Howard Bancorp Inc
Form 10-Q
November 13, 2014

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 September 30, 2014

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 to 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 Act).
Yes ¨ No x

The number of outstanding shares of common stock outstanding as of October 31, 2014.

Common Stock, $0.01 par value – 4,140,189 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 als 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 our business plans and strategies, increasing originations of residential mortgage loans, increasing our portfolio of mortgage lending and selling loans into the secondary market;
- the impact of [a] new accounting pronouncement[s];
- statements regarding our intentions in our investment portfolio and the status of unrealized losses in such portfolios;
- statements with respect to our allowance for credit losses, and the adequacy thereof;
- statements with respect to anticipated losses on nonperforming loans;
- future cash requirements relating to commitments to extend credit, and that we do not anticipate any material losses in connection therewith;
- our ability to retain maturing certificates of deposits;
- our statement with respect to adequate liquidity; and
- the impact on us of pending legal proceedings.

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, 2013, 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 September 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks	$ 17,361	$ 23,282
Federal funds sold	310	12,454
Total cash and cash equivalents	17,671	35,736
Securities available-for-sale, at fair value	27,112	28,688
Nonmarketable equity securities	2,700	2,282
Loans held for sale, at fair value	38,669	3,298
Loans and leases, net of unearned income	461,232	403,875
Allowance for credit losses	(3,018)	(2,506)
Net loans and leases	458,214	401,369
Bank premises and equipment, net	11,521	10,842
Core deposit intangible	798	342
Bank owned life insurance	11,563	11,282
Other real estate owned	2,472	2,377
Deferred income taxes	1,018	1,125
Interest receivable and other assets	2,630	2,577
Total assets	$ 574,368	$ 499,918
LIABILITIES		
Noninterest-bearing deposits	$ 106,237	$ 89,759
Interest-bearing deposits	345,673	299,190
Total deposits	451,910	388,949
Short-term borrowings	51,956	45,658
Long-term borrowings	19,000	16,000
Accrued expenses and other liabilities	1,123	687
Total liabilities	523,989	451,294
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 September 30, 2014	12,562	12,562

and December 31, 2013, net of issuance cost		
Common stock - par value of $0.01 authorized 10,000,000 shares; issued and outstanding 4,140,189 shares at September 30, 2014 and 4,095,650 December 31, 2013	41	41
Capital surplus	38,217	37,607
Accumulated deficit	(445)	(1,590)
Accumulated other comprehensive income	4	4
Total shareholders' equity	50,379	48,624
Total liabilities and shareholders' equity	$ 574,368	$ 499,918

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

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Consolidated Statements of Operations

	Unaudited Nine months ended		Three months ended	
	September 30,		September 30,	
(in thousands)	2014	2013	2014	2013
INTEREST INCOME				
Interest and fees on loans	$16,038	$12,713	$ 5,776	$ 4,627
Interest and dividends on securities	86	57	28	16
Other interest income	30	35	9	12
Total interest income	16,154	12,805	5,813	4,655
INTEREST EXPENSE				
Deposits	1,485	1,208	560	422
Short-term borrowings	84	83	28	26
Long-term borrowings	162	90	60	49
Total interest expense	1,731	1,381	648	497
NET INTEREST INCOME	14,423	11,424	5,165	4,158
Provision for credit losses	2,570	666	2,068	140
Net interest income after provision for credit losses	11,853	10,758	3,097	4,018
NONINTEREST INCOME				
Service charges on deposit accounts	425	275	118	106
Realized and unrealized gains on mortgage banking activity	2,864	195	1,388	35
Loss on the sale of other real estate owned	-	(37)	-	-
Income from bank owned life insurance	281	210	95	72
Other operating income	1,287	319	574	106
Total noninterest income	4,857	962	2,175	319
NONINTEREST EXPENSE				
Compensation and benefits	8,456	5,260	2,790	1,905
Occupancy and equipment	1,545	1,154	489	406
Amortization of core deposit intangible	58	14	17	14
Marketing and business development	1,120	464	400	153
Professional fees	869	634	298	246
Data processing fees	488	387	174	148
FDIC Assessment	301	242	101	87
Provision for other real estate owned	-	347	-	347
Other operating expense	1,966	1,006	692	401
Total noninterest expense	14,803	9,508	4,961	3,707
INCOME BEFORE INCOME TAXES	1,907	2,212	311	630
Income tax expense	668	808	75	223
NET INCOME	1,239	1,404	236	407

Preferred stock dividends	94	134	31	31
Net income available to common shareholders	$1,145	$1,270	$ 205	$ 376
NET INCOME PER COMMON SHARE				
Basic	$0.28	$0.31	$ 0.05	$ 0.09
Diluted	$0.28	$0.31	$ 0.05	$ 0.09

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

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Consolidated Statements of Comprehensive Income

	Nine months ended September 30,	
(in thousands)	2014	2013
(Unaudited)		
Net Income	$ 1,239	$ 1,404
Other comprehensive income		
Investments available-for-sale:		
Unrealized holding losses	(1)	(21)
Related income tax benefit	1	9
Comprehensive income	$ 1,239	$ 1,392

	Three months ended **September 30,**	
(in thousands)	2014	2013
(Unaudited)		
Net Income	$ 236	$ 407
Other comprehensive income		
Investments available-for-sale:		
Unrealized holding losses	(2)	(1)
Related income tax benefit	1	-
Comprehensive income	$ 235	$ 406

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

Consolidated Statements of Changes in Shareholders' Equity

(dollars in thousands, except per share data)	Preferred stock	Number of shares	Common stock	Capital Surplus	Accumulated deficit	Accumulated other comprehensive gain/loss	Total
(Unaudited)							
Balances at January 1, 2013	$ 12,562	4,040,471	$ 40	$ 37,484	$ (3,386)	$ 21	$ 46,721
Net income	-	-	-	-	1,404	-	1,404
Net unrealized loss on securities	-	-	-	-	-	(12)	(12)
Dividends paid on preferred stock	-	-	-	-	(134)	-	(134)
Stock based compensation	-	-	-	57	-	-	57
Balances at September 30, 2013	$ 12,562	4,040,471	$ 40	$ 37,541	$ (2,116)	$ 9	$ 48,036

Balances at January 1, 2014	$12,562	4,095,650	$ 41	$37,607	$ (1,590)	$ 4	$48,624
Net income	-	-	-	-	1,239	-	1,239
Net unrealized gains on securities	-	-	-	-	-		-
Dividends paid on preferred stock	-	-	-	-	(94)	-	(94)
Forfeited restricted shares	-	(6,668)	-	(34)	-	-	(34)
Stock based compensation	-	-	-	133	-	-	133
Issuance of common stock:							
Exercise of warrants	-	47,068	-	470			470
Stock awards	-	4,139	-	41	-	-	41
Balances at September 30, 2014	$12,562	4,140,189	$ 41	$38,217	$ (445)	$ 4	$50,379

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

Consolidated Statements of Cash Flows

(in thousands)	Unaudited Nine months ended September 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$1,239	$1,404
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	2,570	666
Deferred income taxes (benefit)	108	(289)
Provision for other real estate owned	-	347
Depreciation	537	441
Stock-based compensation	141	57
Net accretion of investment securities	-	16
Net amortization of intangible asset	58	14
Loans originated for sale	(201,462)	(9,827)
Proceeds from sales of loans	168,956	10,856
Realized and unrealized gains on mortgage banking activity	(2,864)	(195)
Loss on sales of other real estate owned, net	-	37
Cash surrender value of BOLI	(281)	(210)
Decrease in interest receivable	(148)	(16)
Increase in interest payable	53	36
Increase in other assets	(186)	(477)
Increase (Decrease) in other liabilities	372	(86)
Net cash (used in) provided by operating activities	(30,907)	2,774
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available-for-sale	(31,997)	(34,997)
Proceeds from maturities of investment securities available-for-sale	33,571	40,631
Net increase in loans and leases outstanding	(43,604)	(42,389)
Purchase of bank owned life insurance	-	(8,000)
Proceeds from the sale of other real estate owned	-	141
Purchase of premises and equipment	(1,213)	(416)
Branch acquisition (net of cash received)	2,096	(3,195)
Net cash used in investing activities	(41,147)	(48,225)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in noninterest-bearing deposits	16,477	(4,685)
Net increase in interest-bearing deposits	27,837	14,376
Net increase in short-term borrowings	6,299	12,947
Proceeds from issuance of long-term debt	5,000	14,000
Repayment of long-term debt	(2,000)	(8,000)
Net proceeds from exercise of warrants	470	-
Cash dividends on preferred stock	(94)	(134)
Net cash provided by financing activities	53,989	28,504

Net decrease in cash and cash equivalents	(18,065)	(16,947)
Cash and cash equivalents at beginning of period	35,736	36,361
Cash and cash equivalents at end of period	$17,671	$19,414
SUPPLEMENTAL INFORMATION		
Cash payments for interest	$1,678	$848
Cash payments for income taxes	370	707
Transferred from loans to other real estate owned	95	-
BRANCH PURCHASE		
Tangible assets acquired (net of cash received)	$16,328	$38,159
Identifiable intangible assets acquired	513	376
Liabilities assumed	18,826	35,340

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 Bank 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"). These consolidated financial statements included herein are unaudited; however in the opinion of management, present a fair representation of the Company's financial condition, results of operations, and cash flows for the periods presented. The Company believes that the disclosures are adequate to make the information presented not misleading. The balances as of December 31, 2013 have been derived from audited financial statements. Other than the application of the fair value option to loans held for sale there have been no significant changes to the Company's accounting policies as disclosed in Bancorp's Annual Report on Form 10-K for the year ended December 31, 2013. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results of operations to be expected for the remainder of the year or any other period.

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").

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, determination of fair value for financial instruments, deferred income taxes and share-based compensation.

Loans Held for Sale

During the quarter ended September 30, 2014 the Company elected to apply the fair value option under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 825-10 *"Recognition and Measurement of Financial Assets and Financial Liabilities"* to loans held for sale. As such, mortgage loans originated and intended for sale into the secondary market are carried at fair value. Fair value is determined based on outstanding investor commitments, and in the absence of such commitments, on current investor yield requirements or third party pricing models. This election was made in order to better align the timing and recognition of the revenues generated with the related costs associated with mortgage loans originated with the intent to sell at the measurement date. Prior to this election, loans were originated and recorded at cost as of the measurement date, and related gains or losses were not recorded until the loan was sold. The effect of implementing the fair value for mortgage loans held for sale during the second quarter accelerated mortgage related revenues by $836 thousand through September 30, 2014.

The Company sells its mortgage loans to third party investors servicing released. 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 entitlement or 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 Statement of Operations.

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 or unit.

New Accounting Pronouncements

ASU No. 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force).* 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. The Company will evaluate these amendments but does not believe they will have an impact on its financial position or results of operations.

ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* This guidance states an entity should 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 guidance in this Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2016. The adoption of this guidance is not expected to have a material impact on its financial position or results of operations.

ASU No. 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.* The amendments in this Update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting and for repurchase financing arrangements; require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments in this Update require two new disclosures for certain transactions. First to disclose information about certain transactions accounted for as a sale in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets through an agreement with the same counterparty. Secondly to disclose information about repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The amendments of ASU 2014-11 are effective for interim and annual periods beginning after December 15, 2014. The Company will evaluate these amendments but does not believe they will have an impact on its financial position or results of operations

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 (a consensus of the FASB Emerging Issues Task Force*). 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, 2014.

Note 2: Investment Securities

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

(in thousands)	September 30, 2014				December 31, 2013			
	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	$22,998	$ 1	$ -	$ 22,999	$28,522	$ 1	$ 2	$ 28,521
Treasuries	3,999	-	-	3,999	-	-	-	-
Mortgage-backed	108	6	-	114	157	10	-	167
	$27,105	$ 7	$ -	$ 27,112	$28,679	$ 11	$ 2	$ 28,688

There have not been any individual securities with an unrealized loss position for a period greater than one year as of either September 30, 2014 or December 31, 2013. 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 December 31, 2013 are presented below:

December 31, 2013 (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	$ 15,994	$ 2	$ -	$ -	$15,994	$ 2
Mortgage-backed	-	-	-	-	-	-
	$ 15,994	$ 2	$ -	$ -	$15,994	$ 2

As of September 30, 2014, there were no gross unrealized losses.

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)	September 30, 2014		December 31, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Amounts maturing:				
One year or less	$ 26,998	$ 26,999	$ 28,522	$ 28,521
After one through five years	22	23	51	54
After five through ten years	85	90	106	113
After ten years	-	-	-	-
	$ 27,105	$ 27,112	$ 28,679	$ 28,688

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There were no sales of investment securities during the nine months ended September 30, 2014 or in 2013. At September 30, 2014 and December 31, 2013, $19.7 million and $20.7 million fair value of securities, respectively, were pledged as collateral for repurchase agreements. The outstanding balance of no single issuer, except for U. S. Government and U. S. Government agency securities, exceeded ten percent of shareholders' equity at either September 30, 2014 or December 31, 2013.

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 September 30, 2014 and December 31, 2013 are presented in the following table:

(in thousands)	September 30, 2014	% of Total		December 31, 2013	% of Total	
Real estate						
Construction and land	$ 62,649	13.6	%	$ 50,884	12.6	%
Residential - first lien	61,560	13.3		39,249	9.7	
Residential - junior lien	11,881	2.6		8,266	2.0	
Total residential real estate	73,441	15.9		47,515	11.7	
Commercial - owner occupied	94,517	20.5		90,333	22.4	
Commercial - non-owner occupied	116,820	25.3		113,559	28.1	
Total commercial real estate	211,337	45.8		203,892	50.5	
Total real estate loans	347,427	75.3		302,291	74.8	
Commercial loans and leases	112,357	24.4		100,410	24.9	
Consumer	1,448	0.3		1,174	0.3	
Total loans	$ 461,232	100.0	%	$ 403,875	100.0	%

There were $38.7 million and $3.3 million in loans held for sale at September 30, 2014 and at December 31, 2013, respectively.

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 nine months and three months ended September 30, 2014 and September 30, 2013:

(in thousands)	**September 30, 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 for credit losses:								
Nine months ended								
Beginning balance	$ 122	$ 200	$ 34	$ 131	$ 541	$ 1,464	$ 14	$ 2,506
Charge-offs	-	-	-	-	-	(2,115)	-	(2,115)
Recoveries	-	-	-	-	4	53	-	57
Provision for credit losses	(13)	5	(11)	195	4	2,393	(3)	2,570
Ending balance	$ 109	$ 205	$ 23	$ 326	$ 549	$ 1,795	$ 11	$ 3,018
Three months ended								
Beginning balance	$ 159	$ 196	$ 17	$ 138	$ 661	$ 1,871	$ 11	$ 3,053
Charge-offs	-	-	-	-	-	(2,115)	-	(2,115)
Recoveries	-	-	-	-	-	12	-	12
Provision for credit losses	(50)	9	6	188	(112)	2,027	-	2,068
Ending balance	$ 109	$ 205	$ 23	$ 326	$ 549	$ 1,795	$ 11	$ 3,018
Ending balance: individually evaluated for impairment	-	-	-	-	-	72	-	72
collectively evaluated for impairment	109	205	23	326	549	1,723	11	2,946
Loans:								
Ending balance	62,649	61,560	11,881	94,517	116,820	112,357	1,448	461,232
Ending balance: individually evaluated for impairment	810	314	-	-	2,702	1,649	-	5,475
collectively evaluated for impairment	61,839	61,246	11,881	94,517	114,118	110,708	1,448	455,757

	September 30, 2013							
(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:								
Nine months ended								
Beginning balance	$127	$ 204	$ 22	$ 650	$ 505	$ 1,227	$ 29	$2,764
Charge-offs	-	(183)	-	-	(2)	(202)	-	(387)
Recoveries	-	-	-	-	30	72	-	102
Provision for credit losses	(20)	138	-	(70)	241	393	(16)	666
Ending balance	$107	$ 159	$ 22	$ 580	$ 774	$ 1,490	$ 13	$3,145
Three months ended								
Beginning balance	$122	$ 133	$ 22	$ 663	$ 502	$ 1,482	$ 27	$2,951
Charge-offs	-	-	-	-	(2)	-	-	(2)
Recoveries	-	-	-	-	-	56	-	56
Provision for credit losses	(15)	26	-	(83)	274	(48)	(14)	140
Ending balance	$107	$ 159	$ 22	$ 580	$ 774	$ 1,490	$ 13	$3,145
Ending balance: individually evaluated for impairment	-	-	-	-	373	715	-	1,088
collectively evaluated for impairment	107	159	22	580	401	775	13	2,057
Loans:								
Ending balance	49,390	36,149	8,244	89,008	116,306	101,463	948	401,508
Ending balance: individually evaluated for impairment	-	-	-	-	3,098	3,403	-	6,501
collectively evaluated for impairment	49,390	36,149	8,244	89,008	113,208	98,060	948	395,007

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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.

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

	September 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
Credit quality indicators:								
Not classified	$61,839	$ 61,246	$ 11,881	$ 94,517	$ 114,118	$ 110,709	$ 1,448	$455,758
Special mention	-	-	-	-	-	-	-	-
Substandard	810	314	-	-	2,702	1,648	-	5,474
Doubtful	-	-	-	-	-	-	-	-
Total	$62,649	$ 61,560	$ 11,881	$ 94,517	$ 116,820	$ 112,357	$ 1,448	$461,232

	December 31, 2013							
(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:								
Not classified	$50,884	$ 38,918	$ 8,266	$ 90,333	$ 113,301	$ 97,817	$ 1,174	$400,693
Special mention	-	-	-	-	-	-	-	-
Substandard	-	331	-	-	258	2,593	-	3,182
Doubtful	-	-	-	-	-	-	-	-
Total	$50,884	$ 39,249	$ 8,266	$ 90,333	$ 113,559	$ 100,410	$ 1,174	$403,875

- **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 is as follows:

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	September 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
Analysis of past due loans:								
Accruing loans current	$61,505	$ 60,928	$ 11,827	$ 94,517	$ 116,670	$ 111,165	$ 1,448	$458,060
Accruing loans past due:								
31-59 days past due	-	-	54	-	-	120	-	174
60-89 days past due	334	318	-	-	-	-	-	652
Greater than 90 days past due	-	-	-	-	150	-	-	150
Total past due	334	318	54	-	150	120	-	976
Non-accrual loans	810	314	-	-	-	1,072	-	2,196
Total loans	$62,649	$ 61,560	$ 11,881	$ 94,517	$ 116,820	$ 112,357	$ 1,448	$461,232

December 31, 2013					
			Commercial	Commercial	Commercial
Construction	Residential	Residential	owner	non-owner	