategic decisions and therefore the Bank is not required to disclose any additional segment information.

2. Cash and Cash Equivalents

The Bank normally carries balances with other banks that exceed the federally insured limit.

Banks are required to carry noninterest-bearing cash reserves at specified percentages of deposit balances. The Bank's normal amount of cash on hand and on deposit with other banks is sufficient to satisfy the reserve requirements.

3. Investment Securities Held to Maturity

The amortized cost and estimated fair value of the investment securities portfolio for the respective periods are shown below. The Bank owns residential mortgage-backed ("RMBS"), commercial mortgage-backed ("CMBS") and collateralized mortgage obligation ("CMO") investment securities which are issued and guaranteed by the Government National Mortgage Association ("GNMA"), the Federal National Mortgage Association ("FNMA"), and the Federal Home Loan Mortgage Corporation ("FHLMC"). The asset-backed investment security holdings are issued and guaranteed by the Small Business Administration ("SBA").

September 30, 2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 10,307,018	$ -	$ 376,790	$ 9,930,228
U.S. government agency securities	28,795,649	-	1,433,620	27,362,029
Agency RMBS	33,074,991	47,694	2,933,059	30,189,626
Agency CMBS	4,169,671	-	82,516	4,087,155
Agency CMO securities	1,062,854	-	185,575	877,279
SBA asset-backed securities	9,016,240	3,336	753,635	8,265,941
State and municipal securities	3,544,240	-	504,158	3,040,082
	$ 89,970,663	$ 51,030	$ 6,269,353	$ 83,752,340
December 31, 2023				
U.S. Treasury securities	$ 17,344,342	$ -	$ 745,822	$ 16,598,520
U.S. government agency securities	34,628,737	-	2,397,944	32,230,793
Agency RMBS	35,421,663	21,776	3,712,966	31,730,473
Agency CMBS	4,202,121	-	165,799	4,036,322
Agency CMO securities	1,154,204	-	215,050	939,154
SBA asset-backed securities	10,189,248	-	1,052,893	9,136,355
State and municipal securities	3,555,591	-	571,766	2,983,825
	$ 106,495,906	$ 21,776	$ 8,862,240	$ 97,655,442

Contractual maturities and the amount of pledged investment securities for the respective periods are shown below. Actual maturities might differ from contractual maturities because the issuers of the securities might have the right to call or prepay obligations with or without call or prepayment penalties. Investment securities are pledged to secure deposits of federal and local governments.

	September 30, 2024		December 31, 2023	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing				
In one year or less	$ 16,840,788	$ 16,568,165	$ 16,651,013	$ 16,305,486
Over one to five years	16,103,488	15,186,122	29,175,581	27,169,485
Over five to ten years	5,242,155	4,519,638	4,743,155	3,994,957
Greater than ten years	4,460,476	4,058,414	4,958,921	4,343,210
Mortgage-backed, CMO and asset-backed securities	47,323,756	43,420,001	50,967,236	45,842,304
	$ 89,970,663	$ 83,752,340	$ 106,495,906	$ 97,655,442
Pledged securities	$ 76,764,748	$ 71,019,246	$ 79,710,044	$ 72,118,271

3. Investment Securities Held to Maturity - continued

The following table displays the amortized cost of held to maturity state and municipal securities by credit rating provided by Moody's at September 30, 2024 and December 31, 2023.

September 30, 2024	AAA	AA2	AA3	Below AA3	Total
State and muncipal securities	$ 1,452,440	$ 746,246	$ 1,345,554	$ -	$ 3,544,240

December 31, 2023	AAA	AA2	AA3	Below AA3	Total
State and muncipal securities	$ 1,460,729	$ 747,626	$ 1,347,236	$ -	$ 3,555,591

Investment securities with unrealized losses as of the respective periods are shown below.

	Less Than 12 Months		12 Months or Longer		Total	
September 30, 2024	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury securities	$ -	$ -	$ 9,930,228	$ 376,790	$ 9,930,228	$ 376,790
U.S. government agency securities	-	-	27,362,029	1,433,620	27,362,029	1,433,620
Agency RMBS	1,541,076	8,620	25,924,205	2,924,439	27,465,281	2,933,059
Agency CMBS	-	-	4,087,155	82,516	4,087,155	82,516
Agency CMO securities	-	-	877,279	185,575	877,279	185,575
SBA asset-backed securities	-	-	7,676,194	753,635	7,676,194	753,635
State and municipal securities	-	-	3,040,082	504,158	3,040,082	504,158
	$ 1,541,076	$ 8,620	$ 78,897,172	$ 6,260,733	$ 80,438,248	$ 6,269,353
December 31, 2023						
U.S. Treasury securities	$ -	$ -	$ 16,598,520	$ 745,822	$ 16,598,520	$ 745,822
U.S. government agency securities	-	-	32,230,793	2,397,944	32,230,793	2,397,944
Agency RMBS	-	-	28,665,703	3,712,966	28,665,703	3,712,966
Agency CMBS	-	-	4,036,322	165,799	4,036,322	165,799
Agency CMO securities	-	-	939,154	215,050	939,154	215,050
SBA asset-backed securities	-	-	9,136,355	1,052,893	9,136,355	1,052,893
State and municipal securities	-	-	2,983,825	571,766	2,983,825	571,766
	$ -	$ -	$ 94,590,672	$ 8,862,240	$ 94,590,672	$ 8,862,240

Based on its review of investment securities experiencing unrealized losses as of September 30, 2024 and December 31, 2023, the Bank concluded that it expected to recover the amortized cost basis of its investment. The Bank has the intent and ability to hold and does not believe it will be required to sell these investment securities until maturity. Unrealized losses are primarily due to increases in market interest rates over the yields available at the time the underlying investments were purchased, and the Bank does not believe that any of the securities are experiencing unrealized losses due to reasons of credit quality. The fair value is expected to recover as the securities approach their maturity date or if market interest rates for such securities decline. The U.S. Treasury securities the Bank owns are backed by the full faith and credit of the U.S. government. The U.S. government agency securities the Bank owns are issued by FNMA and FHLMC, which the U.S. government has affirmed its commitment to support, and by the FHLB and the Federal Farm Credit system, which are government-sponsored enterprises. The RMBS, CMBS and CMO securities owned by the Bank are issued by GNMA, which carry U.S. government guarantees, and FNMA and FHLMC, which the U.S. government has affirmed its commitment to support. The asset-backed securities owned by the Bank are issued by the SBA and carry U.S. government guarantees. The state and municipal securities owned by the Bank are all general obligation bonds, with unlimited and limited taxing authority.

As part of implementing ASU 2016-13 on January 1, 2023, the Bank determined that no allowance for credit losses was required on the Bank's investment portfolio. The securities owned by the Bank that are issued by the U.S Treasury, the SBA, and U.S government agencies, including agency mortgage backed securities and CMO securities, are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. The state and municipal securities owned by the Bank are general obligation bonds, highly rated by major rating agencies and have a long history of no credit losses. Based on management's assessment of the investment portfolio at September 30, 2024, no allowance for credit losses was required on the Bank's investment portfolio.

4. Loans

The Bank makes loans to customers located primarily in Harford County, Maryland, Cecil County, Maryland and surrounding areas. The performance of the loan portfolio will be influenced by the regional real estate market and economy.

Major classifications of loans are as follows for the periods indicated:

At:	September 30, 2024	December 31, 2023
Real estate		
Construction, development & other land	$ 25,028,981	$ 31,970,782
Secured by farmland	8,112,950	8,778,243
Commercial	252,830,608	254,009,724
Residential	140,388,290	134,764,915
Commercial & industrial	49,874,127	46,110,314
Other consumer	30,203,885	32,515,311
Overdrafts	54,713	68,905
Gross loans	506,493,554	508,218,194
Net deferred (fees) costs	(284,065)	(258,437)
Allowance for credit losses on loans	(6,012,714)	(5,709,827)
Net loans	$ 500,196,775	$ 502,249,930
Principal balance of pledged loans	$ 233,127,526	$ 237,539,310

Substantial portions of the Bank's loans are secured by residential and commercial real estate. Loans secured by commercial real estate and farmland generally involve larger principal amounts and a higher degree of risk than loans secured by residential one- to four-family mortgages. Repayment of loans secured by commercial real estate and farmland is often dependent on the successful operation or management of the properties, making collectability of such loans subject to adverse economic or real estate market conditions. The Bank seeks to mitigate these risks through its underwriting standards which require that loans be qualified based on the property’s value and debt service coverage ratios, and additional collateral may be required under certain circumstances. The Bank will generally obtain personal guarantees.

Construction lending is generally considered to present a higher degree of credit risk than other types of real estate lending. Risks of loss include the accuracy of the borrower’s estimate of construction costs, timing, and ultimate completion value, and the borrower’s ability to complete the project in a workmanlike manner. These risks may result in a project whose value is insufficient to ensure full repayment.

The Bank originates one- to four-family residential mortgage loans in amounts typically up to 80% of the lower of the appraised value or purchase price of the property securing the loan. The predominance of the Bank’s residential mortgage portfolio consists of fixed-rate mortgages with original maturities ranging from 10 to 30 years. Fixed-rate lending can expose the Bank to interest rate risk in a rising rate environment.

Commercial loans are generally secured by inventories, equipment and other assets of the business. Personal guarantees of the borrowers are generally required.

The Bank makes consumer installment loans secured by vehicles, boats, mobile homes and other collateral as well as unsecured loans with personal guarantees.

Eligible consumer installment loans are pledged to secure borrowing facilities at the Federal Reserve Discount Window. The Bank’s eligible residential first mortgage loans, home equity loans and commercial real estate loans are pledged to secure borrowing facilities at the FHLBA.

Loan balances in the following tables are presented at recorded investment, which is unpaid principal balance adjusted for any interest amounts applied to principal on nonaccrual loans, and any amounts partially charged-off.

4. Loans - continued

The maturity distribution of the loan portfolio is as follows for the periods indicated:

At:	September 30, 2024	December 31, 2023
Maturing		
In one year or less	$ 56,450,970	$ 47,019,846
Over one to five years	43,256,577	49,089,535
Over five to fifteen years	117,841,671	123,855,668
Over fifteen years	288,944,336	288,253,145
Gross loans	$ 506,493,554	$ 508,218,194
Variable rate loans included above	$ 345,252,431	$ 342,518,513

The following table analyzes the payment status of loans for the periods indicated:

September 30, 2024	30-59 Days Past Due	60-89 Days Past Due	90 Days and Over Past Due	Total Past Due	Current	Total Loans	Loans over 90 Days and Accruing
Construction, development & other land	$ -	$ -	$ -	$ -	$ 25,028,981	$ 25,028,981	$ -
Commercial real estate & farmland	808,621	84,292	-	892,913	260,050,645	260,943,558	-
Residential real estate	23,092	-	-	23,092	140,365,198	140,388,290	-
Commercial & industrial	64,805	-	18,781	83,586	49,790,541	49,874,127	18,781
Other consumer & overdrafts	102,046	-	-	102,046	30,156,552	30,258,598	-
Total	$ 998,564	$ 84,292	$ 18,781	$ 1,101,637	$ 505,391,917	$ 506,493,554	$ 18,781
December 31, 2023							
Construction, development & other land	$ -	$ -	$ -	$ -	$ 31,970,782	$ 31,970,782	$ -
Commercial real estate & farmland	248,258	-	-	248,258	262,539,709	262,787,967	-
Residential real estate	35,286	-	-	35,286	134,729,629	134,764,915	-
Commercial & industrial	-	102,139	-	102,139	46,008,175	46,110,314	-
Other consumer & overdrafts	144,576	-	-	144,576	32,439,640	32,584,216	-
Total	$ 428,120	$ 102,139	$ -	$ 530,259	$ 507,687,935	$ 508,218,194	$ -

Credit Quality Indicators. As part of the on-going monitoring of the quality of the Bank's loan portfolio management tracks certain credit quality indicators.

The Bank does not credit score new loans but does utilize a risk grading system for non-consumer loans. Loans are risk rated on the scale listed below:

Grade 1, 2, 3 and 4 – These grades include "pass grade" loans to borrowers of acceptable credit quality and risk.

Grade 5 – This grade includes loans that are on management's "watch list" and are classified as "Pass Watch". Loans with this grade are at the lower end of the acceptable quality range that exhibit weaknesses that require closer oversight and attention. It is management's intent to utilize this rating on a temporary basis for pass grade borrowers where a significant risk-modifying action is anticipated in the near future.

Grade 6 – This grade is for "Other Assets Especially Mentioned" or "Special Mention" in accordance with regulatory guidelines. This grade is intended to be temporary and includes loans to borrowers whose credit quality has clearly deteriorated and are at risk of further decline unless active measures are taken to correct the situation. This grade may include loans not fully secured where a specific valuation allowance may be warranted.

Grade 7 – This grade includes "Substandard" loans, in accordance with regulatory guidelines, for which accrual of interest may have stopped. This grade includes loans that are past due or not fully secured where a specific valuation allowance may be warranted.

4. Loans - continued

Consumer loans will be assigned a loan grade of 7, substandard, when placed on non-accrual or when experiencing significant, protracted delinquency.

The following table presents loan grades applied at September 30, 2024 to the various loan classes by year of origination.

	Term Loans by Origination Year						Revolving	
	2024	2023	2022	2021	2020	Prior	Loans	Total
Construction, development & other land:								
Loan grades:								
Pass	$ 1,348,408	$ 2,538,362	$ 2,637,766	$ 1,797,223	$ 2,379,326	$ 1,135,336	$ 5,094,063	$ 16,930,484
Pass watch	-	-	6,800,000	-	-	142,359	1,156,138	8,098,497
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
	$ 1,348,408	$ 2,538,362	$ 9,437,766	$ 1,797,223	$ 2,379,326	$ 1,277,695	$ 6,250,201	$ 25,028,981
Commercial real estate & farmland:								
Loan grades:								
Pass	$ 13,490,560	$ 35,277,066	$ 39,804,688	$ 22,188,743	$ 21,943,338	$ 73,654,430	$ 2,978,715	$ 209,337,540
Pass watch	-	5,524,280	4,560,732	50,468	-	14,376,348	2,384,396	26,896,224
Special mention	319,766	2,279,425	7,850,478	5,272,424	-	-	-	15,722,093
Substandard	185,805	-	319,875	-	-	7,682,221	799,800	8,987,701
	$ 13,996,131	$ 43,080,771	$ 52,535,773	$ 27,511,635	$ 21,943,338	$ 95,712,999	$ 6,162,911	$ 260,943,558
Residential real estate:								
Loan grades:								
Pass	$ 6,900,152	$ 16,811,366	$ 32,721,352	$ 18,509,392	$ 14,683,859	$ 26,021,571	$ 19,321,091	$ 134,968,783
Pass watch	614,280	922,168	334,220	1,671,995	-	1,136,898	555,406	5,234,967
Special mention	-	-	-	-	-	-	-	-
Substandard	49,809	-	-	-	-	134,731	-	184,540
	$ 7,564,241	$ 17,733,534	$ 33,055,572	$ 20,181,387	$ 14,683,859	$ 27,293,200	$ 19,876,497	$ 140,388,290
Commercial & industrial:								
Loan grades:								
Pass	$ 7,259,175	$ 10,949,212	$ 4,779,024	$ 3,122,907	$ 1,369,388	$ 542,548	$ 15,833,244	$ 43,855,498
Pass watch	149,154	783,611	1,156,248	181,374	58,581	1,521	2,479,031	4,809,520
Special mention	-	712,235	-	-	-	-	348,906	1,061,141
Substandard	-	-	-	-	-	99,693	48,275	147,968
	$ 7,408,329	$ 12,445,058	$ 5,935,272	$ 3,304,281	$ 1,427,969	$ 643,762	$ 18,709,456	$ 49,874,127
Other consumer & overdrafts:								
Loan grades:								
Pass	$ 2,306,176	$ 16,517,294	$ 8,994,682	$ 573,183	$ 265,040	$ 1,554,314	$ 30,071	$ 30,240,760
Pass watch	-	-	-	17,838	-	-	-	17,838
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
	$ 2,306,176	$ 16,517,294	$ 8,994,682	$ 591,021	$ 265,040	$ 1,554,314	$ 30,071	$ 30,258,598
Total loans								
Loan grades:								
Pass	$ 31,304,471	$ 82,093,300	$ 88,937,512	$ 46,191,448	$ 40,640,951	$ 102,908,199	$ 43,257,184	$ 435,333,065
Pass watch	763,434	7,230,059	12,851,200	1,921,675	58,581	15,657,126	6,574,971	45,057,046
Special mention	319,766	2,991,660	7,850,478	5,272,424	-	-	348,906	16,783,234
Substandard	235,614	-	319,875	-	-	7,916,645	848,075	9,320,209
	$ 32,623,285	$ 92,315,019	$ 109,959,065	$ 53,385,547	$ 40,699,532	$ 126,481,970	$ 51,029,136	$ 506,493,554

4. Loans - continued

The following table presents loan grades applied at December 31, 2023 to the various loan classes by year of origination.

	Term Loans by Origination Year						Revolving	
	2023	2022	2021	2020	2019	Prior	Loans	Total
Construction, development & other land:								
Loan grades:								
Pass	$ 2,781,372	$ 10,537,184	$ 1,824,608	$ 2,439,715	$ 2,654,533	$ 1,188,019	$ 7,913,718	$ 29,339,149
Pass watch	-	-	-	-	144,936	-	2,486,697	2,631,633
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
	$ 2,781,372	$ 10,537,184	$ 1,824,608	$ 2,439,715	$ 2,799,469	$ 1,188,019	$ 10,400,415	$ 31,970,782
Commercial real estate & farmland:								
Loan grades:								
Pass	$ 32,119,949	$ 45,474,176	$ 29,928,703	$ 23,970,913	$ 8,873,353	$ 73,165,460	$ 6,395,354	$ 219,927,908
Pass watch	5,619,830	3,665,584	51,884	-	6,778,578	9,900,469	34,126	26,050,471
Special mention	1,481,191	4,486,747	-	-	-	796,354	826,866	7,591,158
Substandard	-	364,217	-	1,054,962	361,943	7,437,308	-	9,218,430
	$ 39,220,970	$ 53,990,724	$ 29,980,587	$ 25,025,875	$ 16,013,874	$ 91,299,591	$ 7,256,346	$ 262,787,967
Residential real estate:								
Loan grades:								
Pass	$ 16,282,297	$ 34,094,140	$ 21,596,604	$ 16,185,608	$ 7,716,348	$ 20,062,078	$ 16,495,701	$ 132,432,776
Pass watch	453,938	232,659	-	-	-	898,679	321,362	1,906,638
Special mention	-	-	-	-	-	-	-	-
Substandard	-	96,229	-	-	-	329,272	-	425,501
	$ 16,736,235	$ 34,423,028	$ 21,596,604	$ 16,185,608	$ 7,716,348	$ 21,290,029	$ 16,817,063	$ 134,764,915
Commercial & industrial:								
Loan grades:								
Pass	$ 15,566,106	$ 7,031,069	$ 3,966,822	$ 1,844,446	$ 494,306	$ 497,177	$ 12,620,938	$ 42,020,864
Pass watch	566,012	601,348	228,511	117,993	7,106	73,211	1,224,191	2,818,372
Special mention	927,235	-	-	-	-	-	110,000	1,037,235
Substandard	-	-	102,139	-	48,487	83,217	-	233,843
	$ 17,059,353	$ 7,632,417	$ 4,297,472	$ 1,962,439	$ 549,899	$ 653,605	$ 13,955,129	$ 46,110,314
Other consumer & overdrafts:								
Loan grades:								
Pass	$ 19,028,578	$ 10,145,493	$ 972,908	$ 389,502	$ 256,772	$ 1,732,235	$ 29,664	$ 32,555,152
Pass watch	-	-	24,812	-	-	-	-	24,812
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	4,252	-	4,252
	$ 19,028,578	$ 10,145,493	$ 997,720	$ 389,502	$ 256,772	$ 1,736,487	$ 29,664	$ 32,584,216
Total loans:								
Loan grades:								
Pass	$ 85,778,302	$ 107,282,062	$ 58,289,645	$ 44,830,184	$ 19,995,312	$ 96,644,969	$ 43,455,375	$ 456,275,849
Pass watch	6,639,780	4,499,591	305,207	117,993	6,930,620	10,872,359	4,066,376	33,431,926
Special mention	2,408,426	4,486,747	-	-	-	796,354	936,866	8,628,393
Substandard	-	460,446	102,139	1,054,962	410,430	7,854,049	-	9,882,026
	$ 94,826,508	$ 116,728,846	$ 58,696,991	$ 46,003,139	$ 27,336,362	$ 116,167,731	$ 48,458,617	$ 508,218,194

Harford Bank and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)

4. Loans – continued

The following table presents gross charge-offs allocated by loan class by year of origination for the three-month periods ended September 30, 2024 and 2023. All charge-offs reported in other consumer and overdrafts for the three-month periods ended September 30, 2024 and 2023 were related to deposit overdrafts.

	Three Months Ended September 30, 2024 by Year of Origination						
	2024	2023	2022	2021	2020	Prior	Total
Construction, development & other land	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate & farmland	-	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-	-
Commercial & industrial	-	-	-	-	-	-	-
Other consumer & overdrafts	10,809	-	-	-	-	-	10,809
	$ 10,809	$ -	$ -	$ -	$ -	$ -	$ 10,809

	Three Months Ended September 30, 2023 by Year of Origination						
	2023	2022	2021	2020	2019	Prior	Total
Construction, development & other land	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate & farmland	-	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-	-
Commercial & industrial	-	-	-	-	-	-	-
Other consumer & overdrafts	4,483	-	-	-	-	-	4,483
	$ 4,483	$ -	$ -	$ -	$ -	$ -	$ 4,483

The following table presents gross charge-offs allocated by loan class by year of origination for the nine-month periods ended September 30, 2024 and 2023. All charge-offs reported in other consumer and overdrafts for the nine-month periods ended September 30, 2024 and 2023 were related to deposit overdrafts.

	Nine Months Ended September 30, 2024 by Year of Origination						
	2024	2023	2022	2021	2020	Prior	Total
Construction, development & other land	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate & farmland	-	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-	-
Commercial & industrial	-	-	-	-	-	-	-
Other consumer & overdrafts	33,227	-	-	-	-	-	33,227
	$ 33,227	$ -	$ -	$ -	$ -	$ -	$ 33,227

	Nine Months Ended September 30, 2023 by Year of Origination						
	2023	2022	2021	2020	2019	Prior	Total
Construction, development & other land	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate & farmland	-	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	766	766
Commercial & industrial	-	-	-	-	-	-	-
Other consumer & overdrafts	20,353	-	-	-	-	-	20,353
	$ 20,353	$ -	$ -	$ -	$ -	$ 766	$ 21,119

4. Loans – continued

The following table provides a comprehensive view of the allowance for credit losses on loans activity including the periodic activity of charge-offs and recoveries allocated by loan class for the three-month periods ended September 30, 2024 and 2023.

Three Months Ended: September 30, 2024	Unallocated	Construction, Development & Other Land	Commercial Real Estate & Farmland	Residential Real Estate	Commercial & Industrial	Other Consumer & Overdrafts	Total
Allowance for credit losses on loans:							
Beginning balance	$ 15,620	$ 705,005	$ 2,317,515	$ 1,577,875	$ 1,026,472	$ 548,198	$ 6,190,685
Charge-offs	-	-	-	-	-	(10,809)	(10,809)
Recoveries	-	-	-	2,200	-	638	2,838
Provision for (recovery of) credit losses on loans	(628)	(197,707)	(81,043)	76,642	21,061	11,675	(170,000)
Ending balance	$ 14,992	$ 507,298	$ 2,236,472	$ 1,656,717	$ 1,047,533	$ 549,702	$ 6,012,714
September 30, 2023							
Allowance for credit losses on loans:							
Beginning balance	$ 12,022	$ 383,462	$ 2,555,017	$ 1,212,050	$ 413,206	$ 813,632	$ 5,389,389
Charge-offs	-	-	-	-	-	(4,483)	(4,483)
Recoveries	-	-	-	2,766	-	3,404	6,170
Provision for (recovery of) credit losses on loans	48,795	53,879	41,373	(42,249)	30,634	47,568	180,000
Ending balance	$ 60,817	$ 437,341	$ 2,596,390	$ 1,172,567	$ 443,840	$ 860,121	$ 5,571,076

The following table provides a comprehensive view of the allowance for credit losses on loans activity including the periodic activity of charge-offs and recoveries allocated by loan class for the nine-month periods ended September 30, 2024 and 2023.

Nine Months Ended: September 30, 2024	Unallocated	Construction, Development & Other Land	Commercial Real Estate & Farmland	Residential Real Estate	Commercial & Industrial	Other Consumer & Overdrafts	Total
Allowance for credit losses on loans:							
Beginning balance	$ 8,660	$ 665,816	$ 2,086,568	$ 1,460,185	$ 895,946	$ 592,652	$ 5,709,827
Charge-offs	-	-	-	-	-	(33,227)	(33,227)
Recoveries	-	-	-	5,200	-	5,914	11,114
Provision for (recovery of) credit losses on loans	6,332	(158,518)	149,904	191,332	151,587	(15,637)	325,000
Ending balance	$ 14,992	$ 507,298	$ 2,236,472	$ 1,656,717	$ 1,047,533	$ 549,702	$ 6,012,714
September 30, 2023							
Allowance for credit losses on loans:							
Beginning balance	$ 13,670	$ 446,024	$ 2,550,667	$ 986,573	$ 452,861	$ 245,973	$ 4,695,768
Impact of ASU 2016-13 adoption	(13,670)	(112,669)	97,825	219,576	(146,758)	162,017	206,321
Charge-offs	-	-	-	(766)	-	(20,353)	(21,119)
Recoveries	-	-	-	5,266	-	6,379	11,645
Provision for (recovery of) credit losses on loans	60,817	103,986	(52,102)	(38,082)	137,737	466,105	678,461
Ending balance	$ 60,817	$ 437,341	$ 2,596,390	$ 1,172,567	$ 443,840	$ 860,121	$ 5,571,076

4. Loans – continued

The following table presents the allocation of allowance for credit losses on loans and the balances of loans by loan class for loans that were individually and collectively evaluated for impairment at September 30, 2024 and December 31, 2023.

September 30, 2024	Unallocated	Construction, Development & Other Land	Commercial Real Estate & Farmland	Residential Real Estate	Commercial & Industrial	Other Consumer & Overdrafts	Total
Allowance balance allocated to loans:							
Individually evaluated	$ -	$ -	$ 160,000	$ -	$ 21,481	$ -	$ 181,481
Collectively evaluated	14,992	507,298	2,076,472	1,656,717	1,026,052	549,702	5,831,233
	$ 14,992	$ 507,298	$ 2,236,472	$ 1,656,717	$ 1,047,533	$ 549,702	$ 6,012,714
Loan balances:							
Individually evaluated		$ -	$ 8,756,288	$ 134,731	$ 147,967	$ -	$ 9,038,986
Collectively evaluated		25,028,981	252,187,270	140,253,559	49,726,160	30,258,598	497,454,568
		$ 25,028,981	$ 260,943,558	$ 140,388,290	$ 49,874,127	$ 30,258,598	$ 506,493,554
December 31, 2023							
Allowance balance allocated to loans:							
Individually evaluated	$ -	$ -	$ 56,000	$ -	$ 2,587	$ -	$ 58,587
Collectively evaluated	8,660	665,816	2,030,568	1,460,185	893,359	592,652	5,651,240
	$ 8,660	$ 665,816	$ 2,086,568	$ 1,460,185	$ 895,946	$ 592,652	$ 5,709,827
Loan balances:							
Individually evaluated		$ -	$ 8,381,335	$ 293,870	$ 233,843	$ 4,252	$ 8,913,300
Collectively evaluated		31,970,782	254,406,632	134,471,045	45,876,471	32,579,964	499,304,894
		$ 31,970,782	$ 262,787,967	$ 134,764,915	$ 46,110,314	$ 32,584,216	$ 508,218,194

The following table presents the recorded investment and the unpaid principal balance of individually evaluated collateral dependent loans and any related allowance allocated by class of loans for the periods indicated.

September 30, 2024	Recorded Investment	Unpaid Principal Balance	Related Allowance
Construction, development & other land	$ -	$ -	$ -
Commercial real estate & farmland	8,756,288	10,053,459	160,000
Residential real estate	134,731	365,198	-
Commercial & industrial	18,781	18,781	18,781
Other consumer	-	-	-
	$ 8,909,800	$ 10,437,438	$ 178,781
December 31, 2023			
Construction, development & other land	$ -	$ -	$ -
Commercial real estate & farmland	8,381,335	9,450,614	56,000
Residential real estate	293,870	513,973	-
Commercial & industrial	102,140	102,140	-
Other consumer	4,252	44,159	-
	$ 8,781,597	$ 10,110,886	$ 56,000

4. Loans - continued

From time to time, the Bank may modify certain loans to borrowers who are experiencing financial difficulty. In some cases, these modifications may result in new loans. Loan modifications to borrowers experiencing financial difficulty may be in the form of a principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension or a combination thereof, among other things.

During the three-month period ended September 30, 2024, the terms of one commercial real estate loan with a balance, at the time of modification, of $186,232 was modified to provide an extension of term to a borrower that was experiencing financial difficulty. During the three-month period ended September 30, 2023, there were no modifications of loans to borrowers who were experiencing financial difficulty.

During the nine-month period ended September 30, 2024, the terms of one commercial real estate loan with a balance, at the time of modification, of $186,232 was modified to provide an extension of term to a borrower that was experiencing financial difficulty. During the nine-month period ended September 30, 2023, the terms of one commercial real estate relationship with a balance, at the time of modification, of $4,078,793 was modified to provide an extension of term and a blended weighted-average interest rate over the loan relationship to a borrower that was experiencing financial difficulty.

The period-end balance of loan modifications to borrowers experiencing financial difficulty at the time of the modification during the three- and nine-month periods ending September 30, 2024 and 2023 are set forth in the table below.

Three Months Ended: September 30, 2024	Term Extension	Payment Delay	Interest Rate Reduction	Principal Forgiveness	Combination Thereof	Total	% of Total Class of Loans
Commercial real estate	$ 185,805	$ -	$ -	$ -	$ -	$ 185,805	0.07%

September 30, 2023	Term Extension	Payment Delay	Interest Rate Reduction	Principal Forgiveness	Combination Thereof	Total	% of Total Class of Loans
Commercial real estate	$ -	$ -	$ -	$ -	$ -	$ -	0.00%

Nine Months Ended: September 30, 2024	Term Extension	Payment Delay	Interest Rate Reduction	Principal Forgiveness	Combination Thereof	Total	% of Total Class of Loans
Commercial real estate	$ 185,805	$ -	$ -	$ -	$ -	$ 185,805	0.07%

September 30, 2023	Term Extension	Payment Delay	Interest Rate Reduction	Principal Forgiveness	Combination Thereof	Total	% of Total Class of Loans
Commercial real estate	$ -	$ -	$ -	$ -	$ 4,029,651	$ 4,029,651	1.58%

There were no loans that the Bank modified in the 12 months preceding the three-month period ended September 30, 2024 for which there was a payment default during the 12-month period ended September 30, 2024. There were no loans that the Bank modified in the 12 months preceding the three-month period ended September 30, 2023 for which there was a payment default during the 12-month period ended September 30, 2023. Payment default is defined as any time the loan was more than 60 days past due.

There were no loans that the Bank modified in the 12 months preceding the nine-month period ended September 30, 2024 for which there was a payment default during the 12-month period ended September 30, 2024. There were no loans that the Bank modified in the 12 months preceding the nine-month period ended September 30, 2023 for which there was a payment default during the 12-month period ended September 30, 2023. Payment default is defined as any time the loan was more than 60 days past due.

4. Loans - continued

The following table summarizes non-accrual and non-performing loans at September 30, 2024 and December 31, 2023 and the amount of gross interest income that would have been recorded during the three- and nine-month periods ended September 30, 2024 and 2023 had the non-accrual loans been current and performing according to terms.

September 30, 2024	Non-accrual With No ACL Allocated	Non-accrual With ACL Allocated	Total Non-accrual	Loans Past Due Over 90 Days And Accruing	Total Non-performing Loans	ACL on Non-accrual & Non-performing Loans
Commercial real estate	$ 2,119,879	$ 3,876,684	$ 5,996,563	$ -	$ 5,996,563	$ 160,000
Residential real estate	32,124	-	32,124	-	32,124	-
Commercial & industrial	-	-	-	18,781	18,781	18,781
Other consumer	-	-	-	-	-	-
Commercial real estate	$ 2,152,003	$ 3,876,684	$ 6,028,687	$ 18,781	$ 6,047,468	$ 178,781

December 31, 2023	Non-accrual With No ACL Allocated	Non-accrual With ACL Allocated	Total Non-accrual	Loans Past Due Over 90 Days And Accruing	Total Non-performing Loans	ACL on Non-accrual & Non-performing Loans
Commercial real estate	$ 2,358,864	$ 4,003,577	$ 6,362,441	$ -	$ 6,362,441	$ 56,000
Residential real estate	53,592	-	53,592	-	53,592	-
Commercial & industrial	102,139	-	102,139	-	102,139	-
Other consumer	4,252	-	4,252	-	4,252	-
Commercial real estate	$ 2,518,847	$ 4,003,577	$ 6,522,424	$ -	$ 6,522,424	$ 56,000

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest not accrued on non-accrual loans	$ 78,562	$ 144,166	$ 236,067	$ 217,882

There were no consumer mortgage loans secured by residential real estate that were in the process of foreclosure as of September 30, 2024.

5. Credit Commitments

The table below shows outstanding loan commitments, unused lines of credit, and letters of credit.

At:	September 30, 2024	December 31, 2023
Commitments to extend credit		
Loan origination commitments	$ 4,545,040	$ 4,238,000
Unused consumer real estate construction	733,623	1,405,896
Unused home equity lines of credit	18,181,339	19,010,398
Unused overdraft lines of credit	7,368,063	7,186,613
Unused commercial lines of credit	59,912,514	64,760,928
	$ 90,740,579	$ 96,601,835
Letters of credit	$ 2,509,850	$ 3,321,199

5. Credit Commitments - continued

Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have variable interest rates, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

The Bank's exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans.

As part of implementing ASU 2016-13 on January 1, 2023, the Bank created an allowance for credit losses on off-balance sheet items related to these financial instruments with off-balance sheet risk, which is reported as a liability on the consolidated statements of condition. The liability excludes commitments for which the Bank can, at any time and for any reason, cancel its commitment to lend as unconditionally cancellable commitments do not require an allowance. The allowance for credit losses on off-balance sheet items was $530,337 as of September 30, 2024. The allowance for credit losses on off-balance sheet items was $506,650 as of December 31, 2023.

The following table presents activity in the allowance for credit losses on off-balance sheet items for the three- and nine-month periods ended September 30, 2024 and September 30, 2023.

	For the Three Months Ended September 30, 2024	For the Three Months Ended September 30, 2023	For the Nine Months Ended September 30, 2024	For the Nine Months Ended September 30, 2023
Beginning balance	$ 466,613	$ 567,805	$ 506,650	$ -
Impact of ASU 2016-13 adoption	-	-	-	491,571
Provision for (recovery of) allowance for credit losses on off-balance sheet items	63,724	(226,650)	23,687	(150,416)
Ending balance	$ 530,337	$ 341,155	$ 530,337	$ 341,155

6. Related Party Transactions

In the normal course of business, the Bank's executive officers and directors and their related parties enter into loan transactions with the Bank. A summary of related party loan activity follows:

Year to Date Through:	September 30, 2024	December 31, 2023
Beginning balance	$ 15,256,507	$ 17,275,810
Advances	598,657	1,425,725
Change in related parties	(1,406,943)	-
Payments	(1,763,537)	(3,445,028)
Ending balance	$ 12,684,684	$ 15,256,507

The change in related parties was due to the retirement of two directors that occurred in May 2024.

In addition to the outstanding balances listed above, the Bank's executive officers and directors and their related parties had $2,780,657 in unused loans committed but not funded as of September 30, 2024. As of December 31, 2023, the Bank's executive officers and directors and their related parties had $3,781,653 in unused loans committed but not funded.

6. Related Party Transactions – continued

The Bank leases office space and obtains goods and services from firms of which owners are also members of the Bank's Board of Directors. Amounts paid to these related parties totaled $57,485 during the nine months ended September 30, 2024. Amounts paid to these related parties totaled $11,599 during the nine months ended September 30, 2023.

The Bank has a wealth management referral relationship with the firm of a director. The Bank recognized $12,693 of income from the referral relationship in the nine months ended September 30, 2024. The Bank recognized $9,460 of income from the referral relationship in the nine months ended September 30, 2023.

Deposits of the Bank's executive officers and directors and their related parties totaled $6,640,599 at September 30, 2024. Deposits of the Bank's executive officers and directors and their related parties totaled $10,336,866 at December 31, 2023.

7. Bank Premises and Equipment

Bank premises and equipment and the related depreciation are as follows:

	Useful Lives	September 30, 2024	December 31, 2023
Land		$ 2,815,916	$ 2,815,916
Building and improvements	15 - 39 years	8,020,416	7,878,703
Leasehold improvements	10 - 19 years	675,892	588,014
Furniture, fixtures, and equipment	3 - 10 years	2,631,003	2,682,934
		14,143,227	13,965,567
Accumulated depreciation		5,996,842	5,770,660
Net bank premises and equipment		$ 8,146,385	$ 8,194,907

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Depreciation expense	$ 114,100	$ 135,107	$ 357,090	$ 406,105

Computer software included in other assets and the related amortization expense are as follows:

	Useful Life	September 30, 2024	December 31, 2023
Computer software	3 years	$ 59,193	$ 65,493
Accumulated amortization		57,827	61,924
Net computer software		$ 1,366	$ 3,569

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Software amortization expense	$ 695	$ 994	$ 2,204	$ 3,777

8. Lease Commitments

The Bank leases certain banking facilities under operating leases expiring on various dates through 2034. At September 30, 2024, the Bank had lease liabilities totaling $1,362,845 included in other liabilities and right-of-use lease assets totaling $1,362,845 included in other assets related to these leases. At December 31, 2023, the Bank had lease liabilities totaling $200,640 included in other liabilities and right-of-use lease assets totaling $200,640 included in other assets related to these leases.

8. Lease Commitments - continued

The weighted-average discount rate on operating lease balances outstanding at September 30, 2024 was 4.75%. The weighted-average discount rate on operating lease balances outstanding at December 31, 2023 was 2.39%. The weighted-average remaining lease term of operating leases outstanding at September 30, 2024 was 8.2 years. The weighted-average remaining lease term of operating leases outstanding at December 31, 2023 was 1.7 years.

Rent expense, consisting of lease payments plus common area maintenance and all other charges assessed by the lessor, for the three months ended September 30, 2024 was $89,955. Rent expense, consisting of lease payments plus common area maintenance and all other charges assessed by the lessor, for the three months ended September 30, 2023 was $57,676. Rent expense, consisting of lease payments plus common area maintenance and all other charges assessed by the lessor, for the nine months ended September 30, 2024 was $252,751. Rent expense, consisting of lease payments plus common area maintenance and all other charges assessed by the lessor, for the nine months ended September 30, 2023 was $166,695.

As of September 30, 2024, future minimum payments, by year and in the aggregate, of operating leases are as follows:

Year	Amount
Remainder of 2024	$ 61,150
2025	247,143
2026	231,314
2027	201,883
2028	141,852
2029	146,108
Thereafter	684,951
Total undiscounted lease payments	1,714,401
Discount on cash flows	(351,556)
Total lease liability	$ 1,362,845

9. Borrowings and Available Lines of Credit

The Bank may borrow up to 25% of its reported total assets from the FHLBA through any combination of notes or line of credit advances. The line of credit interest rate is a variable rate set daily by the lender. The notes payable and the line of credit are secured by a floating lien on all of the Bank's eligible residential first mortgage loans, home equity loans and commercial real estate loans. The Bank is required to purchase shares of capital stock in the FHLBA as a condition to obtaining the line of credit, and in proportion to borrowings outstanding.

FHLBA fixed-rate term borrowings are summarized as follows:

Maturity Date	Interest Rate	Interest Frequency	September 30, 2024	December 31, 2023
November 28, 2025	4.7800%	Quarterly	$ 10,000,000	$ 10,000,000
November 27, 2026	4.6105%	Quarterly	7,000,000	7,000,000
			$ 17,000,000	$ 17,000,000

FHLBA fixed-rate term borrowings as of September 30, 2024 will require principal repayments as follows:

Year	Principal Reduction
2025	$ 10,000,000
2026	7,000,000
	$ 17,000,000

9. Borrowings and Available Lines of Credit – continued

In addition to the fixed-rate term borrowings, the Bank had no FHLBA adjustable rate borrowings outstanding under the line of credit as of September 30, 2024. The Bank had $31.0 million in adjustable rate borrowings with no fixed maturity outstanding under the line of credit as of December 31, 2023, at an interest rate of 5.57%. Based on the value of available collateral remaining as of September 30, 2024, the Bank could borrow an additional $86,601,493 from the FHLBA.

The Bank is eligible to borrow from the Federal Reserve Discount Window. This credit line is secured by the Bank's eligible consumer loan portfolio. Based on the value of available collateral as of September 30, 2024, the Bank could borrow $13,843,834 from the Federal Reserve Discount Window.

The Certificate of Deposit Account Registry Service ("CDARS") is a form of brokered deposit program in which the Bank has been a participant since June 2005. In addition to offering depositors enhanced FDIC insurance coverage, being a participant in CDARS allows the Bank to fund its balance sheet through their One-Way Buy program. This program uses a competitive bid process to allocate funding. Management believes this arrangement would be a viable source of funding provided that the Bank maintains its well-capitalized status. The Bank may obtain funds through the One-Way Buy program up to 10% of reported total assets as of September 30, 2024, or $71,183,627.

The Bank has secured and unsecured credit lines with a correspondent bank, which are subject to periodic review. Based on the last review performed in the first quarter of 2024, the amount available under the secured line is $5,000,000 and the amount available under the unsecured line is $3,000,000.

10. Retirement Plan

The Bank has a tax-qualified 401(k) and Profit Sharing Plan (the "401(k) Plan") which is available to all employees who have reached 20 years of age and have completed at least three months of service as defined by the Plan. The Bank makes matching contributions of 100% on the first 3% of compensation deferred, plus 50% on the next 2% of compensation deferred. Participants are immediately vested in the matching contributions made by the Bank, and discretionary profit sharing contributions, if any, will vest ratably over a six-year period beginning in year two.

For the three months ended September 30, 2024, the Bank recognized $66,978 of expense associated with the 401(k) Plan. For the three months ended September 30, 2023, the Bank recognized $64,910 of expense associated with the 401(k) Plan. For the nine months ended September 30, 2024, the Bank recognized $200,959 of expense associated with the 401(k) Plan. For the nine months ended September 30, 2023, the Bank recognized $197,237 of expense associated with the 401(k) Plan.

In 2006 and in the second quarter of 2017, the Bank entered into agreements under its Supplemental Executive Retirement Plans ("SERP") with certain executive officers to provide for retirement income benefits. The Bank accrues the present value of these benefits over the remaining number of years to the executives' retirement dates. The Bank has recorded a liability of $1,110,565 and $1,133,875, related to these benefits at September 30, 2024 and December 31, 2023, respectively. SERP expense for the three months ended September 30, 2024 was $12,576. SERP expense for the three months ended September 30, 2023 was $10,221. SERP expense for the nine months ended September 30, 2024 was $37,728. SERP expense for the nine months ended September 30, 2023 was $30,663.

11. Interest-Bearing Deposits

Major classifications of interest-bearing deposits at:	September 30, 2024	December 31, 2023
Interest-bearing checking and Money Market	$ 240,708,481	$ 221,173,233
Savings	51,422,103	53,263,397
Certificates of deposit	181,647,204	133,955,979
	$ 473,777,788	$ 408,392,609

Maturities of certificates of deposit at:	September 30, 2024	December 31, 2023
Maturing within twelve months	$ 162,901,622	$ 110,447,806
Maturing over one to three years	16,660,079	20,406,817
Maturing over three to five years	2,085,503	3,101,356
	$ 181,647,204	$ 133,955,979
Certificates of deposit over $250,000 included above:	$ 61,356,890	$ 42,875,315

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Interest expense:	2024	2023	2024	2023
Interest-bearing checking and Money Market	$ 585,627	$ 456,636	$ 1,647,207	$ 817,277
Savings	28,999	33,423	86,941	106,121
Certificates of deposit	2,004,739	834,277	5,351,229	1,650,543
	$ 2,619,365	$ 1,324,336	$ 7,085,377	$ 2,573,941

12. Income Taxes

The components of income tax expense are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Income tax expense:	2024	2023	2024	2023
Federal	$ 437,530	$ 376,895	$ 1,184,630	$ 1,102,963
State	80,488	123,055	243,267	361,748
	$ 518,018	$ 499,950	$ 1,427,897	$ 1,464,711

The differences between the statutory federal income tax rate in effect during the periods indicated and the effective tax rate for the Bank are reconciled as follows:

Year to date through:	September 30, 2024	September 30, 2023
Statutory federal income tax rate	21.00 %	21.00 %
Increase (decrease) resulting from		
State income taxes, net of federal income tax benefit	3.15	4.92
Tax-exempt income	(0.98)	(0.91)
Nondeductible expenses	0.21	0.21
	23.38 %	25.22 %

13. Stock Option and Stock Purchase Plans

The Bank has adopted stock option plans for directors and officers. Option exercise prices are equal to the fair market value of the stock on the date of grant. Options granted under the director plan are fully-vested at the time of grant. Options granted under the officer plan vest three years after their grant dates. On April 23, 2018, the officer plan expired, eliminating the Bank's ability to make future grants, although options remain outstanding and subject to exercise through April 2028.

The total number of shares originally authorized for active stock option plans and plans with outstanding options was 188,212. At September 30, 2024, a total of 9,802 shares remain available for grant under the director plan.

Stock-based compensation expense is recognized ratably over the requisite service period for all awards. The service period generally matches the vesting period.

For the three months ended September 30, 2024, the Bank recorded stock-based compensation expense of $47,998. For the three months ended September 30, 2023, the Bank recorded stock-based compensation expense of $59,557. For the nine months ended September 30, 2024, the Bank recorded stock-based compensation expense of $47,998. For the nine months ended September 30, 2023, the Bank recorded stock-based compensation expense of $59,557.

A summary of stock option activity for the nine months ended September 30, 2024 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2024	62,993	$ 27.39		
Options granted	8,900	$ 31.50		
Options exercised	(14,777)	$ 26.64		
Options forfeited or expired	(1,208)	$ 28.20		
Outstanding at September 30, 2024	55,908	$ 28.22	5.81	$ 323,008
Exercisable at September 30, 2024	55,908	$ 28.22	5.81	$ 323,008

The intrinsic value of options exercised during the nine months ended September 30, 2024 was $90,086. The intrinsic value of options exercised during the nine months ended September 30, 2023 was $27,502.

At the annual meeting of stockholders held on May 20, 2020, the Bank's stockholders approved the Harford Bank 2020 Employee Stock Purchase Plan (the "2020 ESPP") that allows eligible employees to acquire up to 100,000 shares of the Bank's common stock at a discount through accumulated payroll deductions.

Based on employee withholdings during the nine months ended September 30, 2024, a total of 1,623 shares were granted under the 2020 ESPP at a weighted-average purchase price of $31.25. At September 30, 2024, a total of 90,809 shares remain available for grant under the 2020 ESPP.

14. Capital Standards

The Board of Governors of the Federal Reserve System (the "FRB") and the FDIC have adopted risk-based capital standards for banking organizations. These standards require ratios of capital to assets for minimum capital adequacy and to be classified as well capitalized under prompt corrective action provisions.

In July 2013, the FRB and the FDIC approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks ("Basel III"). Under the final rules, which became effective for the Bank on January 1, 2015 and fully phased-in as of January 1, 2019, minimum requirements increased for both the quantity and quality of capital held by the Bank.

The rules included a new minimum Common Equity Tier 1 capital ratio ("CET1 ratio") of 4.5% which, with the capital conservation buffer of 2.5% of risk-weighted assets added, effectively results in a minimum CET1 ratio of 7.0%. Basel III raised the minimum Tier 1 capital ratio from 4.0% to 6.0% which, with the capital conservation buffer of 2.5% of risk-weighted assets added, effectively results in a minimum Tier 1 capital ratio of 8.5%. Basel III maintained the minimum total capital ratio of 8.0%, which, with the capital conservation buffer of 2.5% of risk-weighted assets added, effectively results in a minimum total capital ratio of 10.5%. Basel III maintained the minimum Tier 1 leverage capital ratio of 4.0%. Basel III also changed risk weights for certain assets and off-balance sheet exposures.

The capital conservation buffer is designed to absorb losses during periods of economic stress and, as detailed above, effectively increases the minimum required risk-weighted capital ratios. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall and the institution's "eligible retained income" (that is, four quarter trailing net income, net of distributions and tax effects not reflected in net income).

Under Basel III, Total capital consists of two tiers of capital, Tier 1 and Tier 2. Tier 1 capital is further composed of Common equity Tier 1 capital and additional Tier 1 capital. For the Bank, Common equity Tier 1 capital consists of common stock, surplus and undivided profits. The Bank has no additional Tier 1 capital items. The Bank's Tier 2 capital consists of a limited amount of the allowance for credit losses on loans and the allowance for credit losses on off-balance sheet items. The Bank's Total capital is the sum of Tier 1 capital plus Tier 2 capital.

The Total capital ratio, the Tier 1 capital ratio and the Common equity Tier 1 capital ratio are calculated using end of period risk-weighted assets. In calculating risk-weighted assets, specified risk percentages are applied to each category of asset and off-balance sheet items based on regulatory requirements. The Tier 1 leverage capital ratio is calculated using quarterly average assets.

On September 17, 2019, the FDIC finalized a rule that introduced an optional simplified measure of capital adequacy for qualifying community banking organizations (i.e., the community bank leverage ratio framework, "CBLR framework"), as required by the Economic Growth, Regulatory Relief and Consumer Protection Act. The CBLR framework is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. To qualify for the CBLR framework, a community banking organization must have a Tier 1 leverage ratio of at least 9 percent, less than $10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital. The Bank has elected not to opt into the CBLR framework at this time.

14. Capital Standards - continued

The federal banking agencies have provided community banking organizations the option to phase in the impact on regulatory capital of the adoption of ASU 2016-13, which was effective for the Bank on January 1, 2023. The Bank did not select the option to phase in the impact of ASU 2016-13 on regulatory capital.

The Bank's actual capital ratios, the required regulatory capital ratios to be considered well capitalized, the regulatory minimum capital ratios, and the regulatory minimum capital ratios with the 2.5% capital conservation buffer added based on the Basel III Capital Rules are as follows for the periods indicated:

($ in thousands)	Actual		Required To be Well Capitalized		Minimum Capital		Minimum Capital With Capital Conservation Buffer	
September 30, 2024	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital	$ 69,212	14.04%	$ 49,286	10.00%	$ 39,429	8.00%	$ 51,750	10.50%
Tier 1 capital	63,047	12.79%	39,429	8.00%	29,572	6.00%	41,893	8.50%
Common equity Tier 1 capital	63,047	12.79%	32,036	6.50%	22,179	4.50%	34,500	7.00%
Tier 1 leverage capital	63,047	8.93%	35,314	5.00%	28,251	4.00%	28,251	4.00%

	Actual		Required To be Well Capitalized		Minimum Capital		Minimum Capital With Capital Conservation Buffer	
December 31, 2023	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital	$ 65,179	13.11%	$ 49,736	10.000%	$ 39,789	8.00%	$ 52,222	10.50%
Tier 1 capital	58,963	11.86%	39,789	8.000%	29,841	6.00%	42,275	8.50%
Common equity Tier 1 capital	58,963	11.86%	32,328	6.500%	22,381	4.50%	34,815	7.00%
Tier 1 leverage capital	58,963	8.96%	32,901	5.000%	26,321	4.00%	26,321	4.00%

As of September 30, 2024 and December 31, 2023, capital levels at the Bank exceed all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis. Based on the ratios presented above, capital levels of the Bank exceed the minimum levels necessary to be considered well capitalized. Failure to meet the capital requirements could affect the Bank's ability to pay dividends and accept deposits and may significantly affect the operations of the Bank. In its most recent regulatory report, the Bank was categorized as well capitalized under the prompt corrective action regulations. Management knows of no events or conditions that should change this classification.

15. Net Income per Common Share

The calculation of basic and diluted net income per common share are presented in the following table for the periods indicated.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Basic net income per common share:				
Net income	$ 1,729,944	$ 1,475,600	$ 4,678,626	$ 4,343,208
Weighted-average common shares outstanding	1,489,476	1,476,346	1,483,317	1,474,291
Basic net income per common share	$ 1.16	$ 1.00	$ 3.15	$ 2.95
Diluted net income per common share:				
Net income	$ 1,729,944	$ 1,475,600	$ 4,678,626	$ 4,343,208
Weighted-average common shares outstanding	1,489,476	1,476,346	1,483,317	1,474,291
Dilutive common stock equivalents	7,962	13,933	7,162	13,554
Dilutive EPS shares	1,497,438	1,490,279	1,490,479	1,487,845
Diluted net income per common share	$ 1.16	$ 0.99	$ 3.14	$ 2.92
Anti-dilutive shares	-	-	7,750	9,300

16. Fair Value Measurements

ASC Topic 820 defines fair value as the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants on the measurement date under current market conditions (an exit price) and establishes a framework for measuring fair value and expands disclosures about fair value. ASC Topic 820 also establishes a hierarchy for determining fair value measurement. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities.

The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are directly or indirectly observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a Bank's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

16. Fair Value Measurements – continued

During the nine- and 12-month periods ended September 30, 2024 and December 31, 2023, the Bank did not measure any assets or liabilities at fair value on a recurring basis.

The following table presents individually evaluated collateral dependent loans measured at fair value on a nonrecurring basis where the outstanding investment in the loan exceeded fair value resulting in an allowance being allocated to the loan at September 30, 2024 and December 31, 2023.

September 30, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Collateral dependent loans with ACL	$ -	$ -	$ 3,716,684	$ 3,716,684
December 31, 2023				
Collateral dependent loans with ACL	$ -	$ -	$ 3,947,577	$ 3,947,577

The Bank does not record loans held for investment at fair value on a recurring basis. However, there are instances when a loan is individually evaluated and a specific allowance for credit loss on loans is established. The Bank measures impairment either based on the fair value of the collateral if the loan is collateral dependent or uses the present value of expected future cash flows discounted at the loan's effective interest rate, which is not a fair value measurement. The Bank maintains a valuation allowance to the extent that this measure of the individually evaluated loan is less than the recorded investment in the loan. When an individually evaluated loan is measured at fair value based solely on observable market prices or a current appraisal without further adjustment for unobservable inputs, the Bank records the individually evaluated loan as a nonrecurring fair value measurement classified as Level 2. However, if based on management's review, additional discounts to observed market prices or appraisals are required or if observable inputs are not available, the Bank records the individually evaluated loan as a nonrecurring fair value measurement classified as Level 3.

Individually evaluated loans that are measured based on expected future cash flows discounted at the loan's effective interest rate rather than the market rate of interest, are not recorded at fair value and are therefore excluded from fair value disclosure requirements.

The fair value of the individually evaluated collateral dependent loans is measured based on the fair value of the collateral (less estimated selling costs). Appraised values may be discounted based on management's historical experience, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Individually evaluated collateral dependent loans are reviewed and evaluated on a quarterly basis for individual reserve and adjusted accordingly, based on the factors identified above.

The following table presents qualitative information about Level 3 fair value measurements for individually evaluated collateral dependent loans where the recorded investment in the loans exceeded fair value resulting in an allowance being allocated to the loans at September 30, 2024 and December 31, 2023.

September 30, 2024	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Discount
Collateral dependent loans with ACL	$ 3,716,684	Appraisal (1)	Selling costs	7%
December 31, 2023				
Collateral dependent loans with ACL	$ 3,947,577	Appraisal (1)	Selling costs	7%

(1) Fair value is generally determined through independent appraisal of underlying collateral, which generally includes various level 3 inputs which are not observable.

16. Fair Value Measurements - continued

In estimating fair values, the Bank utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. Also, the calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

The following table presents the carrying value and estimated fair value, including the level within the fair value hierarchy, of the Bank's financial instruments for the periods indicated.

September 30, 2024	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 99,024,850	$ 99,024,850	$ 99,024,850	$ -	$ -
Time deposits in other banks	245,585	243,905	-	243,905	-
Investment securities held to maturity:					
U.S. Treasury securities	10,307,018	9,930,228	9,930,228	-	-
Other investment securities	79,663,645	73,822,112	-	73,822,112	-
Federal Home Loan Bank stock	1,273,500	1,273,500	-	1,273,500	-
Loans, net	500,196,775	490,093,123	-	-	490,093,123
Accrued interest receivable	1,591,632	1,591,632	-	1,591,632	-
Bank owned life insurance	6,648,278	6,648,278	-	6,648,278	-
Financial liabilities:					
Noninterest-bearing deposits	153,036,493	153,036,493	-	153,036,493	-
Interest-bearing deposits	473,777,788	473,831,214	-	-	473,831,214
FHLBA overnight borrowings	-	-	-	-	-
FHLBA term borrowings	17,000,000	17,212,877	-	17,212,877	-
Accrued interest payable	790,926	790,926	-	790,926	-
December 31, 2023					
Financial assets:					
Cash and cash equivalents	$ 32,002,628	$ 32,002,628	$ 32,002,628	$ -	$ -
Time deposits in other banks	2,258,681	2,218,604	-	2,218,604	-
Investment securities held to maturity:					
U.S. Treasury securities	17,344,342	16,598,520	16,598,520	-	-
Other investment securities	89,151,564	81,056,922	-	81,056,922	-
Federal Home Loan Bank stock	2,720,700	2,720,700	-	2,720,700	-
Loans, net	502,249,930	487,148,887	-	-	487,148,887
Accrued interest receivable	1,825,679	1,825,679	-	1,825,679	-
Bank owned life insurance	6,543,598	6,543,598	-	6,543,598	-
Financial liabilities:					
Noninterest-bearing deposits	145,916,027	145,916,027	-	145,916,027	-
Interest-bearing deposits	408,392,609	407,330,105	-	-	407,330,105
FHLBA overnight borrowings	31,000,000	31,000,000	-	31,000,000	-
FHLBA term borrowings	17,000,000	17,132,048	-	17,132,048	-
Accrued interest payable	712,066	712,066	-	712,066	-

17. Legal Proceedings

The Bank is at times, in the ordinary course of business, subject to other legal actions that are normally associated with a financial institution. In management's opinion, the effect of these other actions will not be material to the financial condition or results of operations of the Bank.

18. Accounting Standard Updates

ASU 2023-06, "*Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative."* The amendments in ASU 2023-06 incorporate certain U.S. Securities and Exchange Commission ("SEC") disclosure requirements into the FASB Accounting Standards Codification. The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of Codification Topics, allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the Codification with the SEC's regulations. For entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment will be the date on which the SEC removes that related disclosure from its rules. For all other entities, the amendments will be effective two years later. However, if by June 30, 2027, the SEC has not removed the related disclosure from its regulations, the amendments will be removed from the Codification and not become effective for any entity. The adoption of ASU 2023-06 is not expected to have a material impact on the Bank's financial statements.

ASU 2023-07, "*Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures."* The amendments in ASU 2023-07 are intended to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. This ASU requires disclosure of significant segment expenses that are regularly provided to the chief operating decision maker ("CODM"), an amount for other segment items by reportable segment and a description of its composition, all annual disclosures required by FASB ASU Topic 280 in interim periods as well, and the title and position of the CODM and how the CODM uses the reported measures. Additionally, this ASU requires that at least one of the reported segment profit and loss measures should be the measure that is most consistent with the measurement principles used in an entity's consolidated financial statements. Lastly, this ASU requires public business entities with a single reportable segment to provide all disclosures required by these amendments in this ASU and all existing segment disclosures in Topic 280. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied retrospectively. The adoption of ASU 2023-07 is not expected to have a material impact on the Bank's financial statements.

ASU 2023-09, "*Income Taxes (Topic 740), Improvement to Income Tax Disclosures."* The amendments in ASU 2023-09 require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity's applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The adoption of ASU 2023-09 is not expected to have a material impact on the Bank's financial statements.

Exhibit 31.1

CERTIFICATIONS OF THE PRINCIPAL EXECUTIVE OFFICER
Pursuant to Securities Exchange Act Rules 13a-1 and 15d-14
As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael F. Allen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Harford Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   b Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

   c Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2024

/s/ Michael F. Allen
Michael F. Allen
President
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS OF THE PRINCIPAL FINANCIAL OFFICER
Pursuant to Securities Exchange Act Rules 13a-1 and 15d-14
As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Neil L. Christ, CPA, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Harford Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   b Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

   c Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2024

/s/ Neil L. Christ, CPA
Neil L. Christ, CPA
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF THE PERIODIC REPORT
Pursuant to 18 U.S.C. Section 1350
As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to, and for purposes only of, 18 U.S.C. § 1350, each of the undersigned hereby certifies that (i) the Quarterly Report of Harford Bank on Form 10-Q for the quarter ended September 30, 2024, filed with the Federal Deposit Insurance Corporation (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Harford Bank.

Date: November 6, 2024

/s/ Michael F. Allen
Michael F. Allen
President
(Principal Executive Officer)

Date: November 6, 2024

/s/ Neil L. Christ, CPA
Neil L. Christ, CPA
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)