



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Harbor Bankshares Corporation

Person to be contacted regarding this report:	Darius L. Davis
UST Sequence Number:	1273
CPP Funds Received:	6,800,000
CPP Funds Repaid to Date:	0
Date Funded (first funding):	Jul 17, 2009
Date Repaid ¹ :	N/A

RSSD: (For Bank Holding Companies)	2008130
Holding Company Docket Number: (For Thrift Holding Companies)	n/a
FDIC Certificate Number: (For Depository Institutions)	24015
City:	Baltimore
State:	Maryland

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	The capital infusion of CPP funds allowed The Harbor Bank of Maryland (the "Bank") to increase lending by providing a funding source after the Bank increased reserves for non-performing assets by \$10 million.
<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	The CPP funds supported increased small business lending by the Bank. The Bank's commercial loans outstanding increased by \$8.4 million from \$177.3 million on August 31, 2009 to \$185.7 million on January 31, 2010.
<input type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	

<input type="checkbox"/>	Make other investments	
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	The capital infusion of CPP funds allowed the Bank to increase reserves for non-performing assets by \$10 million in September 2009.
<input type="checkbox"/>	Reduce borrowings	
<input checked="" type="checkbox"/>	Increase charge-offs	The capital infusion of CPP funds allowed the Bank to increase charge-offs by \$7.7 million assets during September 2009.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/>	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP funds?

Due to the capital infusion of CPP funds, the Bank was able to avoid being undercapitalized, after increasing both reserves for non-performing assets and charge-offs during 2009.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

The Bank was able to remove "toxic" assets from the balance sheet and focus on increasing lending activities.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.