

An aerial photograph of a city harbor at dusk. The foreground features a large, white, tent-like structure with multiple peaks. The harbor is filled with water, and several boats are docked at a pier. In the background, a city skyline is visible with numerous skyscrapers and buildings, some of which are illuminated. The sky is a deep blue, and the overall scene is lit with the warm glow of city lights.

HARBOR BANKSHARES

C O R P O R A T I O N

ANNUAL REPORT

2025

Our Mission

Our mission is to profitably invest in the growth of our communities through the provision of financial products and services to create inclusive economic development.

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Board of Directors

Joseph Haskins, Jr.

Chairman
Harbor Bankshares Corporation

Erich W. March

President
King Memorial Park Cemetery
VP & COO
March Funeral Homes

Jonathan R.C. Dickey

Senior Member
Merriweather Money Management
Financial Advisor

Rhonda Overby

Chairman & CEO
Camera Ready, Inc.

James H. DeGraffenreidt, Jr.

Retired Chairman & CEO
WGL Holdings, Inc.

James Scott, Jr.

Principal
Platform Accounting Group

Kimberly J. Levine

Former Chief Financial Officer

James H. Rhee

Senior Managing Partner
The Livingstone Group Asia (TLG Asia)

Natalie Madeira Cofield

President & CEO
Association for Enterprise Opportunity

John D. Lewis

President & CEO
Harbor Bankshares Corporation

Yitzhak Zelmanovitch

President
Founders' Impact, Inc.

Miguel Lambert

President
The Bulldog Group

Kermit S. Billups

Executive Vice President
Greenline Ventures

Executive Officers

Joseph Haskins, Jr.

Chairman
Harbor Bankshares Corporation

James H. DeGraffenreidt, Jr.

Vice Chairman
Harbor Bankshares Corporation

John D. Lewis

President & CEO

Yitzhak Zelmanovitch

Secretary
Harbor Bankshares Corporation

Jodi L. Beal, CPA

Chief Financial Officer

Committees

Executive

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James H. DeGraffenreidt, Jr.
Kimberly J. Levine
Erich W. March
James Scott, Jr.
Yitzhak Zelmanovitch

Investment

James H. DeGraffenreidt, Jr., Chairman

Kermit S. Billups
Joseph Haskins, Jr.
Kimberly J. Levine
James H. Rhee
Yitzhak Zelmanovitch

Audit

James Scott, Jr., Chairman

Jonathan R.C. Dickey
Miguel Lambert
Kimberly J. Levine
Erich W. March
Rhonda Overby

Human Resources/Governance

James H. DeGraffenreidt, Jr., Chairman

Joseph Haskins, Jr.
Miguel Lambert
Natalie Madeira Cofield
James H. Rhee

Dear Fellow Shareholders:

In our letter last year, we looked ahead with excitement to the year 2025 due to the opportunities which we believed would present themselves. While it was a year of strong performance, it did not provide an opportunity to deploy capital in a way that marked transformative growth for the Corporation. The year was consistent with our core aim of creating durable, long-term value. We meet our long-term objectives through steady execution against a disciplined strategy and continually improving our operations; all of this to be ready when opportunities present themselves.



We are a strategic organization in both thought and execution. As bankers, the management of risk is our central discipline - understanding it, properly pricing it, and ultimately choosing the risks to take. In 2025, events which were predictable and consistent became less so. In our industry, the Community Development Financial Institution Fund ("CDFI") was deemed to have matured to the point of requiring much less public support and to be capable of sustaining itself through private market dynamics. The infrastructure for the regulation of all banks shrunk; all while emergent economic risk due to private credit, global conflict, new trade regimes, and stubborn inflation became clearer.

The year 2025 also marked the return of mergers and acquisition activity in the banking sector. Our industry is aging and community banks have underinvested in talent and institutional succession. In the coming years, I believe we will see continued consolidation among the over 4,000 remaining banks. Those that remain independent will be those that have prepared themselves for opportunity.

It often goes unnoticed that at their core, banks have always been pioneers in the use of technology. Just remember how revolutionary credit scoring, ATMs, online banking, and remote deposit were when they first emerged. While the fundamental aspects of what we do, attract deposits, lend, and manage risk, remain, the way that we perform those tasks continues to evolve. Thoughtful investment and implementation of technology will allow us to do more with less. It expands our market opportunity; improves our ability to provide exceptional customer service, and it makes us more efficient. We must always consider our customers and have a relentless focus on competing in areas where we have a competitive advantage.

Bank Affiliated New Markets Tax Credit CDEs by Total Awards

Bank Holding Company	Awardee	Awards
JP Morgan Chase & Co.	Chase New Markets Corporation	15
Harbor Bankshares Corporation	Harbor Bankshares Corporation	14
U.S. Bancorp	USBCDE, LLC	14
Truist Financial Corporation	Truist Community Development Enterprise, LLC	12
Capital One Financial Corporation	Capital One Community Renewal Fund, LLC	11
PNC Financial Corporation	PNC Community Partners, Inc.	10
BMO Financial Corporation	BMO Harris New Markets Fund, LLC	9
Bank of America Corporation	Bank of America CDE, LLC	8
Well Fargo & Company	Wells Fargo Community Development Enterprises, Inc.	7
Broadway Financial Corporation	City First New Markets Fund II, LLC	7
CitiGroup Inc.	Citibank NMTC Corporation	6

Highlights:

Special Dividend

We announced a special dividend of \$0.50 for common shareholders. This dividend reflects our continued confidence in the Corporation's financial health and prospects.

New Market Tax Credit Award

We were successful in being awarded our fourteenth allocation of New Markets Tax Credit ("NMTC") authority from the U.S. Treasury CDFI Fund. Our NMTC franchise has consistently competed successfully with some of the largest financial institutions in the country. In 2025, Congress permanently extended NMTCs, which had previously required periodic reauthorization.

EmpowerShares Money Market Fund

The Harbor Bank of Maryland offers the J.P. Morgan EmpowerShares Money Market Funds under a distribution agreement. This product has grown to be a substantial contributor of core fee income. In 2025, assets under our distribution agreement had a high-water mark of more than \$1.5 billion.

Capital Base

At year-end 2025, the Bank's Community Bank Leverage Ratio was 12.3%. This indicator reflects the amount of true equity capital backing our balance sheet. Our capital base reflects our financial stability and our capacity for strategic investment.

The Harbor Bankshares Corporation belongs to you, our shareholders. You have entrusted us with your capital and with your patience and support, we have deployed it thoughtfully and profitably.

On behalf of the entire team at Harbor, we thank you for your trust, confidence, and support.

Sincerely,

HARBOR BANKSHARES CORPORATION



John D. Lewis
President & CEO



Joseph Haskins, Jr.
Chairman

Habitat for Humanity Randolph Road Project



Harbor Bankshares is proud to support the Habitat for Humanity Randolph Road Project through New Market Tax Credits. This impactful partnership helped bring 24 condos, 168 apartments, and 3 single-family homes to life at the Allium Place community. The ribbon cutting ceremony marked a significant milestone, providing 27 new opportunities for homeownership and strengthening the fabric of our local community.

The Enolia Apartments

Harbor Bankshares is honored to support The Enolia Apartments on Harford Road in Baltimore, Maryland. The Enolia is a five-story, 151-unit residential community developed by MCB Real Estate on a 3.3 acre site at 4529 Harford Road. Designed to support higher-education housing needs, the property serves students attending Morgan State University, located less than a mile away, providing convenient access to campus while contributing to the community's growth and stability.





Silver Spring Art Exhibition

Harbor Bank celebrated the opening of our Silver Spring branch with a special art exhibition featuring *Thangularity Mothership*, a collaborative work by George Clinton and Overton Lyod. The event included an exclusive conversation between Clinton and CEO John Lewis, highlighting the intersection of art and community.

Juneteenth Celebration

Harbor Bank hosted another annual Juneteenth Celebration at our Northwood branch. Colleagues and community members gathered for the organization's annual Juneteenth celebration, recognizing history, culture, and unity. The event fostered meaningful dialogue and collaboration, reinforcing our ongoing commitment to community engagement and inclusive growth.



Silver Spring Grand Opening

Harbor Bank marked the opening of our Silver Spring branch with a grand opening event. Community members, leadership, and partners gathered to commemorate the grand opening of the branch. This new location reflects the organization's continued investment in growth, relationship-building, and expanding access to high-quality financial services within the communities we serve.



HARBOR BANKSHARES
C O R P O R A T I O N

Consolidated Financial Statements
December 31, 2025 and 2024



INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of Directors
Harbor Bankshares Corporation

Opinion

We have audited the accompanying consolidated financial statements of Harbor Bankshares Corporation and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2025 and 2024, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for one year after the date of the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

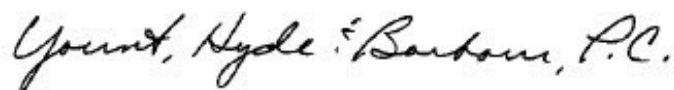
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the President's Letter but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



Richmond, Virginia
March 26, 2026

Harbor Bankshares Corporation
Consolidated Balance Sheets
December 31, 2025 and 2024

	December 31, 2025	December 31, 2024
Assets		
Cash and due from banks	\$ 2,992,318	\$ 3,184,777
Federal funds sold	2,183,166	2,112,556
Interest-bearing deposits in other banks	25,930,520	33,660,843
	<hr/>	<hr/>
Cash and cash equivalents	31,106,004	38,958,176
	<hr/>	<hr/>
Investment securities	116,590,488	97,865,368
Federal Home Loan Bank stock, at cost	267,900	264,600
Loans, net of unearned fees	221,327,302	235,956,598
Allowance for credit losses	(2,570,103)	(3,120,595)
Net loans	218,757,199	232,836,003
Accrued interest receivable	2,973,153	2,614,211
Premises and equipment, net	5,968,626	4,910,848
Bank-owned life insurance	6,984,017	6,813,197
Prepaid expenses and other assets	10,339,824	10,143,913
	<hr/>	<hr/>
Total assets	\$ 392,987,211	\$ 394,406,316
Liabilities and Stockholders' Equity		
Liabilities		
Noninterest-bearing deposits	\$ 73,722,193	\$ 61,632,085
Interest-bearing deposits	206,898,734	220,142,862
Total deposits	280,620,927	281,774,947
Accrued interest payable	318,755	187,348
Accounts payable and other liabilities	11,932,039	12,187,328
	<hr/>	<hr/>
Total liabilities	292,871,721	294,149,623
Stockholders' Equity		
Preferred stock, \$0.01 par value; authorized, issued and outstanding 2,700 fixed rate noncumulative perpetual preferred shares, Series B \$1,000 liquidation preference at December 31, 2025 and 2024; authorized, issued and outstanding 3,530 fixed rate noncumulative perpetual preferred shares, Series C \$1,000 liquidation preference; at December 31, 2025 and 2024; authorized, issued and outstanding 75,038 fixed rate noncumulative perpetual preferred shares, Series D \$1,000 liquidation preference at December 31, 2025 and 2024	81,268,000	81,268,000
Common stock, \$0.01 par value; authorized 10,000,000 shares; issued and outstanding 1,217,533 shares at December 31, 2025, and issued and outstanding 1,202,074 shares at December 31, 2024, in addition to 33,795 common nonvoting at December 31, 2025 and 2024 (including 24,630 and 25,146 unvested restricted stock as of December 31, 2025 and 2024, respectively)	12,513	12,359
Additional paid-in capital	14,780,905	14,573,228
Retained earnings	3,840,702	5,254,975
Accumulated other comprehensive income (loss)	213,370	(851,869)
	<hr/>	<hr/>
Total stockholders' equity	100,115,490	100,256,693
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 392,987,211	\$ 394,406,316

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

Harbor Bankshares Corporation
Consolidated Statements of (Loss) Income
For the Years Ended December 31, 2025 and 2024

	For the Years Ended December 31,	
	2025	2024
Interest and dividend income		
Interest and fees on loans	\$ 13,978,986	\$ 14,546,864
Interest and dividends on investment securities	4,456,802	2,469,176
Interest on deposits held in other banks	1,401,300	1,633,934
Interest on federal funds sold	235,475	139,746
Total interest and dividend income	<u>20,072,563</u>	<u>18,789,720</u>
Interest expense		
Interest on deposits	3,366,559	2,772,264
Federal Home Loan Bank advances	-	124,129
Federal Reserve Bank advances	-	32,021
Total interest expense	<u>3,366,559</u>	<u>2,928,414</u>
Net interest income	16,706,004	15,861,306
Provision for credit losses	500,000	750,000
Net interest income after provision for credit losses	<u>16,206,004</u>	<u>15,111,306</u>
Non-interest income		
Management fees – New Market Tax Credits	3,633,941	3,837,751
Other charges, including deposit account service charges	502,813	499,540
Investment distribution fees	1,196,957	803,522
Income from bank-owned life insurance	170,820	169,977
Income from CDFI awards	917,597	3,214,567
Other non-interest income	259,435	283,162
Total non-interest income	<u>6,681,563</u>	<u>8,808,519</u>
Non-interest expense		
Salaries and employee benefits	10,611,532	9,898,997
Premises and equipment	2,547,632	2,221,268
Data processing	1,465,955	1,395,329
Professional services	2,382,344	2,055,665
FDIC premiums and regulatory assessments	206,619	182,278
Marketing and advertising	708,801	649,750
Telecommunications	294,532	256,960
Other operating expenses	2,902,169	2,814,335
Total non-interest expense	<u>21,119,584</u>	<u>19,474,582</u>
Income before income tax expense	1,767,982	4,445,243
Income tax expense	407,822	996,859
Net income	1,360,160	3,448,384
Preferred stock dividends	(1,516,335)	(799,305)
Net (loss) income available to common stockholders	<u>\$ (156,175)</u>	<u>\$ 2,649,079</u>
(Loss) earnings per common share, basic and diluted	<u>\$ (0.12)</u>	<u>\$ 2.11</u>

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

Harbor Bankshares Corporation
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2025 and 2024

	For the Years Ended December 31,	
	2025	2024
Net income	\$ 1,360,160	\$ 3,448,384
Other comprehensive income		
Unrealized gain on investment securities available-for-sale	1,348,405	701,534
Income tax expense relating to investment securities available-for-sale	(283,166)	(147,322)
Other comprehensive income	1,065,239	554,212
Total comprehensive income	\$ 2,425,399	\$ 4,002,596

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

Harbor Bankshares Corporation
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2025 and 2024

	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
Balance, January 1, 2024	\$ 12,166	\$ 81,268,000	\$ 14,379,154	\$ 3,843,983	\$ (1,406,081)	\$ 98,097,222
Net income	-	-	-	3,448,384	-	3,448,384
Other comprehensive income	-	-	-	-	554,212	554,212
Cash dividends of \$2.50 per Series B and C preferred shares	-	-	-	(15,575)	-	(15,575)
Cash dividends of 2.00% per Series D preferred shares	-	-	-	(783,730)	-	(783,730)
Cash dividends of \$1.00 per common share	-	-	-	(1,238,087)	-	(1,238,087)
Issuance of common stock	215	-	(215)	-	-	-
Stock based compensation	-	-	218,339	-	-	218,339
Repurchase of common stock	(22)	-	(24,050)	-	-	(24,072)
Balance December 31, 2024	\$ 12,359	\$ 81,268,000	\$ 14,573,228	\$ 5,254,975	\$ (851,869)	\$ 100,256,693
Net income	-	-	-	1,360,160	-	1,360,160
Other comprehensive income	-	-	-	-	1,065,239	1,065,239
Cash dividends of \$2.50 per Series B and C preferred shares	-	-	-	(15,575)	-	(15,575)
Cash dividends of 2.00% per Series D preferred shares	-	-	-	(1,500,760)	-	(1,500,760)
Cash dividends of \$1.00 per common share	-	-	-	(1,258,098)	-	(1,258,098)
Issuance of common stock	222	-	(222)	-	-	-
Stock based compensation	-	-	312,778	-	-	312,778
Repurchase of common stock	(68)	-	(104,879)	-	-	(104,947)
Balance December 31, 2025	\$ 12,513	\$ 81,268,000	\$ 14,780,905	\$ 3,840,702	\$ 213,370	\$ 100,115,490

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

Harbor Bankshares Corporation
Consolidated Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	For the Years Ended December 31,	
	2025	2024
Cash flows from operating activities:		
Net income	\$ 1,360,160	\$ 3,448,384
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	613,568	483,530
Amortization and accretion of securities	(492,820)	(157,117)
Provision for credit losses	500,000	750,000
Increase in cash surrender value of life insurance	(170,820)	(169,977)
Stock-based compensation expense	312,778	218,339
Increase in accrued interest receivable	(358,942)	(459,102)
Deferred income tax (benefit), net	368,764	(198,339)
Increase in prepaid expenses and other assets	(847,841)	(2,399,996)
Increase (decrease) in accrued interest payable	131,407	(446,088)
(Decrease) increase in accounts payable and other liabilities	(255,289)	555,577
Net cash provided by operating activities	<u>1,160,965</u>	<u>1,625,211</u>
Cash flows from investing activities:		
Purchases of available-for-sale securities	(89,917,547)	(76,320,407)
Proceeds from maturities, payments, and calls of available-for-sale securities	73,033,652	56,820,000
Proceeds from maturities, payments and calls of held-to-maturity securities	-	10,000,000
Purchases of Federal Home Loan Bank stock	(3,300)	(10,600)
Purchase of loans	-	(12,073,399)
Net decrease (increase) in loans	13,578,804	(3,292,745)
Purchases of premises and equipment	(1,671,346)	(1,609,926)
Net cash used in investing activities	<u>(4,979,737)</u>	<u>(26,487,077)</u>
Cash flows from financing activities:		
Net decrease in deposits	(1,154,020)	(440,142)
Repurchase of common stock	(104,947)	(24,072)
Cash dividends on preferred stock	(1,516,335)	(799,305)
Cash dividends on common stock	(1,258,098)	(1,238,087)
Net cash used in financing activities	<u>(4,033,400)</u>	<u>(2,501,606)</u>
Net decrease in cash and cash equivalents	(7,852,172)	(27,363,472)
Cash and cash equivalents, beginning balance	<u>38,958,176</u>	<u>66,321,648</u>
Cash and cash equivalents, ending balance	<u>\$ 31,106,004</u>	<u>\$ 38,958,176</u>
Supplemental disclosure of cash flows information:		
Cash paid for interest	\$ 3,235,152	\$ 3,374,502
Cash paid for income taxes	830,000	1,180,000
Initial recognition of operating lease right-of-use assets	685,503	879,796
Unrealized gain on available-for-sale securities	1,348,405	701,534

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

Harbor Bankshares Corporation Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies

Nature of Operations

Harbor Bankshares Corporation (the "Corporation") is a bank holding company organized under the laws of the State of Maryland in 1992. The Corporation owns all the outstanding stock of Harbor Bankshares Capital Corporation ("HBCC") and The Harbor Bank of Maryland (the "Bank"). HBCC owns 100% of Harbor Bankshares Asset Management, LLC, a limited liability company, and the Bank owns all the outstanding stock of the Bank's subsidiary, Harbor Financial Services. The Bank was incorporated under the laws of the State of Maryland in 1980 and began operations in 1982.

The Corporation, through its Community Development Entities, is allocated New Market Tax Credits ("NMTC") which is a U.S. federal program designed to encourage investment in low-income communities by providing tax credits to private investors. These credits are a mechanism to attract capital for projects in areas that face economic challenges, fostering positive change and growth.

The Bank is a commercial bank headquartered in Baltimore, Maryland. The deposits of the Bank are insured up to statutory limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank conducts general banking business in locations and primarily serves the Baltimore, Maryland, metropolitan area. It offers checking, savings and time deposits, commercial real estate, personal, home improvement, automobiles, and other installment and term loans. The Bank is also a member of a national ATM network. The retail nature of the Bank allows for diversification of depositors and borrowers, which limits its dependency upon a single or a few customers.

HBCC is an operating entity headquartered in Baltimore, Maryland. Its activities include providing private capital to businesses through loans and principal investments.

Basis of Presentation

The accounting and reporting policies of the Corporation and its subsidiaries conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and to general practices in the banking industry. Certain reclassifications have been made to amounts previously reported to conform to the classifications made in 2025. These reclassifications were immaterial and did not change total stockholders' equity or net income. The more significant policies follow:

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses and the valuation of deferred tax assets. In connection with the determination of the allowances for credit losses and foreclosed real estate, management obtains independent appraisals for significant properties.

Adoption of New Accounting Standards in 2025

In November 2023, the FASB issued ASU 2023-07, "*Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*." The amendments in this ASU 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 mark (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

Harbor Bankshares Corporation Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies (Continued)

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 Corporation anticipates that adoption of the ASU will not have a material impact on the Corporation's consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." The amendments in this ASU 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 was effective for annual periods beginning after December 15, 2024. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The adoption of the ASU did not have a material impact on the Corporation's consolidated financial statements.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold and interest-bearing deposits in other banks and are generally in excess of amounts that would be recoverable under Federal Deposit Insurance Corporation ("FDIC") insurance. The amount of cash in excess of FDIC insured limits totals \$3,674,228 and \$5,092,115 as of December 31, 2025 and 2024, respectively.

Investment Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Securities that may be sold prior to maturity are classified as available-for-sale and carried at fair value with any adjustments to fair value, after tax, reported as a separate component of stockholders' equity. Securities that management has both the intent and ability to hold until maturity are classified as held-to-maturity and are carried at cost. Premiums and discounts are recognized in interest income using a method which approximates the interest method over the terms of the securities or to the first call date. The Corporation has elected to exclude accrued interest receivable from the amortized cost basis.

For debt securities classified as available-for-sale, impairment is recognized in its entirety in net income if either (i) we intend to sell the security or (ii) it is more-likely-than-not that we will be required to sell the security before recovery of its amortized cost basis. If, however, the Corporation does not intend to sell the security and it is not more-likely-than-not that the Corporation will be required to sell the security before recovery, the Corporation evaluates unrealized losses to determine whether a decline in fair value below amortized cost basis is a result of a credit loss, which occurs when the amortized cost basis of the security exceeds the present value of the cash flows expected to be collected from the security, or other factors such as changes in market interest rates. If a credit loss exists, an allowance for credit losses is recorded that reflects the amount of the impairment related to credit losses, limited by the amount by which the security's amortized cost basis exceeds its fair value. Changes in the allowance for credit losses are recorded in net income in the period of change and are included in provision for credit losses. Changes in the fair value of debt securities available-for-sale not resulting from credit losses are recorded in other comprehensive income. The Corporation regularly reviews unrealized losses in its investments in securities and cash flows expected to be collected from impaired securities based on criteria including the extent to which market value is below amortized cost, the financial health of and specific prospects for the issuer, the Corporation's intention with regard to holding the security to maturity and the likelihood that the Corporation would be required to sell the security before recovery.

Harbor Bankshares Corporation Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies (Continued)

Federal Home Loan Bank Stock

Federal Home Loan Bank of Atlanta ("FHLB") stock is an equity interest in the FHLB, which does not have a readily determinable fair value for purposes of U.S. GAAP related to *Accounting for Certain Investments in Debt and Equity Securities*, because its ownership is restricted, and it lacks a market. FHLB stock represents the required investment in the common stock of the Federal Home Loan Bank of Atlanta according to a predetermined formula. FHLB stock can be sold back only at par value of \$100 per share and only to the FHLB or another member institution.

Loans

Loans are generally carried at the amount of unpaid principal, less the allowance for credit losses and adjusted for deferred loan origination fees and costs, which are recognized over the term of the loan as an adjustment to yield using a method that approximates the interest method. Discounts and premiums on purchased loans are amortized to interest income using a method which approximates the interest method over the remaining period to contractual maturity, adjusted for anticipated and actual prepayments.

Interest on loans is accrued based on the principal amounts outstanding. It is the Corporation's policy to discontinue the accrual of interest when the principal or interest is delinquent for 90 days or more, or if collection of principal and interest in full is in doubt.

Allowance for Credit Losses

The allowance for credit losses is established through charges to earnings in the form of a provision for credit losses. Loan losses are charged against the allowance for credit losses for the difference between the carrying value of the loan and the estimated net realizable value or fair value of the collateral, if collateral dependent, when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance for unfunded commitments is established through charges to earnings in the form of a provision for credit losses and is included in other liabilities.

The allowance represents management's current estimate of expected credit losses over the contractual term of loans, and is recorded at an amount that, in management's judgment, reduces the recorded investment in loans to the net amount expected to be collected. No allowance for credit loss is recorded on accrued interest receivable and amounts written-off are reversed by an adjustment to interest income. Management's judgment in determining the level of the allowance is based on evaluations of historical loan losses, current conditions, and reasonable and supportable forecasts relevant to the collectability of loans. Loans that share common risk characteristics are evaluated collectively using a loss-rate, to estimate the current expected credit losses on loans.

Management's estimate of the allowance for credit losses that are collectively evaluated also includes a qualitative assessment of available information relevant to assessing collectability that is not captured in the loss estimation process. Factors considered by management include economic conditions including reasonable and supportable forecasts of economic conditions; the nature and volume of the loan portfolio; the volume and severity of delinquencies and adversely classified loan balances; lending policy and procedures; credit administration and lending staff; loan review; concentrations of credit and the value of underlying collateral. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Loans that do not share common risk characteristics with other loans are evaluated individually and are not included in the collective analysis. The allowance for credit losses on loans that are individually evaluated may be estimated based on their expected cash flows, or, in the case of loans for which repayment is expected substantially through the operation or sale of collateral when the borrower is experiencing financial difficulty, may be measured based on the fair value of the collateral less estimated costs to sell.

Management believes that the allowance for credit losses is adequate. However, the determination of the allowance requires significant judgment, and estimates of expected losses inherent in the loan portfolio can vary significantly from the amounts observed. While management uses available information to recognize expected losses, future

Harbor Bankshares Corporation Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies (Continued)

additions to the allowance may be necessary based on changes in the loans comprising the loan portfolio and changes in the financial condition of borrowers, such as may result from changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's loan portfolio and allowance for credit losses. Such review may result in recognition of additions to the allowance based on their judgments of information available to them at the time of their examination.

Premises and Equipment

Land is carried at cost. Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed on the straight-line method over estimated useful lives of assets. Amortization of leasehold improvements is recognized on a straight-line basis over the term of the lease or the life of the improvement, whichever is shorter.

The cost of maintenance and repairs is charged to expense as incurred whereas improvements are capitalized. The range of estimated useful lives for premises and equipment are as follows:

Buildings and land improvements	5 - 40 years
Leasehold improvements	3 - 15 years
Furniture, fixtures, and equipment	3 - 15 years

Foreclosed Real Estate

Real estate acquired through foreclosure or other means is recorded at the fair value of the real estate collateral at the transfer date less estimated selling costs, establishing a new cost basis. Losses incurred at the time of the acquisition of the property are charged to the allowance for credit losses. Subsequent reductions in the estimated fair value of the property are included in non-interest expense. Costs to maintain other real estate owned are expensed as incurred.

Bank-Owned Life Insurance

The Bank maintains life insurance policies on certain officers and directors of the Bank. The Bank recognizes the cash surrender value that could be realized under the insurance policies as an asset in the consolidated balance sheets.

Stock Based Compensation

Stock granted under the Stock Incentive Plan issued to employees is valued at the fair market value at the date of grant. Compensation expense is recognized for these awards at the fair market value of these awards at the date of grant. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes

The provision for income taxes includes taxes payable for the current year and deferred income taxes. Deferred income taxes are provided for the temporary differences between financial and taxable income. Deferred income taxes 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. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted through earnings for the effects of changes in tax laws and rates on the date of enactment. The Corporation has recorded a partial valuation allowance on its deferred tax assets. The net deferred tax asset is recorded in prepaid expenses and other assets on the Consolidated Balance Sheet as of December 31, 2025 and 2024.

Earnings (Loss) per Common Share

Basic earnings (loss) per common share represents net income (loss) available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per common share includes additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. There were no potentially dilutive shares during the years ended December 31, 2025 and 2024. Restricted stock with terms which share in voting and dividend rights during the restricted period are included in the basic weighted average shares calculation.

Harbor Bankshares Corporation Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies (Continued)

Off-Balance Sheet Financial Instruments

The Corporation enters into off-balance sheet financial instruments consisting of commitments to extend credit, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized on the balance sheet. The Corporation estimates expected credit losses on off-balance sheet financial instruments over the contractual period in which the Corporation is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Corporation. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Business Segments

The Corporation has determined that its current business and operations consist of one business segment, community banking. These operations are conducted primarily through the Corporation's subsidiary, The Harbor Bank of Maryland; however, some community banking operations are conducted through the Corporation, primarily the Corporation's involvement in the NMTC program. The Bank delivers a broad range of financial products and services, including various loan and deposit products, to both individuals and businesses and its income is consolidated with that of the Corporation. Major revenue sources include net interest income, management fees from the NMTC program, investment distribution fees, income from CDFI awards, and service charges on deposit accounts. Expenses include interest paid on deposits and borrowings, personnel, occupancy and equipment, and other expenses. Management primarily uses net income to analyze profitability. The chief operating decision makers are consistent at both the Corporation and Bank levels.

Revenue Recognition

The Corporation's revenue includes net interest income on financial instruments and non-interest income. Specific categories of revenue are presented in the Consolidated Statements of (Loss) Income. Most of the Corporation's revenue is not within the scope of Accounting Standard Update (ASU) 606 – *Revenue from Contracts with Customers*. For revenue within the scope of ASU 606, the Corporation provides services to customers and has related performance obligations. The revenue from such services is recognized upon satisfaction of all contractual performance obligations. The following discusses the key revenue streams within the scope of the revenue recognition guidance.

Management fees from NMTC – The Corporation receives fee income related to the transfer of its NMTC, which varies with each transaction, but which are all similar in nature. There are three types of fees associated with these transactions. The first is a “sub-allocation fee” that is paid to the Corporation when the tax credits are allocated to an entity at the time a qualified equity investment is made. There is also a structuring fee that is paid to the Corporation for providing certain administrative, tax credit advisory and financial structuring services. These two fees are recognized by the Corporation at the time the NMTC transaction is closed. The third type of fee is an asset management fee that is paid to cover the administrative and servicing costs associated with ongoing compliance with the NMTC reporting requirements. This fee is recognized as the services are rendered.

Other charges, including service charges on deposit accounts – Generally the Corporation receives compensation when a customer issues checks drawn on insufficient funds or when a customer or a non-customer utilizes the Corporation's ATM machines. Service charges on deposit accounts represent general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue, time-based revenue (i.e., service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when the Corporation's performance obligation is completed, which is generally monthly for account maintenance services or when the transaction has been completed. Payment for such performance obligations is generally received at the time the performance obligations are satisfied.

Investment distribution fees – Investment distribution fees are received by the Corporation for funds invested by third parties into investment funds maintained by others and not on the Corporation's Consolidated Balance Sheet. Income is recognized monthly as the distribution fees are received and services are delivered and fulfilled.

Other income – The Corporation receives income from merchant discount fees and other transaction fees related to specific services. Payment for such performance obligations is generally received at the time the transaction has been completed.

Harbor Bankshares Corporation Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies (Continued)

Income from CDFI Awards – The Corporation receives income from the CDFI Fund based on a successful application process. As the Corporation achieves certain performance goals with respect to the origination of loans or the delivery of certain services in designated communities, as outlined in the grant agreement, income from the award is recognized in proportion to the achievement of those goals to the total goal. In 2024, the Corporation received a Bank Enterprise Award in the amount of \$226,167 and recognized the entire amount as income based on achievement of designated goals. In 2023, the Corporation received an Emergency Response Program award of \$6,197,097 and recognized as of December 31, 2025 and 2024, \$917,597 and \$2,988,400, respectively of the award as income based on a pro rata achievement of the designated goals. The award was fully recognized as of December 31, 2025.

Recent Accounting Pronouncements

Management has the responsibility for the selection and use of appropriate accounting policies. The significant accounting policies used by the Corporation are described in the notes to the consolidated financial statements.

In November 2025, the Financial Accounting Standards Board (FASB) issued ASU 2025-08, “Financial Instruments—Credit Losses (Topic 326): Purchased Loans.” The amendments in this ASU expand the population of acquired financial assets accounted for using the gross-up approach. Acquired loans (excluding credit cards) are deemed purchased seasoned loans and accounted for using the gross-up approach upon acquisition if criteria established by the new guidance are met. This change aims to enhance comparability, consistency, and better reflect the economics of acquiring financial assets. This ASU is effective for annual reporting periods beginning after December 15, 2026, and for interim reporting periods within those annual reporting periods. Early adoption is permitted in an interim or annual reporting period in which financial statements have not yet been issued or made available for issuance. If an entity adopts this ASU in an interim reporting period, it should apply it as of the beginning of that interim reporting period or the beginning of the annual reporting period that includes that interim reporting period. The Corporation anticipates that adoption of the ASU will not have a material impact on the Corporation’s consolidated financial statements.

In November 2024, the Financial Accounting Standards Board (FASB) issued ASU 2024-03, “Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses.” ASU 2024-03 requires public companies to disclose, in the notes to the financial statements, specified information about certain costs and expenses at each interim and annual reporting period. This includes disclosing amounts related to employee compensation, depreciation, and intangible asset amortization. In addition, public companies will need to provide qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively. The FASB subsequently issued ASU 2025-01, “Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date”, which amends the effective date of ASU 2024-03 to clarify that all public business entities are required to adopt the guidance in ASU 2024-03 in annual reporting periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027. Early adoption of ASU 2024-03 is permitted. The Corporation anticipates that adoption of the ASU will not have a material impact on the Corporation’s consolidated financial statements.

Note 2. Restrictions on Cash and Due From Banks

The Bank may be required by the Federal Reserve or correspondent banks to maintain a reserve balance based on deposit liabilities. The balances at the Federal Reserve Bank as of December 31, 2025 and 2024, were \$10,344,737 and \$10,513,390, respectively with no restricted amount for 2025 or 2024. The balances required to be maintained at a correspondent bank account were \$1,500,000 and \$2,500,000, respectively for December 31, 2025 and 2024.

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 3. Securities

The amortized cost and estimated fair value of securities classified as available-for-sale at December 31, 2025 and 2024, are as follows:

		December 31, 2025			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale					
U.S. Government and Federal Agency obligations		\$ 116,320,400	\$ 427,814	\$ (157,726)	\$ 116,590,488
		December 31, 2024			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale					
U.S. Government and Federal Agency obligations		\$ 98,943,682	\$ 12,741	\$ (1,091,055)	\$ 97,865,368

There were no sales of investment securities for the years ended December 31, 2025 and 2024.

The amortized cost and estimated fair value of securities as of December 31, 2025, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

		December 31, 2025	
		Available-for-Sale	
		Amortized Cost	Fair Value
Due in one year or less		\$ 4,940,069	\$ 4,950,550
Due after one year through five years		65,670,383	65,754,130
Due after five years through ten years		45,709,948	45,885,808
		\$ 116,320,400	\$ 116,590,488

Securities with gross unrealized losses at December 31, 2025 and 2024 aggregated by investment category and length of time that individual securities have been in a continuous loss position are as follows:

		December 31, 2025					
		Less than 12 Months		12 Months or Greater		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities Available-for-Sale							
U.S. Government and Federal Agency obligations		\$ 49,383,908	\$ (149,356)	\$ 2,476,825	\$ (8,370)	\$ 51,860,733	\$ (157,726)
		December 31, 2024					
		Less than 12 Months		12 Months or Greater		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities Available-for-Sale							
U.S. Government and Federal Agency obligations		\$ 70,718,469	\$ (729,534)	\$ 19,188,478	\$ (361,521)	\$ 89,906,947	\$ (1,091,055)

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 3. Securities (Continued)

At December 31, 2025, the Corporation held twenty-two investments with gross unrealized losses totaling \$157,726 and at December 31, 2024, the Corporation held forty-two investments with gross unrealized losses totaling \$1,091,055. The gross unrealized losses resulted from decreases in market interest rates and spread volatility. Management does not believe that any of the securities are experiencing unrealized losses due to reasons of credit quality. Management believes that it is more likely than not that the Corporation will not be required to sell these securities prior to maturity or a full recovery of the amortized cost.

Securities with a fair value of \$29,645,523 and \$28,777,464 at December 31, 2025 and 2024, respectively, have been pledged as collateral for demand, money market and certificate of deposit accounts.

Note 4. Loans

The Corporation makes loans to customers primarily in the Baltimore Metropolitan Area and surrounding counties. Loans, net of deferred fees and costs of \$217,082 and \$247,334, as of December 31, 2025 and 2024, respectively, were as follows:

	December 31, 2025	December 31, 2024
Real estate loans		
Residential	\$ 40,522,221	\$ 43,055,014
Construction and land development	2,148,595	3,300,030
Commercial	146,222,273	154,367,061
Total real estate loans	188,893,089	200,722,105
Commercial and industrial	31,127,947	31,300,395
Consumer	1,306,266	3,934,098
Total loans	221,327,302	235,956,598
Allowance for credit losses	(2,570,103)	(3,120,595)
Total loans, net	\$ 218,757,199	\$ 232,836,003

Overdraft deposits are reclassified as consumer loans and are included in the total loans on the consolidated balance sheet. Overdrafts were \$18,373 and \$27,007 at December 31, 2025 and 2024, respectively.

Loans serviced for others by the Corporation under its NMTC Program total \$333,200,000 and \$289,100,000 at December 31, 2025 and 2024, respectively.

Unamortized loan premiums total \$1,518,613 and \$1,804,906 at December 31, 2025 and 2024, respectively.

At December 31, 2025 and 2024, commercial and industrial loans include a loan of \$3,595,574 and \$3,697,356, respectively, due from a nonconsolidated affiliate.

Harbor Bankshares Corporation Notes to Consolidated Financial Statements

Note 5. Credit Quality of Loans and the Allowance for Credit Losses

The Corporation currently manages its credit products and respective exposure to credit losses by the following specific portfolio segments which are levels at which the Corporation develops and documents its systematic methodology to determine the allowance for credit losses attributable to each respective portfolio segment which are:

- **Residential real estate** – This category includes mortgage loans on one-to-four-family residences, and the majority of loans are originated on properties in the Corporation’s primary market area. These loans are typically offered for terms ranging from five to thirty years, typically with a five-year demand clause, and are amortized monthly with interest and principal due each month. Residential real estate loans are evaluated for the adequacy of repayment sources at the time of approval, based upon measures including credit scores, debt-to-income ratios, and collateral values. Loans may either be conforming or non-conforming. This residential real estate category also includes home equity loans and lines of credit secured by second mortgages on one-to-four-family residences.
- **Construction and land development** – This category includes lending for construction and development of residential properties, multifamily, as well as for the construction of commercial properties, including faith-based properties. The Corporation finances the construction of commercial properties on a case-by-case basis. Loan proceeds are disbursed during the construction phase according to a draw schedule based on the stage of completion. Construction loans are underwritten based on the estimated value of the property as completed. Before funds are disbursed, the Corporation’s credit monitoring process for construction lending includes property inspections throughout the construction process each time a draw is requested.
- **Commercial real estate loans** – The Corporation originates commercial real estate loans primarily in its market area. These loans are generally larger and involve greater risks than residential real estate loans. Because payments on these loans are often dependent on the successful operation or management of the property, repayment of such loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. The Corporation seeks to minimize these risks in a variety of ways, including limiting the size and loan-to-value ratios. The loans are typically originated with a five-year maturity, either a five-year call or balloon. The Corporation’s commercial real estate loans are typically secured by retail or wholesale establishments, service industries, faith-based properties and industrial or warehouse facilities.
- **Commercial and industrial loans** – This category includes secured and unsecured commercial business loans and lines of credit to businesses primarily located in its market area. Most business loans have terms of one to five years, with lines of credit that can be open for longer periods. The security for a business loan depends on the amount borrowed, the business involved, and the strength of the borrower. Commercial business lending entails significant risk, as the payments on such loans may depend upon successful operation or management of the business involved. The Corporation attempts to limit its risk of loss on such loans by limiting the amount and the term, and by requiring personal guarantees of the principals of the business.
- **Consumer loans** – This category of loans includes primarily installment loans. The loans are generally offered for terms of up to five years at fixed interest rates. Consumer loans are generally originated at higher interest rates because of their higher risk. Repossessed collateral for a defaulted loan may not provide an adequate source or repayment as a result of damage, loss, or depreciation. In addition, collections are dependent on the borrower’s continuing financial ability and thus are more likely to be adversely affected by job loss or personal bankruptcy.

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 5. Credit Quality of Loans and the Allowance for Credit Losses (Continued)

The following tables summarize the activity in the allowance for credit losses for the years ended December 31, 2025, and 2024 and the distribution of the allowance for credit losses and loans receivable by loan portfolio class and evaluation method as of December 31, 2025 and 2024.

As of and for the Year Ended December 31, 2025							
	Residential Real Estate	Construction and Land Development	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Beginning Balance	\$ 250,821	\$ 4,744	\$ 2,455,963	\$ 178,961	\$ 178,819	\$ 51,287	\$ 3,120,595
Charge-offs	-	-	(458,252)	(538,174)	(187,132)	-	(1,183,558)
Recoveries	1,223	-	48,182	45,025	38,636	-	133,066
Provision for credit losses	(42,788)	354	(193,354)	585,759	77,550	72,479	500,000
Ending Balance	\$ 209,256	\$ 5,098	\$ 1,852,539	\$ 271,571	\$ 107,873	\$ 123,766	\$ 2,570,103

As of and for the Year Ended December 31, 2024							
	Residential Real Estate	Construction and Land Development	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Beginning Balance	\$ 98,365	\$ 3,727	\$ 1,857,898	\$ 473,979	\$ 187,925	\$ 85,182	\$ 2,707,076
Charge-offs	(140,347)	-	(1,333)	(22,392)	(275,993)	-	(440,065)
Recoveries	21,066	-	1,078	55,061	26,379	-	103,584
Provision for credit losses	271,737	1,017	598,320	(327,687)	240,508	(33,895)	750,000
Ending Balance	\$ 250,821	\$ 4,744	\$ 2,455,963	\$ 178,961	\$ 178,819	\$ 51,287	\$ 3,120,595

The following tables present the amortized cost basis of collateral-dependent individually evaluated loans by portfolio segment as of December 31, 2025 and 2024.

As of December 31, 2025			
	Real Estate Collateral	Other Collateral	Total
Residential real estate	\$ 401,868	\$ -	\$ 401,868
Construction and land development	-	-	-
Commercial real estate	5,108,607	-	5,108,607
Commercial and industrial	-	48,284	48,284
Consumer	-	-	-
	<u>\$ 5,510,475</u>	<u>\$ 48,284</u>	<u>\$ 5,558,759</u>

As of December 31, 2024			
	Real Estate Collateral	Other Collateral	Total
Residential real estate	\$ -	\$ -	\$ -
Construction and land development	-	-	-
Commercial real estate	7,094,209	-	7,094,209
Commercial and industrial	-	610,669	610,669
Consumer	-	-	-
	<u>\$ 7,094,209</u>	<u>\$ 610,669</u>	<u>\$ 7,704,878</u>

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 5. Credit Quality of Loans and the Allowance for Credit Losses (Continued)

The Corporation did not identify any significant changes in the extent to which collateral secures its collateral dependent loans, whether in the form of general deterioration or from other factors during the year ended December 31, 2025.

As part of the ongoing monitoring of the credit quality of the loan portfolio, management tracks certain credit quality indicators including trends related to the risk grade of classified loans, net charge offs, nonperforming loans, credit scores, and the general economic conditions in the Corporation's market area. The Corporation utilizes the following internal rating system to monitor the credit quality of the overall loan portfolio:

- **Pass** – A pass loan is considered of sufficient quality to preclude a special mention or an adverse rating. Pass assets are generally well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral. The pass classification also includes watch credits which have all of the characteristics of a pass loan but warrant more than the normal level of supervision.
- **Special mention** – A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Corporation's credit position at some future date. Special mention loans are not adversely classified and do not expose the Corporation to sufficient risk to warrant adverse classification.
- **Substandard** – A substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness, or weaknesses, which jeopardize the collection or liquidation of the debt. They are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected.
- **Doubtful** – A doubtful loan has all weaknesses inherent in a substandard credit with the added factor that the weaknesses make the collection or liquidation in full highly questionable and improbable. Loans in this category must be placed on non-accrual status and all payments applied to principal recapture and adequate loss should be recorded. It is not necessary to classify an entire credit doubtful when collection of a specific portion appears highly probable.

When assets are individually evaluated, the Corporation allocates a portion of the related credit loss allowances to such assets as the Corporation deems prudent. Individually evaluated loans include loans that management has determined do not share similar risk characteristics of any segment of pooled loans. Individually evaluated loans include deficiencies in the borrower's overall financial condition, payment history, support available from financial guarantors, changes in expected future cash flows or the fair market value of any collateral.

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 5. Credit Quality of Loans and the Allowance for Credit Losses (Continued)

The following table summarizes the Corporation's loans by year of origination and internally assigned credit risk rating at December 31, 2025 and gross charge-offs for the year ended December 31, 2025:

	Term Loans Amortized Cost by Origination Year						Revolving Loans	Total
	2025	2024	2023	2022	2021	Prior		
Residential real estate								
Pass	\$ 2,533,894	\$ 237,235	\$ 452,520	\$ 2,969,674	\$ 2,955,702	\$ 12,315,145	\$18,656,183	\$ 40,120,353
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	401,868	-	401,868
Doubtful	-	-	-	-	-	-	-	-
Total	\$ 2,533,894	\$ 237,235	\$ 452,520	\$ 2,969,674	\$ 2,955,702	\$ 12,717,013	\$18,656,183	\$ 40,522,221
Construction and land development								
Pass	\$ 423,244	\$ -	\$1,225,039	\$ -	\$ -	\$ 500,312	\$ -	\$ 2,148,595
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total	\$ 423,244	\$ -	\$1,225,039	\$ -	\$ -	\$ 500,312	\$ -	\$ 2,148,595
Commercial real estate								
Pass	\$ 9,963,320	\$17,527,256	\$16,936,321	\$24,702,630	\$ 29,641,314	\$ 38,586,510	\$ 172,914	\$ 137,530,265
Special Mention	-	-	-	-	1,982,279	485,346	-	2,467,625
Substandard	-	-	2,200,000	-	-	4,024,383	-	6,224,383
Doubtful	-	-	-	-	-	-	-	-
Total	\$ 9,963,320	\$17,527,256	\$19,136,321	\$24,702,630	\$ 31,623,593	\$ 43,096,239	\$ 172,914	\$ 146,222,273
Commercial and industrial								
Pass	\$ 2,587,427	\$ 3,784,324	\$ 5,922,825	\$ 9,538,012	\$ 228,650	\$ 524,154	\$ 8,494,271	\$ 31,079,663
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	48,284	-	48,284
Doubtful	-	-	-	-	-	-	-	-
Total	\$ 2,587,427	\$ 3,784,324	\$ 5,922,825	\$ 9,538,012	\$ 228,650	\$ 572,438	\$ 8,494,271	\$ 31,127,947
Consumer								
Pass	\$ 82,270	\$ 7,853	\$ 101,580	\$ 24,091	\$ 5,201	\$ 45,865	\$ 1,039,406	\$ 1,306,266
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total	\$ 82,270	\$ 7,853	\$ 101,580	\$ 24,091	\$ 5,201	\$ 45,865	\$ 1,039,406	\$ 1,306,266
Total loans	\$ 15,590,155	\$21,556,668	\$26,838,285	\$37,234,407	\$ 34,813,146	\$ 56,931,867	\$28,362,774	\$ 221,327,302
Current period gross charge-offs	\$ -	\$ 475,789	\$ 412,962	\$ 163,666	\$ -	\$ 116,542	\$ 14,599	\$ 1,183,558

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 5. Credit Quality of Loans and the Allowance for Credit Losses (Continued)

The following table summarizes the Corporation's loans by year of origination and internally assigned credit risk rating at December 31, 2024 and gross charge-offs for the year ended December 31, 2024:

	Term Loans Amortized Cost by Origination Year					Revolving Loans	Total
	2024	2023	2022	2021	Prior		
Residential real estate							
Pass	\$ 366,374	\$ 466,635	\$ 3,096,981	\$ 3,172,540	\$ 14,843,490	\$21,108,994	\$ 43,055,014
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total	\$ 366,374	\$ 466,635	\$ 3,096,981	\$ 3,172,540	\$ 14,843,490	\$21,108,994	\$ 43,055,014
Construction and land development							
Pass	\$ 1,470,922	\$1,331,846	\$ -	\$ -	\$ 497,262	\$ -	\$ 3,300,030
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total	\$ 1,470,922	\$1,331,846	\$ -	\$ -	\$ 497,262	\$ -	\$ 3,300,030
Commercial real estate							
Pass	\$ 21,816,440	\$17,989,859	\$26,293,625	\$32,843,003	\$ 46,933,612	\$ 882,500	\$ 146,759,039
Special Mention	-	-	-	-	513,813	-	513,813
Substandard	-	2,612,962	-	-	4,481,247	-	7,094,209
Doubtful	-	-	-	-	-	-	-
Total	\$ 21,816,440	\$20,602,821	\$26,293,625	\$32,843,003	\$ 51,928,672	\$ 882,500	\$ 154,367,061
Commercial and industrial							
Pass	\$ 2,915,093	\$ 5,804,724	\$12,877,569	\$ 243,933	\$778,564	\$8,069,843	\$ 30,689,726
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	110,669	500,000	610,669
Doubtful	-	-	-	-	-	-	-
Total	\$ 2,915,093	\$ 5,804,724	\$12,877,569	\$ 243,933	\$ 889,233	\$ 8,569,843	\$ 31,300,395
Consumer							
Pass	\$ 16,782	\$ 129,483	\$ 2,246,494	\$ 24,571	\$ 57,247	\$ 1,387,233	\$ 3,861,810
Special Mention	-	-	8,294	-	-	-	8,294
Substandard	-	-	49,770	-	-	14,224	63,994
Doubtful	-	-	-	-	-	-	-
Total	\$ 16,782	\$ 129,483	\$ 2,304,558	\$ 24,571	\$ 57,247	\$ 1,401,457	\$ 3,934,098
Total loans	\$ 26,585,611	\$28,335,509	\$44,572,733	\$36,284,047	\$ 68,215,904	\$31,962,794	\$ 235,956,598
Current period gross charge-offs	\$ -	\$ 128,495	\$ 240,345	\$ -	\$ 12,975	\$ 58,250	\$ 440,065

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 5. Credit Quality of Loans and the Allowance for Credit Losses (Continued)

The following tables present the amortized cost basis of past due loans, loans past due 90 days still accruing, and nonaccrual loans as of December 31, 2025 and 2024:

	December 31, 2025						
	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Recorded Investment > 90 Days and Accruing
Residential real estate	\$ 544,710	\$ 208,404	\$ 193,464	\$ 946,578	\$ 39,575,643	\$ 40,522,221	\$ -
Construction and land development	-	-	-	-	2,148,595	2,148,595	-
Commercial real estate	940,879	-	2,458,411	3,399,290	142,822,983	146,222,273	-
Commercial and industrial	2,990,937	-	48,284	3,039,221	28,088,726	31,127,947	-
Consumer	6,734	44,331	3,595	54,660	1,251,606	1,306,266	3,595
Total loans	\$ 4,483,260	\$ 252,735	\$ 2,703,754	\$ 7,439,749	\$ 213,887,553	\$ 221,327,302	\$ 3,595

	Nonaccrual Loans with No Allowance for Credit Losses	Nonaccrual Loans with an Allowance for Credit Losses	Total Nonaccrual Loans
Residential real estate	\$ 401,868	\$ -	\$ 401,868
Construction and land development	-	-	-
Commercial real estate	4,210,032	-	4,210,032
Commercial and industrial	48,284	-	48,284
Consumer	-	-	-
	\$ 4,660,184	\$ -	\$ 4,660,184

	December 31, 2024						
	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Recorded Investment > 90 Days and Accruing
Residential real estate	\$ 1,476,985	\$ 18,907	\$ -	\$ 1,495,892	\$ 41,559,122	\$ 43,055,014	\$ -
Construction and land development	-	-	-	-	3,300,030	3,300,030	-
Commercial real estate	3,998,290	347,383	4,626,048	8,971,721	145,395,340	154,367,061	-
Commercial and industrial	5,776	-	451,225	457,001	30,843,394	31,300,395	340,557
Consumer	38,185	8,294	63,994	110,473	3,823,625	3,934,098	14,224
Total loans	\$ 5,519,236	\$ 374,584	\$ 5,141,267	\$ 11,035,087	\$ 224,921,511	\$ 235,956,598	\$ 354,781

	Nonaccrual Loans with No Allowance for Credit Losses	Nonaccrual Loans with an Allowance for Credit Losses	Total Nonaccrual Loans
Residential real estate	\$ -	\$ -	\$ -
Construction and land development	-	-	-
Commercial real estate	1,287,678	3,338,370	4,626,048
Commercial and industrial	-	110,669	110,669
Consumer	49,769	-	49,769
	\$ 1,337,447	\$ 3,449,039	\$ 4,786,486

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 5. Credit Quality of Loans and the Allowance for Credit Losses (Continued)

At December 31, 2025, the Corporation had ten loans on non-accrual status with foregone interest in the amount of \$602,300. At December 31, 2024, the Corporation had thirteen loans on non-accrual status with foregone interest in the amount of \$432,713.

At December 31, 2025 there was one consumer loan past 90 days accruing interest and at December 31, 2024 there was one cash secured commercial and industrial loan and three consumer loans past 90 days accruing interest.

A loan will be returned to accrual status when all of the principal and interest amounts contractually due are brought current and management believes that future principal and interest amounts contractually due are reasonably assured, which belief is typically evidenced by a sustained period of repayment performance by the borrower. The Corporation accounts for individually evaluated loans under generally accepted accounting principles. When the Corporation determines an individually evaluated loan requires a reserve, it provides an individual reserve for that portion of the asset that is deemed uncollectible based on the present value of expected future cash flows discounted at the loan's original effective interest rate or based on the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

The following tables present loan modifications to borrowers experiencing financial difficulty that were made during the years ended December 31, 2025 and 2024, by loan portfolio segment:

<u>December 31, 2025</u>	<u>Number of Contracts</u>	<u>Interest Only Payments</u>	<u>Term Extension</u>	<u>% of Total Class of Loans</u>
Commercial real estate	2	\$ 54,623	\$ 690,467	0.51%
<u>December 31, 2024</u>	<u>Number of Contracts</u>	<u>Interest Only Payments</u>	<u>Term Extension</u>	<u>% of Total Class of Loans</u>
Commercial and industrial	1	\$ 500,000	\$ -	1.60%

None of the loans that were modified defaulted during the year ended December 31, 2025, and the loans remain current with contractual payments as of December 31, 2025.

Certain directors and executive officers of the Corporation and the Bank and certain affiliated entities of such directors and executive officers have had loan transactions with the Corporation. The loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability.

The following table summarizes changes in amounts of loans outstanding, both direct and indirect, to those persons during 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Balance at January 1,	\$ 7,871,372	\$ 7,964,376
Additions	3,386,662	224,875
Repayments	(5,490,723)	(317,879)
Balance at December 31,	<u>\$ 5,767,311</u>	<u>\$ 7,871,372</u>

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 6. Premises and Equipment

Premises and equipment at December 31, 2025 and 2024, were as follows:

	2025	2024
Cost		
Land	\$ 631,900	\$ 631,900
Buildings and land improvements	3,418,886	3,380,956
Leasehold improvements	7,833,357	6,907,225
Furniture, fixtures, and equipment	3,516,628	2,843,035
Total	15,400,771	13,763,116
Less: accumulated depreciation	(9,432,145)	(8,852,268)
	\$ 5,968,626	\$ 4,910,848

Depreciation expense totaled \$613,568 and \$483,530 for the years ended December 31, 2025 and 2024, respectively.

Note 7. Foreclosed Real Estate

The Corporation had no foreclosed real estate at December 31, 2025 and 2024 and did not dispose of foreclosed real estate during the years ended December 31, 2025 and 2024.

At December 31, 2025 there were no residential loans in the process of foreclosure. At December 31, 2024 there were no residential loans in the process of foreclosure.

Note 8. Deposits

Deposits as of December 31, 2025 and 2024 are summarized as follows:

	2025	2024
Noninterest-bearing demand	\$ 73,722,193	\$ 61,632,085
Interest-bearing demand	44,906,589	50,333,747
Money market	50,069,330	50,677,862
Savings	22,983,918	22,020,498
Certificates of deposit	88,938,897	97,110,755
Total deposits	\$ 280,620,927	\$ 281,774,947

Deposit accounts are federally insured up to \$250,000 per depositor. The aggregate amount of certificates of deposit with balances of \$250,000 or more totaled \$11,735,454 and \$16,401,519 at December 31, 2025 and 2024, respectively.

At December 31, 2025, certificates of deposit and their remaining maturities were as follows:

December 31,	
2026	\$ 78,051,844
2027	8,644,423
2028	937,488
2029	860,891
2030	444,251
	\$ 88,938,897

The Corporation has four deposit relationships as of December 31, 2025 and four deposit relationships as of December 31, 2024 in excess of 5% of total deposits, totaling \$64,064,832 and \$61,834,073, respectively.

Deposit balances of officers and directors totaled \$2,845,230 and \$3,818,307 at December 31, 2025 and 2024, respectively.

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 9. Borrowings

The Bank did not access borrowings during the year ended December 31, 2025. During the year ended December 31, 2024, the Bank's short-term borrowings from the Federal Reserve discount window peaked at \$4,500,000 and were repaid prior to year-end. The Bank pledged securities with a par value of \$5,000,000 as collateral for these borrowings which was released by the Federal Reserve upon repayment of the borrowings.

During the year ended December 31, 2024, the Bank's short-term borrowings from the FHLB peaked at \$20,000,000 and were repaid prior to year-end. The Bank has an agreement with FHLB that allows it to obtain advances secured by assets owned by the Bank. Total advances are limited to 30% and 25% of the Bank's total assets as of December 31, 2025 and 2024, respectively. As of December 31, 2025 and 2024, the Bank had credit availability of approximately \$117,000,000 and \$87,800,000, respectively, with FHLB which would be limited by the portion of its residential real estate and commercial real estate loans that were pledged as collateral. Loans that were deemed eligible to pledge as collateral totaled approximately \$59,900,000 and \$63,100,000 at December 31, 2025 and 2024, respectively.

Note 10. Income Taxes

In its most recently filed tax year, the Corporation filed income tax returns in the U.S. Federal jurisdiction and the State of Maryland. With few exceptions, the Corporation is no longer subject to U.S. Federal and State income tax examinations by the tax authorities for years prior to 2022. The income tax provision reflected in the statements of (loss) income consisted of the following components for the years ended December 31, 2025 and 2024:

	2025	2024
Current expense	\$ 393,337	\$ 631,697
Deferred tax expense	191,626	188,975
Change in valuation allowance	(177,141)	176,187
Total income tax expense	<u>\$ 407,822</u>	<u>\$ 996,859</u>

A reconciliation of tax expense computed at the statutory federal tax rate and the recorded tax expense (in dollars and percentages) for the year ended December 31, 2025 are as follows:

	Dollar	Percent
Tax at Federal statutory rate	\$ 371,276	21.0%
Tax effect of:		
Bank owned life insurance	(36,082)	(2.0)
Other permanent differences	17,730	1.0
Change in valuation allowance	54,898	3.1
Income tax expense (benefit)	<u>\$ 407,822</u>	<u>23.1%</u>

A reconciliation of tax expense computed at the statutory federal rate and the recorded tax expense in percentages for the year ended December 31, 2024 is as follows:

	Percent
Tax at Federal statutory rate	21.0%
Tax effect of:	
State and local income taxes, net of federal benefit	1.8
Bank owned life insurance	(0.8)
Other permanent differences	(0.4)
Change in valuation allowance	0.8
Income tax expense (benefit)	<u>22.4%</u>

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 10. Income Taxes (Continued)

During the years ended December 31, 2025 and 2024, the Corporation made payments to tax authorities for income taxes set forth in the table below:

	<u>2025</u>	<u>2024</u>
Federal	\$ 407,822	\$ 827,956
State	-	168,633
Total income tax expense	<u>\$ 407,822</u>	<u>\$ 996,859</u>

The following table provides information on the significant components of Corporation's deferred tax asset as of December 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Deferred income tax assets (liabilities):		
Net operating loss	\$ 1,253,475	\$ 983,545
Accumulated depreciation	109,218	329,793
Deferred compensation	34,400	185,760
Allowance for credit losses	663,988	790,692
Nonaccrual loan interest	167,926	119,083
New Market tax credits	1,927,707	1,942,835
Unrealized (gains) losses on investment securities available-for-sale	(56,718)	226,446
Restricted stock awards	67,761	58,449
Right of use asset	25,079	22,698
Deferred loan fees	59,741	68,066
Deferred income tax asset	<u>4,252,577</u>	<u>4,727,367</u>
Less valuation allowance	<u>(1,539,498)</u>	<u>(1,362,357)</u>
Net deferred income tax asset	<u>\$ 2,713,079</u>	<u>\$ 3,365,010</u>

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. Based on this evaluation, as of December 31, 2025, a valuation allowance of \$1,539,498 has been recorded to recognize only the portion of the deferred tax asset that relates to the net operating loss carryforward for the State of Maryland and the Maryland component of the deferred tax asset at the Bank. The amount of the remaining deferred tax asset valuation allowance could be released if estimates of future taxable income during the carryforward period increase or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for growth.

Note 11. Preferred Stock

On April 5, 2021, the Corporation entered into a Preferred Stock Purchase Agreement with J.P. Morgan Chase Community Development Corporation to issue 2,700 shares of the Corporation's Fixed Rate Noncumulative Perpetual Preferred Stock, Series B (the "Series B Preferred Stock") for a total purchase price of \$2,700,000. Holders of the Series B Preferred Stock are entitled to receive noncumulative dividends at a rate of 1.00% of the stated amount per year, if and as declared by the Corporation's board of directors. Dividends must be paid on the Series B Preferred Stock for the most recently completed dividend period prior to paying dividends on the Corporation's common stock.

On May 21, 2021, the Corporation entered into a Preferred Stock Purchase Agreement with Wells Fargo Central Pacific Holdings, Inc. to issue 3,530 shares of the Corporation's Fixed Rate Noncumulative Perpetual Preferred Stock, Series C (the "Series C Preferred Stock") for a total purchase price of \$3,530,000. Holders of the Series C Preferred Stock are entitled to receive noncumulative dividends at a rate of 1% of the stated amount per year, if and as declared by the Corporation's board of directors. Dividends must be paid on the Series C Preferred Stock for the most recently completed dividend period prior to paying dividends on the Corporation's common stock.

Harbor Bankshares Corporation Notes to Consolidated Financial Statements

Note 11. Preferred Stock (Continued)

On May 18, 2022, the Corporation entered into a Preferred Stock Purchase Agreement with the United States Department of the Treasury under the Emergency Capital Investment Program (“ECIP”) to issue 75,038 shares of the Corporation’s Fixed Rate Noncumulative Perpetual Preferred Stock, Series D (the “Series D Preferred Stock”) for a total purchase price of \$75,038,000. Holders of the Series D Preferred Stock are entitled to receive noncumulative dividends at a maximum rate of 2% per year, with no dividends for the first twenty-four months following the investment date, if and as declared by the Corporation’s board of directors. Dividends must be paid on the Series D Preferred Stock for the most recently completed dividend period, after the first twenty-four months following the investment date, prior to paying dividends on the Corporation’s common stock and are based on the qualified lending growth criteria listed in the terms of the ECIP agreement. After the tenth anniversary of the investment date, the dividend rate will be fixed based on the average annual amount of lending in years two through ten. Dividends are payable in arrears on a quarterly basis.

Established by the Consolidated Appropriations Act, 2021, the ECIP was created to encourage low- and moderate-income community financial institutions and minority depository institutions to provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially low-income and underserved communities, including persistent poverty counties, that may be disproportionately impacted by the economic effect of the COVID-19 pandemic by providing direct and indirect capital investments in low- and moderate-income community financial institutions.

The Series D Preferred Stock may be redeemed at the option of the Corporation on or after the fifth anniversary of issuance (or earlier in the event of loss of regulatory capital treatment), subject to the approval of the appropriate federal banking regulator and in accordance with the federal banking agencies’ regulatory capital regulations.

On January 8, 2025, the Corporation entered into the Option Agreement with the U.S. Treasury, which grants the Corporation the conditional option to repurchase the Series D Preferred Stock during the first 15 years following the Corporation’s issuance of the Preferred Stock. The purchase price for the Series D Preferred Stock under the Option

Agreement is based on a formula approximate to the fair value of the Series D Preferred Stock as of the date the Option Agreement is executed, calculated as set forth in the Option Agreement, together with any accrued and unpaid dividends thereon and could represent a discount from the Preferred Stock’s liquidation amount.

The purchase option may not be exercised during the first 10 years following the Corporation’s issuance of the Series D Preferred Stock (“the ECIP Period”) unless and until the Corporation meets at least one of the following three conditions (the “Threshold Conditions”): (1) an average of at least 60% of the Corporation’s loan originations qualify as “Deep Impact Lending” over any 16 consecutive quarters, (2) an average of at least 85% of the Corporation’s “total originations qualify as “Qualified Lending” over any 24 quarters or (3) the Series D Preferred Stock has a dividend rate of no more than 0.5% at each of six consecutive “Reset Dates,” in each case as defined in Option Agreement and the terms of the Series D Preferred. In addition to satisfying a Threshold Condition, the Option Agreement requires that the Corporation meet certain other eligibility conditions in order to exercise the purchase option in the future, including compliance with the terms of the original ECIP purchase agreement and the terms of the Series D Preferred Stock, maintaining qualification as either a certified community development financial institution or a minority depository institution and satisfying other legal and regulatory criteria. The Corporation may designate a Mission Aligned nonprofit Affiliate as the purchaser of the Series D Preferred Stock under the terms of the option agreement.

The earliest possible date by which a Threshold Condition may be met is June 30, 2028 which is the end of the sixteenth consecutive quarter following the Original Closing Date. However, the Corporation does not currently meet any of the Threshold Conditions to exercise the purchase option, and there can be no assurance if and when the Threshold Conditions will be met.

In addition to the requirement that a Threshold Condition be met, the Repurchase Agreement requires that the Corporation meet certain other eligibility conditions in order to exercise the purchase option in the future, including compliance with the terms of the original ECIP purchase agreement and the terms of the Preferred Stock, maintaining qualification as either a CDFI or an MDI, and meeting other legal and regulatory criteria. Although the Corporation currently meets the general eligibility criteria, other than satisfying one of the Threshold Conditions, there can be no assurance that the Corporation will meet such criteria in the future.

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 11. Preferred Stock (Continued)

The Corporation began paying quarterly dividends on the Series D Preferred Stock beginning in the three-month period ending June 30, 2024. Dividends on the Series D Preferred Stock totaled \$1,500,760 and \$783,730 for the years ended December 31, 2025 and 2024, respectively, and has a current dividend rate of 2.0%.

Note 12. Employee Benefit Plans

Defined Contribution Retirement Plan

The Corporation established a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code, which allows eligible employees to contribute a portion of their annual compensation on a pre-tax basis, subject to annual IRS limits. The plan provides for the Corporation to make contributions which will match employee deferrals on a one-to-one basis up to 3% of an employee's eligible compensation. Participants are 100% vested in their deferrals and matching contributions made by the Corporation are subject to a vesting schedule and become fully vested after five years of continuous service. Contributions were made by the Corporation in the amounts of \$131,626 and \$144,242 for the years ended December 31, 2025 and 2024, respectively.

Stock Incentive Plan

On June 16, 2021, the Corporation established a stock incentive plan to promote long-term growth and profitability of the Corporation by providing key people with incentives to improve stockholder value and to contribute to the growth and financial success of the Corporation and enabling the Corporation to attract and retain staff. The Plan, which is administered by the Corporation's Compensation Committee, had up to 100,000 shares available for issuance during 2023 and up to 100,000 shares in 2024. In 2025 and 2024, the Corporation granted 21,714 and 30,470 shares of restricted stock, respectively, under the Plan. Stock granted under this Plan is valued at the fair value as of the date of grant with one third of the shares vesting immediately upon grant and the remainder vesting ratably on the next two anniversary dates, provided the grantee has been continuously employed by the Corporation. Shares shall become fully vested due to, retirement, disability, or death. The Corporation recorded compensation expense related to the restricted stock awards of \$312,778 and \$218,339 during the years ended December 31, 2025 and 2024, respectively. As of December 31, 2025, \$168,641 of compensation expense remains to be recognized with a remaining life of 1.14 years.

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2024	25,146	\$ 9.33
Granted	21,714	17.64
Vested	(22,230)	13.78
Forfeited	-	-
Nonvested at December 31, 2025	24,630	\$ 12.55
Fair value of vested shares	\$ 2,502,015	

The following table outlines the vesting schedule of the nonvested restricted stock awards as of December 31, 2025:

Year Ending December 31,	Number of Vesting Restricted Shares
2026	9,372
2027	15,258
	24,630

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 13. Operating Leases

The Corporation enters into leases in the normal course of business primarily for branch locations and loan production offices. The Corporation's leases have remaining terms ranging from one to five years, some of which include renewal options to extend the lease for up to five years. The Corporation includes lease extensions if it is deemed reasonably certain the Corporation will exercise the option.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the Corporation's right to use an underlying asset for the lease term, and the lease liabilities represent the Corporation's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. Lease liabilities represent the Corporation's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows.

The Corporation uses the incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in the lease is not known. The Corporation's incremental borrowing rate is based on the FHLB amortizing advance rate for the comparable lease period.

The following table presents lease costs and other lease information:

	Years Ended December 31,	
	2025	2024
Right-of-use assets	\$ 3,367,829	\$ 2,435,650
Lease liabilities	3,458,962	2,518,129
Operating lease expense	705,386	714,121
Weighted average discount rate	4.06%	3.50%
Weighted average lease term	7.61 years	5.74 years

Right-of-use assets are recorded in prepaid expenses and other assets on the Consolidated Balance Sheet. Lease liabilities are recorded in accounts payable and other liabilities on the Consolidated Balance Sheet.

Future minimum payments for each of the five succeeding years and thereafter under non-cancelable operating leases consisted of the following at December 31, 2025:

December 31,	
2026	\$ 610,171
2027	533,993
2028	511,946
2029	524,468
2030	537,558
Thereafter	<u>1,358,496</u>
Total lease payments	4,076,632
Imputed interest	<u>(617,670)</u>
Total lease liabilities	<u>\$ 3,458,962</u>

Note 14. (Loss) Earnings Per Common Share

Basic (loss) earnings per common share is calculated by dividing net (loss) income available to common stockholders by the weighted average number of common shares outstanding during the period. Restricted stock is included in the average shares outstanding used to compute basic and dilutive earnings per common share, given its participation in voting and dividend rights during the restriction period.

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 14. (Loss) Earnings Per Common Share (Continued)

	Year Ended December 31,	
	2025	2024
Net (loss) income available to common stockholders	\$ (156,175)	\$ 2,649,079
Basic and dilutive:		
Weighted average common shares outstanding	1,274,716	1,255,686
(Loss) earnings per common share	\$ (0.12)	\$ 2.11

Note 15. Regulatory Capital Requirements

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

In September 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the Community Bank Leverage Ratio framework (CBLR), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020. The CBLR removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the CBLR and that maintain a leverage ratio of greater than the required minimum will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies' capital rules and, if applicable, will be considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the regulatory capital rules, an institution electing to use the CBLR must maintain a minimum leverage ratio of 9%. Qualifying institutions are allowed a two-quarter grace period to correct a ratio that falls below the required amount, provided the institution maintains a ratio of more than 8%. At December 31, 2025 and 2024, the Bank was a qualifying institution and elected to utilize the CBLR to measure capital adequacy. As such, the related amounts, and ratios for December 31, 2025, and 2024, are presented below using the CBLR.

As of December 31, 2025, and 2024, the most recent notification from the Bank's regulators categorized the Bank as "well-capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events occurring since that notification that management believes have changed the Bank's category.

The actual and required capital amounts and ratios of the Bank as of December 31, 2025, and 2024 were as follows:

	Actual		Capital Adequacy Purposes		To Be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2025						
Community Bank Leverage Ratio	\$ 46,907	12.3%	\$ 30,583	≥8.0%	\$ 34,405	≥9.0%
As of December 31, 2024						
Community Bank Leverage Ratio	\$ 46,052	12.4%	\$ 29,824	≥8.0%	\$ 33,552	≥9.0%

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 15. Regulatory Capital Requirements (Continued)

In August of 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (“EGRRCPA”) directed the Federal Reserve Board to revise the Small Bank Holding Company Policy Statement to raise the total consolidated asset limit in the Policy Statement from \$1 billion to \$3 billion. The Corporation meets the conditions of the revised policy statement and was exempt from the consolidated capital requirements at December 31, 2025 and 2024.

Bank and holding company regulations, as well as Maryland law, impose restrictions on dividend payments by the Bank, as well as restricting extensions of credit and transfers of assets between the Bank and the Corporation. At December 31, 2025, the Bank is restricted from paying dividends to its parent company without regulatory approval.

Note 16. Fair Value Measurements

ASC Topic 820 provides a framework for measuring and disclosing fair value under U.S. GAAP. ASC Topic 820 requires disclosures about the fair value of assets and liabilities recognized in the consolidated balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or a non-recurring basis (for example, collateral dependent loans).

ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record at fair value all other assets on a non-recurring basis, such as loans held for sale, loans held for investment and certain other assets. These non-recurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

ASC Topic 820 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market for the asset or liability, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement and based on the Corporation’s own assumptions about market participants’ assumptions.

The following is a description of the valuation methods used for instruments measured at fair value as the general classification of such instruments pursuant to the applicable valuation method.

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 16. Fair Value Measurements (Continued)

Fair value measurements on a recurring basis

Securities available-for-sale – If quoted prices are available in an active market for identical assets, securities are classified within Level 1 of the hierarchy. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and securities are included within Level 2 of the hierarchy. As of December 31, 2025 and 2024, the Corporation has categorized its investment securities available-for-sale as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2025			
Securities available-for-sale:			
U.S. Government and Federal Agency obligations	\$ -	\$ 116,590,488	\$ -
December 31, 2024			
Securities available-for-sale:			
U.S. Government and Federal Agency obligations	\$ -	\$ 97,865,368	\$ -

Fair value measurements on a non-recurring basis

Collateral dependent loans – The Corporation measures the need for credit reserves generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values. As of December 31, 2025 and 2024 the fair values consisted of loan balances of \$2,248,284 and \$3,449,038 that have been written down by \$0 and \$887,409, respectively, as a result of specific loan loss allowances.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2025			
Collateral dependent loans	\$ -	\$ -	\$ -
December 31, 2024			
Collateral dependent loans	\$ -	\$ -	\$ 2,561,629

The following table presents quantitative information about Level 3 fair value measurements for selected financial instruments measured at fair value on a non-recurring basis at December 31, 2025 and 2024:

	<u>Fair Value</u>	<u>Value Technique(s)</u>	<u>Unobservable Inputs</u>	<u>Range or Rate Used</u>
December 31, 2025				
Commercial real estate	\$ 2,200,000	Appraised value	Discount to reflect current market conditions	11.50%
Commercial and industrial	\$ 48,284	Appraised value	Discount to reflect current market conditions	9.50%
December 31, 2024				
Commercial real estate	\$ 2,513,345	Appraised value	Discount to reflect current market conditions	5.75-11.50%
Commercial and industrial	48,284	Appraised value	Discount to reflect current market conditions	10.75%

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 16. Fair Value Measurements (Continued)

The remaining financial assets and liabilities are not reported on the consolidated balance sheet at fair value on a recurring basis. 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 estimated fair values of the Corporation's financial instruments, whether carried at cost or fair value are as follows:

Fair Value Measurements at December 31, 2025 Using					
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		Fair Value
Carrying Value	(dollars in thousands)				
Financial assets:					
Cash and cash equivalents	\$ 31,106	\$ 31,106	\$ -	\$ -	\$ 31,106
Securities available-for-sale	116,590	-	116,590	-	116,590
Loans, net	218,757	-	-	212,125	212,125
Federal Home Loan Bank stock	268	268	-	-	268
Accrued interest receivable	2,973	2,973	-	-	2,973
Financial liabilities:					
Deposits	280,621	-	191,682	88,684	280,366
Accrued interest payable	319	319	-	-	319

Fair Value Measurements at December 31, 2024 Using					
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		Fair Value
Carrying Value	(dollars in thousands)				
Financial assets:					
Cash and cash equivalents	\$ 38,958	\$ 38,958	\$ -	\$ -	\$ 38,958
Securities available-for-sale	97,865	-	97,865	-	97,865
Loans, net	232,836	-	-	222,652	222,652
Federal Home Loan Bank stock	265	265	-	-	265
Accrued interest receivable	2,614	2,614	-	-	2,614
Financial liabilities:					
Deposits	281,775	-	184,664	96,556	281,220
Accrued interest payable	187	187	-	-	187

Note 17. Commitments and Contingencies

The Corporation is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to originate loans. These loans involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized on the consolidated balance sheet.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments is represented by the contractual amount of these instruments. The Corporation uses the same credit policies for these instruments as it does for on-balance sheet instruments. At December 31, 2025 and 2024, the Corporation had in other liabilities \$95,400 of reserves for unfunded commitments related to these financial instruments with off-balance sheet risk.

Harbor Bankshares Corporation
Notes to Consolidated Financial Statements

Note 17. Commitments and Contingencies (Continued)

The commitment to originate loans is an agreement to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and may require the payment of a fee. The Corporation expects that a large majority of its commitments will be fulfilled subsequent to the balance sheet date and therefore represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the borrower.

Loan commitments representing off-balance sheet risk were as follows:

	December 31,	
	2025	2024
Commitments to extend credit	\$ 17,566,295	\$ 21,100,398
Letters of credit	93,963	99,862
	\$ 17,660,258	\$ 21,200,260

Note 18. New Market Tax Credits Indemnifications

The Corporation has indemnified certain tax credit investors for potential Recapture Events in connection with the Corporation's participation in the Community Development Financial Institutions New Markets Tax Credit Program. Events of Recapture include the Corporation or the applicable community development entity ("CDE") or subsidiary CDE ("sub-CDE") ceasing to be a CDE; redemption of investment in the sub-CDE; failure to meet certain compliance requirements; and indemnitor's gross negligence, fraud, willful misconduct, malfeasance, material violation of law, or bad faith action which results in a Recapture Event. The Corporation's indemnification obligations total \$24,250,429 as of December 31, 2025. The Corporation's compliance obligations associated with each indemnification will expire over time as shown in the schedule below. In addition, the Corporation and sub-CDE income tax returns are subject to review and examination by Federal and State taxing authorities and are currently open to audit under the applicable statutes of limitations by the Internal Revenue Service ("IRS") for the years ended December 31, 2022, through and including 2025.

Maturities of compliance obligations as of December 31, 2025, are as follows:

December 31,	
2026	\$ 5,065,600
2027	3,831,079
2028	3,427,000
2029	596,000
2030	3,985,750
2031	4,087,000
Thereafter	3,258,000
	\$ 24,250,429

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

Locations



Fayette

25 West Fayette Street
Baltimore, Maryland 21201
410-528-1801 or 1-888-833-7920



Northwood Commons

1509 Havenwood Road
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443-687-8493



Inner Harbor East

1000 Lancaster Street, Suite C
Baltimore, Maryland 21202
410-468-0600



Pimlico

5000 Park Heights Avenue
Baltimore, Maryland 21215
410-367-3331



Science & Technology Park East

855 North Wolfe Street, Suite C
Baltimore, Maryland 21205
410-675-1167



Randallstown

8530 Liberty Road
Randallstown, Maryland 21133
410-922-3005



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1010 Wayne Avenue, Suite 100
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301-478-4500



Silver Spring Loan Production Office

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