Howard Bancorp Inc
Form 10-Q
August 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

Commission File Number: 001-35489

HOWARD BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland	**20-3735949**

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

6011 University Blvd. Suite 370, Ellicott City, MD	**21043**
(Address of principal executive offices)	(Zip Code)

(410) 750-0020

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer ¨ Accelerated filer ¨
Non-accelerated filer ¨ Small reporting company x

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

The number of outstanding shares of common stock outstanding as of July 31, 2015.

Common Stock, $0.01 par value – 6,360,487 shares

HOWARD BANCORP, INC.

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As used in this report, “Bancorp” refers to Howard Bancorp, Inc., references to the “Company,” “we,” “us,” and “ours” refer to Howard Bancorp, Inc. and its subsidiaries, collectively, and references to the “Bank” refer to Howard Bank.

This report contains forward-looking statements, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “plan,” “seek,” “expect,” “will,” “may,” “should” and words of similar meaning. You can also them by the fact that they do not relate strictly to historical or current facts.

These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations, particularly with respect to our business plan and strategies, including continuing to focus on commercial customers while also increasing our origination of one-to four-family residential mortgage loans, increasing our mortgage lending portfolio and selling loans into the secondary markets;
- anticipated timing to consummate our pending merger with Patapsco Bancorp, Inc.;
- statements regarding the asset quality of our investment portfolios and anticipated recovery and collection of unrealized losses on securities available for sale;
- statements with respect to our allowance for credit losses, and the adequacy thereof;
- statement with respect to having adequate liquidity levels;
- our belief that we will retain a large portion of maturing certificates of deposit;
- the impact on us of recent changes to accounting standards;
- future cash requirements and that we do not anticipate material losses relating to commitments to extend credit; and
- the impact of interest rate changes on our net interest income.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not undertake any obligation to update any forward-looking statements after the date of this report.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market area, that are worse than expected;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
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- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to enter new markets successfully and capitalize on growth opportunities, and to otherwise implement our growth strategy;
- our ability to successfully integrate acquired entities, if any
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission ("SEC") and the Public Company Accounting Oversight Board;
- changes in our organization, compensation and benefit plans
- loss of key personnel; and
- other risk discussed in this report, in our annual report on Form 10-K for the year ended December 31, 2014, as filed with the SEC, and in other reports we may file.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. You should not put undue reliance on any forward-looking statements.

PART I

Item 1. Financial Statements

Howard Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

(in thousands)	Unaudited June 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$ 28,107	$ 23,598
Federal funds sold	899	919
Total cash and cash equivalents	29,006	24,517
Securities available-for-sale, at fair value	34,581	41,079
Nonmarketable equity securities	3,385	2,571
Loans held for sale, at fair value	65,759	42,881
Loans and leases, net of unearned income	582,702	552,917
Allowance for credit losses	(4,199)	(3,602)
Net loans and leases	578,503	549,315
Bank premises and equipment, net	16,108	12,122
Core deposit intangible	1,224	1,391
Bank owned life insurance	11,834	11,659
Other real estate owned	2,480	2,472
Interest receivable and other assets	4,001	3,409
Total assets	$ 746,881	$ 691,416
LIABILITIES		
Noninterest-bearing deposits	$ 148,928	$ 142,727
Interest-bearing deposits	426,788	411,312
Total deposits	575,716	554,039
Short-term borrowings	52,025	48,628
Long-term borrowings	27,500	19,000
Deferred tax liability	3,330	4,686
Accrued expenses and other liabilities	3,683	5,420
Total liabilities	662,254	631,773
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock—par value $0.01 (liquidation preference of $1,000 per share) authorized 5,000,000; shares issued and outstanding 12,562 series AA at June 30, 2015 and December 31, 2014	12,562	12,562
Common stock - par value of $0.01 authorized 10,000,000 shares; issued and outstanding 6,358,778 shares at June 30, 2015 and 4,145,547 at December 31, 2014	64	41
Capital surplus	61,919	38,360

Retained earnings	10,073	8,696
Accumulated other comprehensive income (loss)	9	(16)
Total shareholders' equity	84,627	59,643
Total liabilities and shareholders' equity	$ 746,881	$ 691,416

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

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Consolidated Statements of Operations

(in thousands)	Unaudited For the six months ended June 30, 2015	2014	For the three months ended June 30, 2015	2014
INTEREST INCOME				
Interest and fees on loans	$14,772	$10,262	$ 7,414	$ 5,363
Interest and dividends on securities	111	57	56	27
Other interest income	27	21	14	7
Total interest income	14,910	10,340	7,484	5,397
INTEREST EXPENSE				
Deposits	1,173	926	596	485
Short-term borrowings	55	56	26	25
Long-term borrowings	116	101	63	58
Total interest expense	1,344	1,083	685	568
NET INTEREST INCOME	13,566	9,257	6,799	4,829
Provision for credit losses	785	501	535	325
Net interest income after provision for credit losses	12,781	8,756	6,264	4,504
NONINTEREST INCOME				
Service charges on deposit accounts	403	307	187	153
Realized and unrealized gains on mortgage banking activity	3,505	1,476	2,133	1,326
Income from bank owned life insurance	175	186	89	94
Loan fee income	1,292	519	824	376
Other operating income	412	194	205	110
Total noninterest income	5,787	2,682	3,438	2,059
NONINTEREST EXPENSE				
Compensation and benefits	7,789	5,667	3,939	2,907
Occupancy and equipment	1,879	1,056	904	586
Amortization of core deposit intangible	167	41	84	21
Marketing and business development	1,307	720	679	459
Professional fees	1,218	571	722	341
Data processing fees	1,166	314	521	170
FDIC Assessment	209	201	119	119
Loan production expense	935	419	590	274
Other operating expense	1,605	853	882	472
Total noninterest expense	16,275	9,842	8,440	5,349
INCOME BEFORE INCOME TAXES	2,293	1,596	1,262	1,214
Income tax expense	853	593	471	477
NET INCOME	$1,440	$1,003	$ 791	$ 737
Preferred stock dividends	63	63	31	32
Net income available to common shareholders	$1,377	$940	$ 760	$ 705
NET INCOME PER COMMON SHARE				
Basic	$0.31	$0.23	$ 0.16	$ 0.17
Diluted	$0.31	$0.23	$ 0.16	$ 0.17

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

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Consolidated Statements of Comprehensive Income (Unaudited)

	For the six months ended June 30,	
(in thousands)	2015	2014
Net Income	$ 1,440	$ 1,003
Other comprehensive income		
Investments available-for-sale:		
Net unrealized holding gains	40	2
Related income tax expense	(15)	-
Comprehensive income	$ 1,465	$ 1,005

	For the three months ended June 30,	
(in thousands)	2015	2014
Net Income	$ 791	$ 737
Other comprehensive income		
Investments available-for-sale:		
Net unrealized holding losses	(8)	(2)
Related income tax benefit	4	1
Comprehensive income	$ 787	$ 736

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

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(dollars in thousands, except share data)	Preferred stock	Number of shares	Common stock	Capital Surplus	Retained Earnings / (Accumulated deficit)	Accumulated other comprehensive income/loss	Total
Balances at January 1, 2014	$12,562	4,095,650	$ 41	$37,607	$ (1,592)	$ 4	$48,622
Net income	-	-	-	-	1,003	-	1,003
Net unrealized gain on securities	-	-	-	-	-	2	2
Dividends paid on preferred stock	-	-	-	-	(63)	-	(63)
Forfeited stock-based compensation	-	(6,668)	-	(34)	-	-	(34)
Issuance of common stock:							
Stock awards	-	1,420	-	13	-	-	13
Stock-based compensation	-	-	-	86	-	-	86
Balances at June 30, 2014	$12,562	4,090,402	$ 41	$37,672	$ (652)	$ 6	$49,629
Balances at January 1, 2015	$12,562	4,145,547	$ 41	$38,360	$ 8,696	$ (16)	$59,643
Net income	-	-	-	-	1,440	-	1,440
Net unrealized gain on securities	-	-	-	-	-	25	25
Dividends paid on preferred stock	-	-	-	-	(63)	-	(63)
Issuance of common stock:							
Stock offering	-	2,173,913	22	23,096	-	-	23,118
Stock awards	-	3,861	-	49	-	-	49
Exercise of options	-	21,465	-	217	-	-	217
Stock-based compensation	-	14,002	1	197	-	-	198
Balances at June 30, 2015	$12,562	6,358,788	$ 64	$61,919	$ 10,073	$ 9	$84,627

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

Consolidated Statements of Cash Flows

	(Unaudited) For the six months ended June 30,	
(in thousands)	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,440	$ 1,003
Adjustments to reconcile net income to net cash from operating activities:		
Provision for credit losses	785	501
Deferred income taxes (benefit)	(490)	(177)
Depreciation	446	351
Stock-based compensation	247	99
Forfeited restricted stock	-	(34)
Net (amortization) accretion of investment securities	(3)	1
Net amortization of intangible asset	167	41
Loans originated for sale	(264,919)	(103,644)
Proceeds from sale of loans originated for sale	245,546	79,568
Realized and unrealized gains on mortgage banking activity	(3,505)	(1,476)
Cash surrender value of BOLI	(175)	(186)
Increase (decrease) in interest receivable	153	(32)
Increase in interest payable	16	21
(Increase) decrease in other assets	(1,599)	158
(Decrease) increase in other liabilities	(2,603)	746
Net cash used in operating activities	(24,494)	(23,060)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available-for-sale	(23,490)	(6,000)
Proceeds from maturities of investment securities available-for-sale	30,031	18,557
Net increase in loans and leases outstanding	(29,973)	(29,556)
Purchase of premises and equipment	(4,432)	(1,028)
Net cash used in investing activities	(27,864)	(18,027)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in noninterest-bearing deposits	6,201	7,780
Net increase in interest-bearing deposits	15,476	25,745
Net increase (decrease) in short-term borrowings	3,398	(9,040)
Proceeds from issuance of long-term debt	8,500	9,500
Repayment of long-term debt	-	(2,000)
Net proceeds from issuance of common stock, net of cost	23,335	
Cash dividends on preferred stock	(63)	(63)
Net cash provided by financing activities	56,847	31,922
Net increase (decrease) in cash and cash equivalents	4,489	(9,165)
Cash and cash equivalents at beginning of period	24,517	35,736
Cash and cash equivalents at end of period	$ 29,006	$ 26,571
SUPPLEMENTAL INFORMATION		
Cash payments for interest	$ 1,329	$ 1,061

Cash payments for income taxes	1,190	-

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

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Notes to Consolidated Financial Statements (unaudited)

Note 1: Summary of Significant Accounting Policies

Nature of Operations

On December 15, 2005, Howard Bancorp, Inc. (“Bancorp”) acquired all of the stock and became the holding company of Howard Bank (the “Bank”) pursuant to the Plan of Reorganization approved by the shareholders of the Bank and by federal and state regulatory agencies. Each share of the Bank’s common stock was converted into two shares of Bancorp common stock effected by the filing of Articles of Exchange on that date, and the shareholders of the Bank became the shareholders of Bancorp. The Bank has four subsidiaries, three of which hold foreclosed real estate and the other owns and manages real estate that is used as a branch location and has office and retail space. The accompanying consolidated financial statements of Bancorp and its wholly-owned subsidiary bank (collectively the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Bancorp was incorporated in April of 2005 under the laws of the State of Maryland and is a bank holding company registered under the Bank Holding Company Act of 1956. Bancorp is a single bank holding company with one subsidiary, Howard Bank, which operates as a state trust company with commercial banking powers regulated by the Maryland Office of the Commissioner of Financial Regulation (the “Commissioner”).

On October 17, 2014, the Bank acquired certain assets and assumed substantially all deposits and certain other liabilities of NBRS Financial Bank (“NBRS”), which was closed on October 17, 2014 by the Commissioner (the “NBRS Acquisition”). The NBRS Acquisition was completed in accordance with the terms of the Purchase and Assumption Agreement with the Federal Deposit Insurance Corporation (the “FDIC”). The Bank did not acquire any of NBRS’s other real estate owned.

The Company is a diversified financial services company providing commercial banking, mortgage banking and consumer finance through banking branches, the internet and other distribution channels to businesses, business owners, professionals and other consumers located primarily in the Greater Baltimore Metropolitan Area.

The following is a description of the Company’s significant accounting policies.

Principles of Consolidation

The consolidated financial statements include the accounts of Bancorp, its subsidiary bank and the bank's subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications may have been made to the prior year's consolidated financial statements to conform to current period presentation.

Use of Estimates

The preparation of financial statements in conformity with 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 changes in the near-term relate to the determination of the allowance for credit losses, other-than-temporary impairment of investment securities, deferred income taxes and share-based compensation.

Loans Held for Sale

The Company sells its mortgage loans to third party investors on a servicing released basis. Upon sale and delivery, loans are legally isolated from the Company and the Company has no ability to restrict or constrain the ability of third party investors to pledge or exchange the mortgage loans. The Company does not have the ability to repurchase the mortgage loans or unilaterally cause third party investors to put the mortgage loans back to the Company. Unrealized and realized gains on loan sales are determined using the specific identification method and are recognized through mortgage banking activity in the Consolidated Statements of Operations.

The Company engages in sales of residential mortgage loans originated by the Bank. Loans held for sale are carried at fair value. Fair value is based on outstanding investor commitments or, in absence of such commitments, on current investor yield requirements based on third party models. Gains and losses on sales of these loans are recorded as a component of noninterest income in the Consolidated Statements of Operations. The Company's current practice is to sell residential mortgage loans on a servicing released basis, and, therefore, it has no intangible asset recorded for the value of such servicing.

The Company enters into commitments to originate residential mortgage loans whereby the interest rate on the loan is determined prior to funding (i.e. rate lock commitment). Such rate lock commitments on mortgage loans to be sold in the secondary market are considered to be derivatives. The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 15 to 60 days. The Company protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the Company commits to sell a loan at a premium at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan.

For purposes of calculating fair value of rate lock commitments, we estimate loan closing and investor delivery rate based on historical experience. The measurement of the estimated fair value of the rate lock commitments is presented as realized and unrealized gains from mortgage banking activities.

Segment Information

The Company has one reportable segment, “Community Banking.” All of the Company’s activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, lending is dependent upon the ability of the Bank to fund itself with deposits and other borrowings and manage interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment.

New Accounting Pronouncements

Update ASU No. 2014-14, *Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure.* This update clarifies how creditors classify certain government-sponsored mortgage loans to borrowers with a guarantee that entitles the creditor to recover all or a portion of the unpaid principal balance from the government if the borrower defaults. The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met:

1. The loan has a government guarantee that is not separable from the loan before foreclosure.

2. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim.

3. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor.

Adoption of the amendments in this update can be either a prospective transition method or a modified retrospective transition method. For prospective transition, an entity should apply the amendments in this update to foreclosures that occur after the date of adoption. For modified retrospective transition, an entity should apply the amendments in this update by means of a cumulative effect adjustment (through a reclassification to a separate other receivable) as of the beginning of the annual period of adoption. ASU 2014-14 was effective for interim and annual periods beginning after December 15, 2014 and did not have a significant impact on the Company's financial statements.

ASU No. 2014-12, *Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.* The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Guidance in Topic 718 as it relates to awards with performance conditions that affect vesting should be applied to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. The amendments of ASU 2014-12 are effective for interim and annual periods beginning after December 15, 2015. The Company will evaluate this amendment but does not believe it will have an impact on its financial position or results of operations.

Update ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606): The guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, but not before the original effective date of December 15, 2016. The Company will evaluate the amendments in this update but does not believe they will have an impact on its financial position or results of operations.

ASU No. 2014-04, *Receivables –Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* The guidance clarifies when an "in substance repossession or foreclosure" occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, such that all or a portion of the loan should be derecognized and the real estate property recognized. ASU 2014-04 states that a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments of ASU 2014-04 also require interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The amendments of ASU 2014-04 are effective for interim and annual periods beginning after December 15, 2014, and may be applied using either a modified retrospective transition method or a prospective transition method as described in ASU 2014-04. ASU 2014-04 did not have a significant impact on the Company's financial statements.

Note 2: Investments Securities

The amortized cost and estimated fair values of investments available for sale are as follows:

(in thousands)	June 30, 2015				December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government								
Agencies	$32,000	$ 15	$ 5	$ 32,010	$37,010	$ -	$ 29	$ 36,981
Treasuries	2,000	-	-	2,000	4,000	-	3	3,997
Mortgage-backed	67	3	-	70	95	6	-	101
Mutual funds	500	1	-	501	-	-	-	-
	$34,567	$ 19	$ 5	$ 34,581	$41,105	$ 6	$ 32	$ 41,079

Gross unrealized losses and fair value by investment category and length of time the individual securities have been in a continuous unrealized loss position at June 30, 2015 and December 31, 2014 are presented below:

June 30, 2015 (in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government						

Agencies	$ 8,497	$ 5	$ -	$ -	$ 8,497	$ 5
Treasuries	-	-	-	-	-	-
Mortgage-backed	-	-	-	-	-	-
Mutual funds	-	-	-	-	-	-
	$ 8,497	$ 5	$ -	$ -	$ 8,497	$ 5

December 31, 2014 (in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government Agencies	$ 26,477	$ 29	$ -	$ -	$ 26,477	$ 29
Treasuries	3,997	3	-	-	3,997	3
Mortgage-backed	-	-	-	-	-	-
	$ 30,474	$ 32	$ -	$ -	$ 30,474	$ 32

The unrealized losses that existed were a result of market changes in interest rates since the original purchase. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers and (3) structure of the security.

An impairment loss is recognized in earnings if any of the following are true: (1) the Company intends to sell the debt security; (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis; or (3) the Company does not expect to recover the entire amortized cost basis of the security. In situations where the Company intends to sell or when it is more likely than not that the Company will be required to sell the security, the entire impairment loss must be recognized in earnings. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining portion being recognized in shareholders' equity as a component of other comprehensive income, net of deferred tax.

The amortized cost and estimated fair values of investments available for sale by contractual maturity are shown below:

(in thousands)	June 30, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Amounts maturing:				
One year or less	$25,498	$ 25,498	$33,516	$ 33,506
After one through five years	8,505	8,515	7,508	7,487
After five through ten years	64	67	81	86
After ten years	500	501	-	-
	$34,567	$ 34,581	$41,105	$ 41,079

There were no sales of investment securities during the six months ended June 30, 2015 or in 2014. Because of the composition of the securities portfolio acquired in the NBRS acquisition, management deemed it prudent for interest rate risk management purposes to liquidate the entire acquired portfolio. Thus, in the fourth quarter of 2014, the Bank both acquired and sold nearly $31.7 million in securities, which resulted in a net loss on the sale of the securities of $228 thousand. At June 30, 2015 and December 31, 2014, $20.4 million and $30.9 million fair value of securities, respectively, were pledged as collateral for repurchase agreements and for public funds. No single issuer of securities, except for U. S. Government agency securities, had outstanding balances that exceeded ten percent of shareholders' equity.

Note 3: Loans and Leases

The Company makes loans to customers primarily in the Greater Baltimore Maryland metropolitan area, and surrounding communities. A substantial portion of the Company's loan portfolio consists of loans to businesses secured by real estate and/or other business assets.

The loan portfolio segment balances at June 30, 2015 and December 31, 2014 are presented in the following table:

	June 30, 2015			December 31, 2014		
(in thousands)	Legacy	Acquired	Total	Legacy	Acquired	Total
Real estate						
Construction and land	$61,711	$5,030	$66,741	$57,898	$6,260	$64,158
Residential - first lien	73,806	17,359	91,165	68,768	19,525	88,293
Residential - junior lien	14,624	7,659	22,283	11,762	7,539	19,301
Total residential real estate	88,430	25,018	113,448	80,530	27,064	107,594
Commercial - owner occupied	82,249	33,821	116,070	75,307	37,519	112,826
Commercial - non-owner occupied	109,164	31,086	140,250	90,937	33,021	123,958
Total commercial real estate	191,413	64,907	256,320	166,244	70,540	236,784
Total real estate loans	341,554	94,955	436,509	304,672	103,864	408,536
Commercial loans and leases	126,311	15,872	142,183	120,924	18,745	139,669
Consumer	1,371	2,639	4,010	1,878	2,834	4,712
Total loans	$469,236	$113,466	$582,702	$427,474	$125,443	$552,917

The above does not include $65.8 million in loans held for sale at June 30, 2015, and $42.9 million at December 31, 2014.

Note 4: Credit Quality Assessment

Allowance for Credit Losses

The following table provides information on the activity in the allowance for credit losses by the respective loan portfolio segment for the three months and six months ended June 30, 2015 and June 30, 2014:

	June 30, 2015							
(in thousands)	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Allowance for credit losses:								
Six months ended:								
Beginning balance	$174	$ 272	$ 55	$ 160	$ 562	$ 2,366	$ 13	$3,602
Charge-offs	-	-	-	-	-	(494)	(4)	(498)
Recoveries	-	3	-	-	290	17	-	310
Provision for credit losses	330	53	(15)	106	(247)	550	8	785
Ending balance	$504	$ 328	$ 40	$ 266	$ 605	$ 2,439	$ 17	$4,199
Three months ended:								
Beginning balance	$164	$ 278	$ 55	$ 175	$ 625	$ 2,527	$ 15	$3,839
Charge-offs	-	-	-	-	-	(481)	-	(481)
Recoveries	-	-	-	-	290	16	-	306
Provision for credit losses	340	50	(15)	91	(310)	377	2	535
Ending balance	$504	$ 328	$ 40	$ 266	$ 605	$ 2,439	$ 17	$4,199

	June 30, 2014							
(in thousands)	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Allowance for credit losses:								
Six months ended:								
Beginning balance	$122	$ 200	$ 34	$ 131	$ 541	$ 1,464	$ 14	$2,506
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	4	42	-	46
Provision for credit losses	37	(4)	(17)	7	116	365	(3)	501
Ending balance	$159	$ 196	$ 17	$ 138	$ 661	$ 1,871	$ 11	$3,053
Three months ended:								

Beginning balance	$143	$ 187	$ 16	$ 137	$ 686	$ 1,518	$ 13	$2,700
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	28	-	28
Provision for credit losses	16	9	1	1	(25)	325	(2)	325
Ending balance	$159	$ 196	$ 17	$ 138	$ 661	$ 1,871	$ 11	$3,053

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The following table provides additional information on the allowance for credit losses by segment:

(in thousands)	June 30, 2015 Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Allowance allocated to:								
Legacy Loans:								
individually evaluated for impairment	313	-	10	-	-	310	-	633
collectively evaluated for impairment	185	328	30	237	551	2,046	17	3,394
Acquired Loans:								
individually evaluated for impairment	-	-	-	-	-	-	-	-
collectively evaluated for impairment	6	-	-	29	54	83	-	172
Loans:								
Legacy Loans:								
Ending balance	61,711	73,806	14,624	82,249	109,164	126,311	1,371	469,236
individually evaluated for impairment	1,144	459	74	-	2,684	2,803	-	7,164
collectively evaluated for impairment	60,567	73,347	14,550	82,249	106,480	123,508	1,371	462,072
Acquired Loans:								
Ending balance	5,030	17,359	7,659	33,821	31,086	15,872	2,639	113,466
individually evaluated for impairment	-	343	60	-	-	420	-	823
collectively evaluated for impairment	5,030	17,016	7,599	33,821	31,086	15,452	2,639	112,643

(in thousands)	December 31, 2014 Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Allowance allocated to:								
Legacy Loans:								
individually evaluated for impairment	60	-	-	-	-	483	-	543
collectively evaluated for impairment	108	271	25	142	502	1,745	13	2,806
Acquired Loans:								
	-	-	30	-	-	55	-	85

individually evaluated for impairment								
collectively evaluated for impairment	6	1	-	18	60	83	-	168
Loans:								
Legacy Loans:								
Ending balance	56,490	58,904	11,006	85,824	100,589	113,176	1,485	427,474
individually evaluated for impairment	1,144	308	-	-	2,700	2,073	-	6,225
collectively evaluated for impairment	55,346	58,596	11,006	85,824	97,889	111,103	1,485	421,249
Acquired Loans:								
Ending balance	6,260	19,525	7,539	37,519	33,021	18,745	2,834	125,443
individually evaluated for impairment	-	411	57	-	-	405	92	965
collectively evaluated for impairment	6,260	19,114	7,482	37,519	33,021	18,340	2,742	124,478

When potential losses are identified, a specific provision and/or charge-off may be taken, based on the then current likelihood of repayment, that is at least in the amount of the collateral deficiency, and any potential collection costs, as determined by the independent third party appraisal.

All loans that are considered impaired are subject to the completion of an impairment analysis. This analysis highlights any potential collateral deficiencies. A specific amount of impairment is established based on the Company’s calculation of the probable loss inherent in the individual loan. The actual occurrence and severity of losses involving impaired credits can differ substantially from estimates.

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Credit risk profile by portfolio segment based upon internally assigned risk assignments are presented below:

	June 30, 2015							
(in thousands)	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Credit quality indicators:								
Legacy Loans:								
Not classified	$60,567	$ 73,347	$ 14,550	$ 82,249	$ 106,480	$ 123,749	$ 1,371	$462,313
Special mention	-	-	-	-	-	-	-	-
Substandard	-	301	-		2,090	691	-	3,082
Doubtful	1,144	158	74	-	594	1,871	-	3,841
Total	$61,711	$ 73,806	$ 14,624	$ 82,249	$ 109,164	$ 126,311	$ 1,371	$469,236
Acquired Loans:								
Not classified	$5,030	$ 16,499	$ 7,600	$ 33,821	$ 31,086	$ 15,452	$ 2,639	$112,127
Special mention	-	-	-	-	-	-	-	-
Substandard	-	517	-	-	-	-	-	517
Doubtful	-	343	59	-	-	420	-	822
Total	$5,030	$ 17,359	$ 7,659	$ 33,821	$ 31,086	$ 15,872	$ 2,639	$113,466

	December 31, 2014							
(in thousands)	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Credit quality indicators:								
Legacy Loans:								
Not classified	$55,346	$ 58,439	$ 10,932	$ 85,580	$ 97,889	$ 111,312	$ 1,485	$420,983
Special mention	-	-	-	-	-	-	-	-
Substandard	1,144	465	74	244	2,700	1,864	-	6,491
Doubtful	-	-	-	-	-	-	-	-
Total	$56,490	$ 58,904	$ 11,006	$ 85,824	$ 100,589	$ 113,176	$ 1,485	$427,474
Acquired Loans:								
Not classified	$6,260	$ 18,567	$ 7,482	$ 37,519	$ 33,021	$ 18,340	$ 2,742	$123,931
Special mention	-	-	-	-	-	-	-	-
Substandard	-	546	-	-	-	-	-	546
Doubtful	-	412	57	-	-	405	92	966
Total	$6,260	$ 19,525	$ 7,539	$ 37,519	$ 33,021	$ 18,745	$ 2,834	$125,443

- **Special Mention** - A Special Mention asset 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 asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

- **Substandard** - Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
- **Doubtful** - Loans classified Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loans classified Special Mention, Substandard, Doubtful or Loss are reviewed at least quarterly to determine their appropriate classification. All commercial loan relationships are reviewed annually. Non-classified residential mortgage loans and consumer loans are not evaluated unless a specific event occurs to raise the awareness of a possible credit deterioration.

An aged analysis of past due loans are as follows:

	June 30, 2015							
(in thousands)	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Analysis of past due loans:								
Legacy Loans:								
Accruing loans current	$60,531	$ 73,648	$ 14,550	$ 82,249	$ 108,570	$ 122,693	$ 1,345	$463,586
Accruing loans past due:								
31-59 days past due	-	-	-	-	-	100	-	100
60-89 days past due	-	-	-	-	-	956	1	957
Greater than 90 days past due	36	-	-	-	-	691	25	752
Total past due	$36	$ -	$ -	$ -	$ -	$ 1,747	$ 26	$1,809
Non-accrual loans	1,144	158	74	-	594	1,871	-	3,841
Total loans	$61,711	$ 73,806	$ 14,624	$ 82,249	$ 109,164	$ 126,311	$ 1,371	$469,236
Acquired Loans:								
Accruing loans current	$5,030	$ 16,983	$ 7,599	$ 33,586	$ 30,549	$ 15,309	$ 2,483	$111,539
Accruing loans past due:								
31-59 days past due	-	33	-	-	-	-	-	33
60-89 days past due	-	-	-	-	-	-	-	-
Greater than 90 days past due	-	-	-	235	537	193	156	1,121
Total past due	$-	$ 33	$ -	$ 235	$ 537	$ 193	$ 156	$1,154
Non-accrual loans	-	343	60	-	-	370	-	773
Total loans	$5,030	$ 17,359	$ 7,659	$ 33,821	$ 31,086	$ 15,872	$ 2,639	$113,466

	December 31, 2014							
(in thousands)	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Analysis of past due loans:								
Legacy Loans:								

Accruing loans current	$55,346	$ 58,122	$ 10,932	$ 85,824	$ 100,439	$ 108,451	$ 1,480	$420,594
Accruing loans past due:								
31-59 days past due	-	-	-	-	-	-	5	5
60-89 days past due	-	316	74	-	-	2,816	-	3,206
Greater than 90 days past due	-	158	-	-	150	244	-	552
Total past due	$-	$ 474	$ 74	$ -	$ 150	$ 3,060	$ 5	$3,763
Non-accrual loans	1,144	308	-	-	-	1,665	-	3,117
Total loans	$56,490	$ 58,904	$ 11,006	$ 85,824	$ 100,589	$ 113,176	$ 1,485	$427,474
Acquired Loans:								
Accruing loans current	$5,982	$ 18,867	$ 7,430	$ 37,519	$ 33,021	$ 17,990	$ 2,742	$123,551
Accruing loans past due:								
31-59 days past due	-	247	52	-	-	54	-	353
60-89 days past due	-	-	-	-	-	24	-	24
Greater than 90 days past due	278	-	-	-	-	327	-	605
Total past due	$278	$ 247	$ 52	$ -	$ -	$ 405	$ -	$982
Non-accrual loans	-	411	57	-	-	350	92	910
Total loans	$6,260	$ 19,525	$ 7,539	$ 37,519	$ 33,021	$ 18,745	$ 2,834	$125,443

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Total loans either in non-accrual status or in excess of ninety days delinquent totaled $6.5 million or 1.11% of total loans outstanding at June 30, 2015, which increased from $5.2 million or 0.94% at December 31, 2014.

The impaired loans at June 30, 2015 and December 31, 2014 are as follows:

	June 30, 2015							
(in thousands)	Construction & land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Impaired loans:								
Legacy Loans:								
Recorded investment	$1,144	$ 459	$ 74	$ -	$ 2,684	$ 2,803	$ -	$7,164
With an allowance recorded	1,144	-	74	-	-	425	-	1,643
With no related allowance recorded	-	459	-	-	2,684	2,378	-	5,521
Related allowance	313	-	10	-	-	310	-	633
Unpaid principal	1,144	459	74	-	2,684	2,803	-	7,164
Six months ended June 30, 2015								
Average balance of impaired loans	1,144	484	74	-	3,597	3,251	-	8,550
Interest income recognized	-	12	-	-	60	62	-	134
Three months ended June 30, 2015								
Average balance of impaired loans	1,144	484	74	-	2,691	3,159	-	7,552
Interest income recognized	-	6	-	-	27	43	-	76
Acquired Loans:								
Recorded investment	$-	$ 343	$ 60	$ -	$ -	$ 420	$ -	$823
With an allowance recorded	-	-	-	-	-	-	-	-
With no related allowance recorded	-	343	60	-	-	420	-	823
Related allowance	-	-	-	-	-	-	-	-
Unpaid principal	-	407	82	-	330	584	-	1,403
Six months ended June 30, 2015								

Average balance of impaired loans	-	417	82	-	330	663	-	1,492
Interest income recognized	-	1	-	-	-	3	-	4
Three months ended June 30, 2015								
Average balance of impaired loans	-	410	82	-	330	642	-	1,464
Interest income recognized	-	-	-	-	-	1	-	1

December 31, 2014

	Commercial	Commercial