Howard Bancorp Inc
Form 10-Q
May 14, 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 March 31, 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 April 30, 2015.

Common Stock, $0.01 par value – 4,156,037 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;
- 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 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;
- 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.

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PART I

Item 1. Financial Statements

Howard Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

(in thousands)	Unaudited March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$ 26,933	$ 23,598
Federal funds sold	1,613	919
Total cash and cash equivalents	28,546	24,517
Securities available-for-sale	30,611	41,079
Nonmarketable equity securities	2,535	2,571
Loans held for sale, at fair value	49,159	42,881
Loans and leases, net of unearned income	570,437	552,917
Allowance for credit losses	(3,839)	(3,602)
Net loans and leases	566,598	549,315
Bank premises and equipment, net	12,098	12,122
Core deposit intangible	1,308	1,391
Bank owned life insurance	11,745	11,659
Other real estate owned	2,472	2,472
Interest receivable and other assets	5,408	3,409
Total assets	$ 710,480	$ 691,416
LIABILITIES		
Noninterest-bearing deposits	$ 137,287	$ 142,727
Interest-bearing deposits	443,368	411,312
Total deposits	580,655	554,039
Short-term borrowings	41,032	48,628
Long-term borrowings	19,500	19,000
Deferred tax liability	4,249	4,686
Accrued expenses and other liabilities	4,660	5,420
Total liabilities	650,096	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 March 31, 2015 and December 31, 2014	12,562	12,562
	41	41

Common stock - par value of $0.01 authorized 10,000,000 shares; issued and outstanding 4,147,633 shares at March 31, 2015 and 4,145,547 December 31, 2014		
Capital surplus	38,454	38,360
Retained earnings	9,314	8,696
Accumulated other comprehensive income (loss)	13	(16)
Total shareholders' equity	60,384	59,643
Total liabilities and shareholders' equity	$ 710,480	$ 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 three months ended March 31, 2015	2014
INTEREST INCOME		
Interest and fees on loans	$ 7,358	$ 4,899
Interest and dividends on securities	55	30
Other interest income	13	14
Total interest income	7,426	4,943
INTEREST EXPENSE		
Deposits	577	441
Short-term borrowings	29	31
Long-term borrowings	53	43
Total interest expense	659	515
NET INTEREST INCOME	6,767	4,428
Provision for credit losses	250	176
Net interest income after provision for credit losses	6,517	4,252
NONINTEREST INCOME		
Service charges on deposit accounts	216	154
Realized and unrealized gains on mortgage banking activity	1,372	150
Income from bank owned life insurance	86	92
Loan related income	468	142
Other operating income	207	85
Total noninterest income	2,349	623
NONINTEREST EXPENSE		
Compensation and benefits	3,850	2,760
Occupancy and equipment	975	470
Amortization of core deposit intangible	83	20
Marketing and business development	628	261
Professional fees	496	230
Data processing fees	645	144
FDIC Assessment	90	82
Loan related expense	345	145
Other operating expense	723	381
Total noninterest expense	7,835	4,493
INCOME BEFORE INCOME TAXES	1,031	382
Income tax expense	382	116
NET INCOME	649	266
Preferred stock dividends	31	31
Net income available to common shareholders	$ 618	$ 235
NET INCOME PER COMMON SHARE		
Basic	$ 0.15	$ 0.06
Diluted	$ 0.15	$ 0.06

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

Consolidated Statements of Comprehensive Income

	Unaudited For the three months ended March 31,	
(in thousands)	2015	2014
Net Income	$ 649	$ 266
Other comprehensive income Investments available-for-sale:		
Unrealized holding gains	48	3
Related income tax expense	(19)	(1)
Comprehensive income	$ 678	$ 268

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

Consolidated Statements of Changes in Shareholders' Equity

(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	$ (1,590)	$ 4	$48,624
Net income	-	-	-	-	266	-	266
Net unrealized loss on securities	-	-	-	-	-	2	2
Dividends paid on preferred stock	-	-	-	-	(31)	-	(31)
Forfeited stock-based compensation	-	(6,668)	-	14	-	-	14
Issuance of common stock:							
Stock awards	-	1,420	-	13	-	-	13
Stock-based compensation	-	-	-	-	-	-	-
Balances at March 31, 2014	$12,562	4,090,402	$ 41	$37,634	$ (1,355)	$ 6	$48,888
Balances at January 1, 2015	$12,562	4,145,547	$ 41	$38,360	$ 8,696	$ (16)	$59,643
Net income	-	-	-	-	649	-	649
Net unrealized loss on securities	-	-	-	-	-	29	29
Dividends paid on preferred stock	-	-	-	-	(31)	-	(31)
Issuance of common stock:							
Stock awards	-	2,086	-	24	-	-	24
Stock-based compensation	-	-	-	70	-	-	70
Balances at March 31, 2015	$12,562	4,145,547	$ 41	$38,454	$ 9,314	$ 13	$60,384

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

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Consolidated Statements of Cash Flows

	Unaudited Three months ended March 31,	
(in thousands)	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$649	$266
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for credit losses	250	176
Deferred income tax benefit	(504)	(253)
Depreciation	213	174
Stock-based compensation	94	27
Net accretion of investment securities	(2)	-
Net amortization of intangible asset	83	20
Loans originated for sale	(123,589)	(25,744)
Proceeds from sale of loans originated for sale	118,683	13,098
Realized and unrealized gains on mortgage banking activity	(1,372)	(150)
Cash surrender value of BOLI	(86)	(92)
Decrease (increase) in interest receivable	35	(51)
Increase in interest payable	14	18
(Increase) decrease in other assets	(2,021)	225
Decrease in other liabilities	(703)	(5)
Net cash used in operating activities	(8,256)	(12,291)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available-for-sale	(8,499)	-
Proceeds from maturities of investment securities available-for-sale	19,017	8,017
Net increase in loans and leases outstanding	(17,534)	(13,818)
Purchase of premises and equipment	(189)	(594)
Net cash used in investing activities	(7,205)	(6,395)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease increase in noninterest-bearing deposits	(5,440)	4,073
Net decrease in interest-bearing deposits	32,056	8,415
Net decrease in short-term borrowings	(7,595)	(10,031)
Proceeds from issuance of long-term debt	500	7,500
Repayment of long-term debt	-	(2,000)
Cash dividends on preferred stock	(31)	(31)
Net cash provided by financing activities	19,490	7,926
Net increase (decrease) in cash and cash equivalents	4,029	(10,760)
Cash and cash equivalents at beginning of period	24,517	35,736
Cash and cash equivalents at end of period	$28,546	$24,976

SUPPLEMENTAL INFORMATION

Cash payments for interest	$645	$497
Cash payments for income taxes	-	-

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.

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. 2015-05, *“Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.”* This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer’s accounting for service contracts. ASU No. 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company is currently evaluating the provisions of ASU No. 2015-05 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

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ASU No. 2015-02, *“Amendments to the Consolidation Analysis.”* This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company is currently evaluating the provisions of ASU No. 2015-02 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

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 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, 2016, including interim periods within that reporting period. 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)	March 31, 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	$26,014	$ 21	$ 9	$ 26,026	$37,010	$ -	$ 29	$ 36,981
Treasuries	4,000	-	-	4,000	4,000	-	3	3,997
Mortgage-backed	80	5	-	85	95	6	-	101
Mutual funds	500	-	-	500	-	-	-	-
	$30,594	$ 26	$ 9	$ 30,611	$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 March 31, 2015 and December 31, 2014 are presented below:

March 31, 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	$ 7,496	$ 9	$ -	$ -	$7,496	$ 9
Treasuries	-	-	-	-	-	-
Mortgage-backed	-	-	-	-	-	-
Mutual funds	-	-	-	-	-	-
	$ 7,496	$ 9	$ -	$ -	$7,496	$ 9

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)	**March 31, 2015**		December 31, 2014	
	Amortized Cost	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Amounts maturing:				
One year or less	**$21,515**	**$ 21,513**	$33,516	$ 33,506
After one through five years	**8,507**	**8,522**	7,508	7,487
After five through ten years	**72**	**76**	81	86
After ten years	**500**	**500**	-	-
	$30,594	**$ 30,611**	$41,105	$ 41,079

There were no sales of investment securities during the three months ended March 31, 2015. 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 March 31, 2015 and December 31, 2014, $14.6 million and $23.8 million fair value of securities, respectively, were pledged as collateral for repurchase agreements. In addition, at March 31, 2015 there was $7.2 million fair value of securities pledged as collateral 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 March 31, 2015 and December 31, 2014 are presented in the following table:

	March 31, 2015			December 31, 2014		
(in thousands)	Legacy	Acquired	Total	Legacy	Acquired	Total
Real estate						
Construction and land	$51,983	$6,921	$58,904	$56,490	$7,668	$64,158
Residential - first lien	66,473	28,866	95,339	58,904	29,389	88,293
Residential - junior lien	12,255	8,243	20,498	11,006	8,295	19,301
Total residential real estate	78,728	37,109	115,837	69,910	37,684	107,594

Commercial - owner occupied	81,636	25,946	107,582	85,824	27,002	112,826
Commercial - non-owner occupied	115,798	23,032	138,830	100,589	23,369	123,958
Total commercial real estate	197,434	48,978	246,412	186,413	50,371	236,784
Total real estate loans	328,145	93,008	421,153	312,813	95,723	408,536
Commercial loans and leases	118,938	26,011	144,949	113,176	26,493	139,669
Consumer	1,139	3,196	4,335	1,485	3,227	4,712
Total loans	$448,222	$122,215	$570,437	$427,474	$125,443	$552,917

There were $49.2 million in loans held for sale at March 31, 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 month periods ended March 31, 2015 and 2014:

	March 31, 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:								
Beginning balance	$ 174	$ 272	$ 55	$ 160	$ 562	$ 2,366	$ 13	$ 3,602
Charge-offs	-	-	-	-		(13)	(4)	(17)
Recoveries	-	3	-	-	-	1	-	4
Provision for credit losses	(10)	3	-	15	63	173	6	250
Ending balance	$ 164	$ 278	$ 55	$ 175	$ 625	$ 2,527	$ 15	$ 3,839
Allowance allocated to:								
Legacy Loans:								
individually evaluated for impairment	60	-	-	-	-	483	-	543
collectively evaluated for impairment	100	278	25	156	565	1,905	15	3,044
Acquired Loans:								
individually evaluated for impairment	-	-	30	-	-	55	-	85
collectively evaluated for impairment	4	-	-	19	60	84	-	167
Loans:								
Legacy Loans:								
Ending balance	51,983	66,473	12,255	81,636	115,798	118,938	1,139	448,222
individually evaluated for impairment	1,144	301	-	-	2,694	2,062	-	6,201
collectively evaluated for impairment	50,839	66,172	12,255	81,636	113,104	116,876	1,139	442,021
Acquired Loans:								
Ending balance	6,921	28,866	8,243	25,946	23,032	26,011	3,196	122,215
individually evaluated for impairment	-	344	59	-	-	404	112	919

collectively evaluated for impairment	6,921	28,522	8,184	25,946	23,032	25,607	3,084	121,296

	March 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
Allowance for credit losses:								
Beginning balance	$122	$ 200	$ 34	$ 131	$ 541	$ 1,464	$ 14	$2,506
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	4	14	-	18
Provision for credit losses	21	(13)	(18)	6	141	40	(1)	176
Ending balance	$143	$ 187	$ 16	$ 137	$ 686	$ 1,518	$ 13	$2,700

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	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
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:								
individually evaluated for impairment	-	-	30	-	-	55	-	85
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	7,668	29,389	8,295	27,002	23,369	26,493	3,227	125,443
individually evaluated for impairment	-	411	57	-	-	405	92	965
collectively evaluated for impairment	7,668	28,978	8,238	27,002	23,369	26,088	3,135	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.

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

	March 31, 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	$50,839	$ 66,014	$ 12,181	$ 81,636	$ 113,104	$ 117,622	$ 1,139	$442,535
Special mention	-	-	-	-	-	-	-	-
Substandard	-	459	74		2,100	224		2,857
Doubtful	1,144	-	-	-	594	1,092	-	2,830
Total	$51,983	$ 66,473	$ 12,255	$ 81,636	$ 115,798	$ 118,938	$ 1,139	$448,222
Acquired Loans:								
Not classified	$6,921	$ 27,978	$ 8,184	$ 25,946	$ 23,032	$ 25,607	$ 3,084	$120,752
Special mention	-	-	-	-	-	-	-	-
Substandard	-	544	-	-	-	-	-	544
Doubtful	-	344	59	-	-	404	112	919
Total	$6,921	$ 28,866	$ 8,243	$ 25,946	$ 23,032	$ 26,011	$ 3,196	$122,215

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	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	$7,668	$ 28,431	$ 8,238	$ 27,002	$ 23,369	$ 26,088	$ 3,135	$123,931
Special mention	-	-	-	-	-	-	-	-
Substandard	-	546	-	-	-	-	-	546
Doubtful	-	412	57	-	-	405	92	966
Total	$7,668	$ 29,389	$ 8,295	$ 27,002	$ 23,369	$ 26,493	$ 3,227	$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:

	March 31, 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	$50,800	$ 65,700	$ 12,181	$ 81,636	$ 115,204	$ 116,904	$ 1,119	$443,544
Accruing loans past due:								
31-59 days past due	-	315	-	-	-	107	20	442
60-89 days past due	39	-	-	-	-	835	-	874
Greater than 90 days past due	-	458	74	-	-	-	-	532
Total past due	$39	$ 773	$ 74	$ -	$ -	$ 942	$ 20	$1,848
Non-accrual loans	1,144	-	-	-	594	1,092	-	2,830
Total loans	$51,983	$ 66,473	$ 12,255	$ 81,636	$ 115,798	$ 118,938	$ 1,139	$448,222
Acquired Loans:								
Accruing loans current	$6,921	$ 27,839	$ 8,184	$ 25,946	$ 23,032	$ 25,264	$ 2,853	$120,039
Accruing loans past due:								
31-59 days past due	-	558	-	-	-	64	40	662
60-89 days past due	-	125	-	-	-	-	191	316
Greater than 90 days past due	-	-	-	-	-	332	-	332
Total past due	$-	$ 683	$ -	$ -	$ -	$ 396	$ 231	$1,310
Non-accrual loans	-	344	59	-	-	351	112	866
Total loans	$6,921	$ 28,866	$ 8,243	$ 25,946	$ 23,032	$ 26,011	$ 3,196	$122,215

	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	$7,390	$ 28,731	$ 8,186	$ 27,002	$ 23,369	$ 25,738	$ 3,135	$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	$7,668	$ 29,389	$ 8,295	$ 27,002	$ 23,369	$ 26,493	$ 3,227	$125,443

Total loans either in non-accrual status or in excess of ninety days delinquent totaled $4.6 million or 0.80% of total loans outstanding at March 31, 2015, which represents a decrease from $5.2 million or 0.94% at December 31, 2014.

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

	March 31, 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	301	-	-	2,694	2,062	-	6,201
With an allowance recorded	334	-	-	-	-	642	-	976
With no related allowance recorded	810	301	-	-	2,694	1,420	-	5,225
Related allowance	60	-	-	-	-	483	-	543
Unpaid principal	1,144	301	-	-	2,694	2,116	-	6,255
Average balance of impaired loans	1,144	326	-	-	2,694	2,624	-	6,788
Interest income recognized	-	6	-	-	33	19	-	58
Acquired Loans:								
Recorded investment	-	344	59	-	-	404	112	919
With an allowance recorded	-	-	59	-	-	52	-	111
With no related allowance recorded	-	344	-	-	-	352	112	808
Related allowance	-	-	30	-	-	55	-	85
Unpaid principal	-	419	83	-	530	679	275	1,986
Average balance of impaired loans	-	422	83	-	530	722	275	2,032
Interest income recognized	-	-	-	-	-	1	-	1

	December 31, 2014							
(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	308	-	-	2,700	2,073	-	6,225
With an allowance recorded	334	-	-	-	-	690	-	1,024

With no related allowance recorded	810	308	-	-	2,700	1,383	-	5,201
Related allowance	60	-	-	-	-	483	-	543
Unpaid principal	1,144	308	-	-	2,700	2,127	-	6,279
Average balance of impaired loans	1,108	329	-	-	2,713	2,558	-	6,708
Interest income recognized	37	18	-	-	166	167	-	388
Acquired Loans:								
Recorded investment	-	411	57	-	-	405	92	965
With an allowance recorded	-	-	57	-	-	55	-	112
With no related allowance recorded	-	411	-	-	-	350	92	853
Related allowance	-	-	30	-	-	55	-	85
Unpaid principal	-	565	83	-	530	825	327	2,330
Average balance of impaired loans	-	568	83	-	560	829	379	2,419
Interest income recognized	-	-	-	-	-	-	-	-

Included in the total impaired loans above were non-accrual loans of $3.7 million and $4.0 million at March 31, 2015 and December 31, 2014, respectively. Interest income that would have been recorded if non-accrual loans had been current and in accordance with their original terms was $20 thousand for the first three months of 2015.

Management routinely evaluates other real estate owned (“OREO”) based upon periodic appraisals. For the three months ended March 31, 2015 and 2014 there were no additional valuation allowances recorded as the current appraised value less estimated cost to sell, was sufficient to cover the recorded OREO amount. For the three months ended March 31, 2015 and 2014 there were no new loans transferred from loans to OREO at March 31, 2015 there was one loan for $158 thousand in the process of foreclosure. For the first three months of 2015 and 2014, the Company did not sell any properties held as OREO.

The trouble debt restructured loans ("TDRs") at March 31, 2015 and December 31, 2014 are as follows:

	March 31, 2015				
(dollars in thousands)	Number of Loans	Non-Accrual Status	Number of Loans	Accrual Status	Total TDRs
Legacy Loans:					
Residential real estate - first lien	-	$ -	1	$ 301	$ 301
Commercial - non-owner occupied	1	594	1	2,100	2,694
Commercial loans	-	-	1	224	224
	1	$ 594	3	$ 2,625	$ 3,219

	December 31, 2014				
(dollars in thousands)	Number of Loans	Non-Accrual Status	Number of Loans	Accrual Status	Total TDRs
Legacy Loans:					
Residential real estate - first lien	1	$ 308	-	$ -	$ 308
Commercial loans	6	723	1	226	949
	7	$ 1,031	1	$ 226	$ 1,257

A summary of TDR modifications outstanding and performing under modified terms are as follows:

	March 31, 2015		
(in thousands)	Not Performing to Modified Terms	Performing to Modified Terms	Total TDRs
Legacy Loans:			
Residential real estate - first lien			
Forbearance	$ -	$ 301	$ 301
Commercial - non-owner occupied			
Rate modification		2,100	2,100
Commercial loans			
Rate modification	594	-	594
Extension or other modification	-	224	224
Total trouble debt restructure loans	$ 594	$ 2,625	$ 3,219

December 31, 2014
Performing

(in thousands)	Not Performing to Modified Terms	to Modified Terms	Total TDRs
Legacy Loans:			
Residential real estate - first lien			
Forbearance	$308	$ -	$308
Commercial loans			
Forbearance	723	-	723
Extension or other modification	-	226	226
Total trouble debt restructure loans	$1,031	$ 226	$1,257

There were two new loans restructured during the three months ended March 31, 2015 totaling $2.7 million.

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Note 5: Intangibles

The gross carrying amount and accumulated amortization of intangible assets are as follows:

	March 31, 2015			
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (Years)
Amortizing intangible assets:				
Core deposit intangible	$1,566	$ 258	$ 1,308	8.34

	December 31, 2014			
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (Years)
Amortizing intangible assets:				
Core deposit intangible	$1,566	$ 175	$ 1,391	8.59

During 2014, we acquired additional core deposit intangible totaling $513 thousand for the Havre de Grace branch acquisition, and $677 thousand for the NBRS Acquisition.

Estimated future amortization expense for amortizing intangibles for the years ending December 31, are as follows:

(in thousands)	
2015	$230
2016	241
2017	187
2018	149
2019	122
Thereafter	379
Total amortizing intangible assets	$1,308

Note 6: Deposits

The following table details the composition of deposits and the related percentage mix of total deposits, respectively:

(dollars in thousands)	March 31, 2015		December 31, 2014	
	Amount	% of Total	Amount	% of Total
Noninterest-bearing demand	$137,287	24 %	$ 142,727	26 %
Interest-bearing checking	46,449	8	49,988	9
Money market accounts	142,066	24	140,426	25
Savings	34,312	6	31,354	6
Certificates of deposit $100,000 and over	148,718	26	108,904	19
Certificates of deposit under $100,000	71,823	12	80,640	15
Total deposits	$580,655	100 %	$ 554,039	100 %

Note 7: Stock Options and Stock Awards

The Company's equity incentive plan provides for awards of nonqualified and incentive stock options as well as vested and non-vested common stock awards. Employee stock options can be granted with exercise prices at the fair market value (as defined within the plan) of the stock at the date of grant and with terms of up to ten years. Except as otherwise permitted in the plan, upon termination of employment for reasons other than retirement, permanent disability or death, the option exercise period is reduced or the options are canceled.

Stock awards may also be granted to non-employee members of the Board of Directors as compensation for attendance and participation at meetings of the Board of Directors and meetings of the various committees of the Board. For the three months ended March 31, 2015 the Company issued 2,086 shares of stock to directors compensation for their service.

The following table summarizes the Company's stock option activity and related information for the periods ended:

	March 31, 2015		December 31, 2014	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance at January 1,	264,652	$ 11.75	387,101	$ 11.19
Granted	-	-	-	-
Exercised	-	-	(4,139)	8.79
Forfeited	(16,861)	10.41	(118,310)	10.02
Balance at period end	247,791	$ 11.85	264,652	$ 11.75
Exercisable at period end	247,791	$ 11.85	264,652	$ 11.75
Weighted average fair value of options granted during the year		$ -		$ -

The intrinsic value of a stock option is the amount that the market value of the underlying stock exceeds the exercise price of the option. Based upon a fair market value of $14.00 at March 31, 2015 the options outstanding had an aggregate intrinsic value or $533 thousand. At December 31, 2014, based upon fair market value of $11.40, the options outstanding had an aggregate intrinsic value of $175 thousand.

Restricted Stock

In the second quarter of 2013, 50,000 shares of restricted stock were granted, with 30,000 of the shares subject to a three year vesting schedule with one-third of the shares vesting each year on the grant date anniversary. The remaining 20,000 awarded shares also are subject to a three year vesting schedule, however they only vest if certain annual performance measures are satisfactorily achieved.

The following table presents a summary of the activity for the Company's restricted stock for the periods ended:

March 31, 2015		December 31, 2014	
	Weighted Average		Weighted Average

	Shares	Grant Date Fair Value	Shares	Grant Date Fair Value
Balance at January 1,	33,330	$ 6.89	50,000	$ 6.89
Granted	-	-	-	-
Vested	-	-	(10,002)	6.91
Forfeited	-	-	(6,668)	6.85
Balance at period end	33,330	$ 6.89	33,330	$ 6.89

At March 31, 2015, based on restricted stock awards outstanding at that time, the total unrecognized pre-tax compensation expense related to unvested restricted stock awards was $115 thousand. This expense is expected to be recognized through 2016.

Restricted Stock Units

Restricted stock units (RSUs) are similar to restricted stock, except the recipient does not receive the stock immediately, but instead receives it according to a vesting plan and distribution schedule after achieving required performance milestones or upon remaining with the employer for a particular length of time. Each restricted stock unit that vests entitles the recipient to receive one share of common stock on a specified issuance date. The recipient does not have any stockholder rights, including voting, dividend or liquidation rights, with respect to the shares underlying awarded restricted stock units until the recipient becomes the record holder of those shares.

In 2014, 44,500 restricted stock units were granted, with 19,500 of the units subject to a three year vesting schedule with one-third of the units vesting each year on the grant date anniversary. The remaining 25,000 awarded units also are subject to a three year vesting schedule, however, they only vest if certain annual performance measures are satisfactorily achieved.

The following table presents a summary of the activity for the Company’s restricted stock units for the periods ended:

	March 31, 2015		December 31, 2014	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Balance at January 1,	44,500	$ 11.21	-	$ -
Granted	-	-	44,500	11.21
Vested	-	-	-	-
Forfeited	-	-	-	-
Balance at period end	44,500	$ 11.21	44,500	$ 11.21

At March 31, 2015, based on RSU awards outstanding at that time, the total unrecognized pre-tax compensation expense related to unvested RSU awards was $334 thousand. This expense is expected to be recognized through 2017.

Stock-Based Compensation Expense: Stock-based compensation is recognized as compensation cost in the statement of operations based on the fair values on the measurement date, which, for the Company, is the date of the grant. The Company recognized stock-based compensation expense related to the issuance of restricted stock and restricted stock units of $70 thousand as well as $24 thousand for director compensation paid in stock for the period ended March 31, 2015.

Valuation of Stock-Based Compensation: The fair value of the Company’s stock options granted as compensation is estimated on the measurement date, which, for the Company, is the date of grant. The fair value of stock options was calculated using the Black-Scholes option-pricing model. There were no stock options granted during the three months ended March 31, 2015 or in 2014.

Note 8: Benefit Plan

<u>Profit Sharing Plan</u>

The Company sponsors a defined contribution retirement plan through a Section 401(k) profit sharing plan. Employees may contribute up to 15% of their pretax compensation. Participants are eligible for matching Company contributions up to 4% of eligible compensation dependent on the level of voluntary contributions. Company matching contributions totaled $126 thousand and $47 thousand, respectively, for the three months ended March 31, 2015 and 2014. The Company’s matching contributions vest immediately.

Supplemental Executive Retirement Plan (SERP)

In 2014, the Bank created a SERP for the Chief Executive Officer. Under the defined benefit SERP, Ms. Scully will receive $100,000 each year for 15 years after attainment of the Normal Retirement Age (as defined in the SERP). Ms. Scully will earn vesting on a graduated schedule in which she will become fully vested on August 25, 2019, which has been established for purposes of the SERP as her retirement date. Expense related to this plan totaled $23 thousand for the three month period ending March 31, 2015.

Note 9: Income per Common Share

The table below shows the presentation of basic and diluted income per common share for the periods indicated:

	Three months ended March 31,	
(dollars in thousands, except per share data)	2015	2014
Net income	$649	$266
Preferred stock dividends	(31)	(31)
Net income available to common shareholders (numerator)	$618	$235
BASIC		
Basic average common shares outstanding (denominator)	4,112,379	4,090,844
Basic income per common share	$0.15	$0.06
DILUTED		
Average common shares outstanding	4,112,379	4,090,844
Dilutive effect of common stock equivalents	116,014	42,274
Diluted average common shares outstanding (denominator)	4,228,393	4,133,118
Diluted income per common share	$0.15	$0.06
Common stock equivalents outstanding that are anti-dilutive and thus excluded from calculation of diluted number of shares presented above	110,463	111,458

Note 10: Risk-Based Capital

In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision (“Basel III”) and certain provisions of the Dodd-Frank Act. The final rule, which became effective on January 1, 2015, creates a new common equity Tier 1 (“CET1”) minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital ratio (from 4% to 6% of risk-weighted assets), imposes a minimum leverage ratio of 4.0%, and changes the risk-weight of certain assets to better reflect credit risk and other risk exposures. These include, among other things, a 150% risk weight for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in non-accrual status, and a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable. The final rule also requires unrealized gains and losses on certain “available-for-sale” securities holdings to be included for purposes of calculating regulatory capital unless Howard Bank elects to opt-out from this treatment. Howard Bank has elected to permanently opt out of this treatment in our capital calculations, as permitted by the final rule.

The final rule will limit Bancorp's capital distributions and certain discretionary bonus payments if Bancorp does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

In addition, under revised prompt corrective action requirements effective January 1, 2015, in order to be considered "well-capitalized," Bancorp and the Bank must have CET 1 ratios of 6.5%, Tier 1 ratios of 8.0%, total risk-based capital ratios of 10.0% and leverage ratios of 5.0%.

Management believes that, as of March 31, 2015 and December 31, 2014, Bancorp and the Bank met all capital adequacy requirements to which they are subject.

(dollars in thousands)	Actual Amount	Ratio	For capital adequacy purposes Amount	Ratio	To be well capitalized under the FDICIA prompt corrective action provisions Amount	Ratio
As of March 31, 2015:						
Total capital (to risk-weighted assets)						
Howard Bank	$63,235	10.42%	$ 48,529	8.00 %	$60,661	10.00 %
Howard Bancorp	$63,629	10.49%	$ 48,508	8.00 %	**N/A**	
Common equity tier 1 capital (to risk-weighted assets)						
Howard Bank	$59,396	9.79 %	$ 27,298	4.50 %	$39,430	6.50 %
Howard Bancorp	$59,790	9.86 %	$ 27,286	4.50 %	**N/A**	
Tier 1 capital (to risk-weighted assets)						
Howard Bank	$59,396	9.79 %	$ 36,397	6.00 %	$48,529	8.00 %
Howard Bancorp	$59,790	9.86 %	$ 36,381	6.00 %	**N/A**	
Tier 1 capital (to average assets) (Leverage ratio)						
Howard Bank	$59,396	8.61 %	$ 27,609	4.00 %	$34,511	5.00 %
Howard Bancorp	$59,790	8.66 %	$ 27,610	4.00 %	**N/A**	
As of December 31, 2014:						
Total capital (to risk-weighted assets)						
Howard Bank	$61,393	10.69%	$ 45,932	8.00 %	$57,415	10.00 %
Howard Bancorp	$61,811	10.73%	$ 46,067	8.00 %	N/A	
Tier 1 capital (to risk-weighted assets)						
Howard Bank	$57,791	10.07%	$ 22,966	4.00 %	$34,449	6.00 %
Howard Bancorp	$58,208	10.11%	$ 23,033	4.00 %	N/A	
Tier 1 capital (to average assets) (Leverage ratio)						
Howard Bank	$57,791	8.54 %	$ 27,073	4.00 %	$33,842	5.00 %
Howard Bancorp	$58,208	8.60 %	$ 27,072	4.00 %	N/A	

Note 11: Preferred Stock

On September 22, 2011, we entered into a Securities Purchase Agreement with the Secretary of the Treasury, pursuant to which Bancorp issued and sold to the Treasury 12,562 shares of our Senior Non-Cumulative Perpetual Preferred Stock, Series AA, having a liquidation preference of $1,000 per share, for aggregate proceeds of $12,562,000. The issuance was pursuant to the Treasury's Small Business Lending Fund (SBLF) program, a $30 billion fund established under the Small Business Jobs Act of 2010, which encourages lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. The Series AA Preferred Stock holders are entitled to receive non-cumulative dividends payable quarterly on each January 1, April 1, July 1 and October 1, beginning October 1, 2011. The dividend rate, which is calculated on the aggregate Liquidation Amount, had been initially set at 5% per annum based upon the current level of "Qualified Small Business Lending" ("QSBL") by the Bank and is currently set at 1%. The dividend rate for future dividend periods will be set based upon the percentage change in qualified lending between each dividend period and the baseline QSBL level established at the time the Agreement was entered

into. Such dividend rate may vary from 1% per annum to 5% per annum for the second through tenth dividend periods and from 1% per annum to 7% per annum for the eleventh through the eighteenth dividend periods and though March 22, 2016 with respect to the nineteenth dividend period. If the Series AA Preferred Stock remains outstanding for more than four-and-one-half years, the dividend rate will be fixed at 9%. Prior to that time, in general, the dividend rate decreases as the level of the Bank's QSBL increases. Such dividends are not cumulative, but Bancorp may only declare and pay dividends on its common stock (or any other equity securities junior to the Series AA Preferred Stock) if it has declared and paid dividends for the current dividend period on the Series AA Preferred Stock, and will be subject to other restrictions on its ability to repurchase or redeem other securities. In addition, if (i) we have not timely declared and paid dividends on the Series AA Preferred Stock for six dividend periods or more, whether or not consecutive, the Treasury (or any successor holder of Series AA Preferred Stock) may designate a representative to attend all meetings of Bancorp's Board of Directors in a nonvoting observer capacity and Bancorp must give such representative copies of all notices, minutes, consents and other materials that Bancorp provide to its directors in connection with such meetings.

We may redeem the shares of Series AA Preferred Stock, in whole or in part, at any time at a redemption price equal to the sum of the Liquidation Amount per share and the per-share amount of any unpaid dividends for the then-current period, subject to any required prior approval by our primary federal banking regulator.

Note 12: Fair Value

FASB ASC Topic 820 "Fair Value Measurements" 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. FASB 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 Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale, loans held for sale and interest rate lock commitments are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Under FASB ASC Topic 820, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value. These hierarchy levels are:

Level 1: Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Recurring Fair Value Measurements

All classes of investment securities available for sale are recorded at fair value using reliable an unbiased evaluations by an industry wide valuation service and therefor fall into a Level 2 of the fair value hierarchy. The service uses evaluated pricing models that vary based on asset class and include available trade, bid and other market information. Various methodologies include broker quotes, propriety models, descriptive terms and conditions databases, and quality control programs.

Fair value of loans held for sale is based upon outstanding investor commitments or, in the absence of such commitments, based on current investor yield requirements or third party pricing models and are considered Level 2. Gains and losses on loan sales are determined using specific identification methods. Changes in fair value are recognized in the Consolidated Statement of Operations as part of realized and unrealized gain on mortgage banking activities.

Interest rate lock commitments are recorded at fair value determined as the amount that would be required to settle each of these derivatives at the balance sheet date. In the normal course of business, the Company enters into contractual interest rate lock commitments to extend credit to borrowers with fixed expiration dates. The commitment becomes effective when the borrower locks in a specified interest rate within the time frames established by the mortgage division. All borrowers are evaluated for credit worthiness prior to the extension of a commitment. Market risk arises if interest rates move adversely between the time the interest rate is locked by the borrower and the sale date of the loan to an investor. To mitigate this interest rate risk inherent in providing rate lock commitments to borrowers, the Company enters into best effort forward sales contracts to sell loans to investors. The forward sales contracts lock in an interest rate price for the sale of loans similar to the specific rate lock commitment. Rate lock commitments to the borrowers through to the date the loan closes are undesignated derivatives and accordingly, are marked to fair value in earnings. These valuations fall into a Level 2 of the fair value hierarchy.

Non-recurring Fair Value Measurements

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Company. The value of business equipment, inventory and accounts receivable collateral is based on the net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

Other real estate owned acquired through, or in lieu of, foreclosure are held for sale and are initially recorded at fair value, less selling costs. Any write-downs to fair value at the time of transfer to OREO are charged to the allowance for credit losses subsequent to foreclosure. Values are derived from appraisals of underlying collateral and discounted cash flow analysis. There were no valuation losses recognized during the three months ended March 31, 2015 and 2014.

The following table sets forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a recurring basis at March 31, 2015 and December 31, 2014:

March 31, 2015 (in thousands)	Carrying Value (Fair Value)	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities:				
U.S. Goverment agencies	$ 26,026	$ -	$ 26,026	$ -
U.S. Goverment treasuries	4,000	-	4,000	-
Mortgage-backed securities	85	-	85	-
Mutual funds	500	-	500	-
Loans held for sale	49,159	-	49,159	-
Rate lock commitments	145	-	145	-

December 31, 2014 (in thousands)	Carrying Value (Fair Value)	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities:				
U.S. Goverment agencies	$ 36,981	$ -	$ 36,981	$ -
U.S. Goverment treasuries	3,997	-	3,997	-
Mortgage-backed securities	101	-	101	-
Loans held for sale	42,881	-	42,881	-
Rate lock commitments	342	-	342	-

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Assets under fair value option:

March 31, 2015 (in thousands)	Carrying Fair Value Amount	Aggregate Unpaid Principle	Difference
Loans held for sale	$ 49,159	$ 47,863	$ 1,296

December 31, 2014 (in thousands)	Carrying Fair Value Amount	Aggregate Unpaid Principle	Difference
Loans held for sale	$ 42,881	$ 41,668	$ 1,213

There were no loans held for sale that were non-accrual or 90 days or more past due and still accruing interest at the end of either period presented. Net gain from the changes included in earnings in fair value of loans held for sale was $83 thousand and $1.2 million during the periods ended March 31, 2015 and December 31, 2014, respectively.

The following table sets forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis at March 31, 2015 and December 31, 2014. OREO is carried at fair value less anticipated costs to sell. Impaired loans are measured using the fair value of collateral, if applicable.

March 31,2015 (in thousands)	Carrying Value (Fair Value)	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other real estate owned	$ 2,472	$ -	$ -	$ 2,472
Impaired loans:				
Construction and land	1,084	-	-	1,084
Residential - first lien	645	-	-	645
Residential - junior lien	29	-	-	29
Commercial - owner occupied	-	-	-	-
Commercial - non-owner occupied	2,694	-	-	2,694
Commercial loans and leases	1,928	-	-	1,928
Consumer	112	-	-	112

December 31, 2014	Carrying Value	Quoted Price in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs

(in thousands)	(Fair Value)	(Level 1)	(Level 2)	(Level 3)
Other real estate owned	$ 2,472	$ -	$ -	$ 2,472
Impaired loans:				
Construction and land	1,084	-	-	1,084
Residential - first lien	719	-	-	719
Residential - junior lien	27	-	-	27
Commercial - owner occupied	-	-	-	-
Commercial - non-owner occupied	2,700	-	-	2,700
Commercial loans and leases	1,940	-	-	1,940
Consumer	92	-	-	92

At March 31, 2015 and December 31, 2014, OREO consisted of the outstanding balance of $4.6 million, less valuation allowance of $2.1 million. Impaired loans had a recorded investment of $7.1 million and $7.2 million at March 31, 2015 and December 31, 2014, respectively. Additional provisions on impaired loans for the three months ended March 31 2015 and year ended December 31, 2014 was $0.6 million.

Various techniques are used to valuate OREO and impaired loans. All loans for which the underlying collateral is real estate, either construction, land, commercial, or residential, an independent appraisal is used to identify the value of the collateral. The approaches within the appraisal report include sales comparison, income, and replacement cost analysis. The resulting value will be adjusted by a selling cost of 9.5% and the residual value will be used to determine if there is an impairment. Commercial loans and leases and consumer utilize a liquidation approach to the impairment analysis

The following table presents required information in accordance with ASC Topic 825 “Financial Instruments” at March 31, 2015 and December 31, 2014. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are based on quoted market prices where available or calculated using present value techniques. Since quoted market prices are not available on many of our financial instruments, estimates may be based on the present value of estimated future cash flows and estimated discount rates. These financial assets and liabilities have not been recorded at fair value.

The following methods and assumptions were used to estimate the fair value of financial instruments where it is practical to estimate fair value:

Securities available-for-sale: Based on quoted market prices. If quoted market price is not available fair value is estimated using quoted market prices for similar securities.

Nonmarketable equity securities: Because these securities are not marketable, the carrying amount approximates the fair value.

Loans held for sale: Loans held for sale are carried at fair value. Based on outstanding investor commitments or, in absent of such commitments, based on current investor yield requirements on third party models.

Derivative financial instruments: Based on estimate loan closing and investor delivery rate based on historical experience.

Loans: For variable rate loans the carrying amount approximates the fair value. For fixed rate loans the fair value is calculated by discounting estimated cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The estimated cash flows do not anticipate prepayments.

Deposits: The carrying amount of non-maturity deposits such as demand deposits, money market and saving deposits approximates the fair value. The fair value of deposits with predetermined maturity dates such as certificate of deposits is estimated by discounting the future cash flows using current rates of similar deposits with similar remaining maturities.

Short-term borrowing: Variable rate repurchase agreements carrying amounts approximate the fair values at the reporting date.

Long-term borrowing: Because the borrowing is a variable rate instrument, the carrying amount approximates the fair value.

Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented for loans would be indicative of the value negotiated in an actual sale.

	March 31, 2015				
(in thousands)	Carrying Amount	Fair Value	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Investment securities	$30,611	$30,611	$ -	$ 30,611	$ -
Nonmarketable equity securities	2,535	2,535	-	2,535	-
Loans held for sale	49,159	49,159	-	49,159	-
Rate lock commitments	145	145	-	145	-
Loans and leases	570,437	571,351	-	-	571,351
Financial Liabilities					
Deposits	580,655	581,185	-	-	581,185
Short-term borrowings	41,032	41,032	-	41,032	-
Long-term borrowings	19,500	19,555	-	19,555	-

	December 31, 2014				
(in thousands)	Carrying Amount	Fair Value	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Investment securities	$41,079	$41,079	$ -	$ 41,079	$ -
Nonmarketable equity securities	2,571	2,571	-	2,571	-
Loans held for sale	42,881	42,881	-	42,881	-
Rate lock commitments	342	342	-	342	-
Loans and leases	549,315	547,825	-	-	547,825
Financial Liabilities					
Deposits	554,039	554,660	-	-	554,660
Short-term borrowings	48,628	48,628	-	48,628	-
Long-term borrowings	19,000	19,055	-	19,055	-

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

This section is intended to help our stockholders and potential investors understand our financial performance through a discussion of the factors affecting our consolidated financial condition at March 31, 2015 and December 31, 2014 and our consolidated results of operations for the periods ended March 31, 2015 and March 31, 2014. This section should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements.

Overview

Howard Bancorp, Inc. is the holding company for Howard Bank. Howard Bank is a trust company chartered under Subtitle 2 of Title 3 of the Financial Institutions Article of the Annotated Code of Maryland. The Bank was formed in March 2004 and commenced banking operations on August 9, 2004. Howard Bank does not exercise trust powers, and our regulatory structure is the same as a Maryland-chartered commercial bank. As such, our business has consisted primarily of originating both commercial and real estate loans secured by property in our market area. Typically, commercial real estate and business loans involve a higher degree of risk and carry a higher yield than one-to four-family residential loans. Although we plan to continue to focus on commercial customers, we intend to increase our originations of one- to four-family residential mortgage loans going forward, increasing our portfolio of mortgage lending and also selling select loans into the secondary markets.

We are headquartered in Ellicott City, Maryland and we consider our primary market area to be The Greater Baltimore Metropolitan Area. We engage in a general commercial banking business, making various types of loans and accepting deposits. We market our financial services to small to medium sized businesses and their owners,

professionals and executives, and high-net-worth individuals. Our loans are primarily funded by core deposits of customers in our market.

Our core business strategy is to deliver superior customer service that is supported by an extremely high level of banking sophistication. Our specialized community banking focus on both local markets and small business related market segments is combined with a broad array of products, new technology and seasoned banking professionals which positions the Bank differently than most competitors. Our experienced executives establish a relationship with each client and bring value to all phases of a client's business and personal banking needs.

Our results of operations depend mainly on our net interest income, which is the difference between the interest income we earn on our loan and investment portfolios and the interest expense we pay on deposits and borrowings. Results of operations are also affected by provisions for credit losses, noninterest income and noninterest expense. Our noninterest expense consists primarily of compensation and employee benefits, as well as office occupancy, deposit insurance and general administrative and data processing expenses. Our operations are significantly affected by general economic and competitive conditions, particularly with respect to changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable laws, regulations or government policies may materially affect our financial condition and results of operations.

In October 2014 Howard Bank acquired the assets and deposits of a failed institution from the FDIC with branch locations in Harford and Cecil Counties in Maryland and Lancaster County in Pennsylvania. This added $135.6 million in assets and generated a bargain purchase gain of $16.1 million before tax and expanded our geographic reach.

In August 2014 Howard Bank purchased from NBRS Financial Bank its branch located at 800 Revolution Street, Havre de Grace, Maryland. Pursuant to the branch purchase, Howard Bank acquired $16.1 million in loans and $18.7 million in deposits. In connection with its purchase of the branch, Howard Bank made a net cash payment of $2.4 million, including a premium of approximately $384,000. This transaction was recorded as an asset acquisition rather than as a business combination.

On March 2, 2015, Bancorp entered into investment agreements with several bank institutional investors for the purchase and sale of an aggregate of 2,173,913 shares of Bancorp common stock, for an aggregate purchase price of $24,999,999.50. The purchase price per share was $11.50. The purchase and sale of the shares of common stock pursuant to the investment agreements will be completed following approval by Bancorp's stockholders of a resolution permitting the issuance pursuant Nasdaq Stock Market LLC Listing Standard 5635(d) at its upcoming annual meeting, which is scheduled for May 27, 2015. When consummated, no investor will own more than 9.9% of the outstanding shares of Bancorp common stock, without giving effect to the shares to be issued pursuant to the merger agreement. Additionally, no board seats or board observation rights were provided to any investor.

On March 2, 2015, we entered into an Agreement and Plan of Merger with Patapsco Bancorp, Inc., a Maryland corporation ("Patapsco"). The merger agreement provides that, upon the terms and subject to the conditions set forth therein, Patapsco will merge with and into Bancorp, with Bancorp continuing as the surviving entity. Immediately following the consummation of the merger, The Patapsco Bank, a Maryland-state chartered commercial bank and wholly-owned subsidiary of Patapsco ("Patapsco Bank"), will merge with and into the Bank, with the Bank continuing as the surviving entity. Consummation of the merger is subject to stockholder and regulatory approval and other customary closing conditions.

Total assets increased by over $19.1 million or 2.8% when comparing March 31, 2015 assets of $710.5 million to the $691.4 million at December 31, 2014. Total loans outstanding of $570.4 million at the end of March 2015 showed an increase of $17.5 million or 3.2% compared to total loans of $552.9 million on December 31, 2014. Total deposits grew by $26.6 million or 4.8% when comparing March 31, 2015 to December 31, 2014.

The first quarter of 2015 net income was $649 thousand, which represents an increase of 143.9% over net income for the first quarter of 2014. Net interest income for the quarter ended March 31, 2015 was $6.8 million versus $4.4 million for the first three months of 2014, an increase of approximately $2.4 million or 52.8%. Total noninterest income was $2.3 million for the first quarter of 2015, compared to a total of $623 thousand for the same period in 2014. Total noninterest expenses increased to $7.8 million from $4.5 million for the three months ended March 31, 2015 and 2014, respectively.

Critical Accounting Policies

Our accounting and financial reporting policies conform to GAAP and general practice within the banking industry. Accordingly, preparation of the financial statements require management to exercise significant judgment or discretion or make significant assumptions and estimates based on the information available that have, or could have, a material impact on the carrying value of certain assets or on income. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the periods presented. In reviewing and understanding financial information for us, you are encouraged to read and understand the significant accounting policies used in preparing our financial statements. The accounting policies we view as critical are those relating to the allowance for credit losses, income taxes and share based compensation.

The allowance for credit losses is established through a provision for credit losses charged against income. Loans are charged against the allowance for credit losses when management believes that the collectability of the principal is unlikely. Subsequent recoveries are added to the allowance. The allowance is an amount that represents the amount of probable and reasonably estimable known and inherent losses in the loan portfolio, based on evaluations of the collectability of loans. The evaluations take into consideration such factors as changes in the types and amount of loans in the loan portfolio, historical loss experience, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral, estimated losses relating to specifically identified loans, and current economic conditions. This evaluation is inherently subjective as it requires material estimates including, among others, exposure at default, the amount and timing of expected future cash flows on impacted loans, value of collateral, estimated losses on our loan portfolios as well as consideration of general loss experience. Based on our estimate of the level of allowance for credit losses required, we record a provision for credit losses to maintain the allowance for credit losses at an appropriate level.

We cannot predict with certainty the amount of loan charge-offs that we will incur. We do not currently determine a range of loss with respect to the allowance for credit losses. In addition, our regulatory agencies, as an integral part of their examination processes, periodically review our allowance for credit losses. Such agencies may require that we recognize additions to the allowance for credit losses based on their judgments about information available to them at the time of their examination. To the extent that actual outcomes differ from management’s estimates, additional provisions to the allowance for credit losses may be required that would adversely impact earnings in future periods.

We account for income taxes under the asset/liability method. We recognize deferred tax assets for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, as well as operating loss and tax credit carry-forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period indicated by the enactment date. We establish a valuation allowance for deferred tax assets when, in the judgment of management, it is more likely than not that such deferred tax assets will not become realizable. The judgment about the level of future taxable income is dependent to a great extent on matters that may, at least in part, be beyond our control. It is at least reasonably possible that management’s judgment about the need for a valuation allowance for deferred tax assets could change in the near term.

We follow the provisions of ASC Topic 718 "Compensation," which requires the expense recognition over a service period for the fair value of share based compensation awards, such as stock options, restricted stock, and performance based shares. This standard allows management to establish modeling assumptions as to expected stock price volatility, option terms, forfeiture rates and dividend rates which directly impact estimated fair value. The accounting standard also allows for the use of alternative option pricing models which may impact fair value as determined. Our practice is to utilize reasonable and supportable assumptions which are reviewed with the appropriate Board committee.

Balance Sheet Analysis and Comparison of Financial Condition

A comparison between March 31, 2015 and December 31, 2014 balance sheets is presented below.

Assets

Total assets increased $19.1 million, or 2.8%, to $710.5 million at March 31, 2015 compared to $691.4 million at December 31, 2014. This asset growth was primarily due to growth of $17.3 million in net total loans, a $6.3 million increase in loans held for sale, and a $4.0 million increase in cash and cash equivalents partially offset by a $10.5 million decrease in investment securities. The increase in loans held for sale is attributable to the Bank’s continuing expansion of the mortgage banking division, while the loan portfolio growth was a result of our ongoing focus on organic growth. The asset growth was funded primarily from increases in customer deposits, which increased from $554.0 million at December 31, 2014 to $580.7 million at March 31, 2015, an increase of $26.7 million or 4.8%. Because of the successful growth in deposits, overall borrowing levels were reduced.

Securities Available for Sale

We have traditionally held U.S. agency securities, treasury securities and mortgage backed securities in our securities portfolio, all of which are considered as available for sale. Beginning in the first quarter of 2015, we have added a small investment in a mutual fund as a supplement to our community reinvestment program activities. We use our securities portfolio to provide the required collateral for funding via commercial customer repurchase agreements as well as to provide sufficient liquidity to fund our loans and provide funds for withdrawals of deposited funds. At March 31, 2015 and December 31, 2014 we held an investment in stock of the Federal Home Loan Bank of Atlanta ("FHLB") of $2.5 million and $2.6 million, respectively. This investment, which is required for continued membership, is based partially upon the dollar amount of borrowings outstanding from the FHLB. These investments are carried at cost. We have never held stock in Fannie Mae or Freddie Mac.

The following tables set forth the composition of our investment securities portfolio at the dates indicated.

(in thousands)	March 31, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
U.S. Government Agencies	$26,014	$ 26,026	$37,010	$ 36,981
Treasuries	4,000	4,000	4,000	3,997
Mortgage-backed	80	85	95	101
Mutual funds	500	500	-	-
	$30,594	$ 30,611	$41,105	$ 41,079

We had securities available for sale of $30.6 million and $41.1 million at March 31, 2015 and December 31, 2014, respectively, which were recorded at fair value. This represents a decrease of $10.5 million, or 25.5%, from year end 2014. The decrease in our securities portfolio resulted from scheduled maturities, and the funds received were used to supplement our deposit growth and fund the growth in both portfolio loans and loans held for sale, while maintaining an appropriate amount of securities to collateralize our repurchase agreements at March 31, 2015. We did not record any gains or losses on the sales or calls of securities for the three months ended March 31, 2015. 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.

With respect to our portfolio of securities available for sale, the portfolio contained 7 securities with unrealized losses of $9 thousand and 14 securities with unrealized losses of $32 thousand at March 31, 2015 and December 31, 2014, respectively. Changes in the fair value of these securities resulted primarily from interest rate fluctuations. We do not intend to sell these securities nor is it more likely than not that we would be required to sell these securities before their anticipated recovery, and we believe the collection of the investment and related interest is probable. Based on this analysis, we consider all of the unrealized losses to be temporary in nature.

Loan Portfolio

Total loans and leases (which excludes loans held for sale) increased by $17.5 million or 3.2%, to $570.4 million at March 31, 2015 from $552.9 million at December 31, 2014. At March 31, 2015, total loans and leases represented 80.3% of total assets, up slightly compared to 80.0% of total assets at December 31, 2014. As the economy in our market area has continued its slow improvement, we have seen the beginning of increased demand for certain types of credit, especially commercial real estate, commercial and construction loans. In addition, with the expansion of our mortgage banking activities, our portfolio of residential mortgages also reflected growth during the quarter.

The following table sets forth the composition of our loan portfolio at the dates indicated. In addition to the amounts below, we had loans held for sale of $49.2 million at March 31, 2015, and $42.9 million at December 31, 2014.

(dollars in thousands)	March 31, 2014		December 31, 2014	
	Amount	Percent	Amount	Percent
Real Estate				
Construction and land	$58,904	10.3 %	$64,158	11.6 %
Residential - first lien	95,339	16.7	88,293	16.0
Residential - junior lien	20,498	3.6	19,301	3.5
Total residential real estate	115,837	20.3	107,594	19.5
Commercial - owner occupied	107,582	18.9	112,826	20.4
Commercial - non-owner occupied	138,830	24.3	123,958	22.4
Total commercial real estate	246,412	43.2	236,784	42.8
Total real estate loans	421,153	73.8	408,536	73.9
Commercial loans and leases	144,949	25.4	139,669	25.2
Consumer loans	4,335	0.8	4,712	0.9
Total loans and leases	$570,437	100.0 %	$552,917	100.0 %

Deposits

Our deposits increased from $554.0 million at December 31, 2014 to $580.7 million at March 31, 2015, an increase of $26.6 million or 4.8%. The increase resulted primarily from increases of $31.0 million or 16.4% in certificates of deposit. As represented in the table below, we experienced smaller increases in both money market and saving accounts in the first quarter of 2015. Transaction accounts, non-interest and interest bearing, decreased 4.7% or $9.0 million from year-end 2014 levels.

The following tables set forth the distribution of total deposits, by account type, at the dates indicated:

(dollars in thousands)	March 31, 2015		December 31, 2014	
	Amount	% of Total	Amount	% of Total
Noninterest-bearing demand	$137,287	24 %	$ 142,727	26 %
Interest-bearing checking	46,449	8	49,988	9
Money market accounts	142,066	24	140,426	25
Savings	34,312	6	31,354	6
Certificates of deposit $100,000 and over	148,718	26	108,904	19
Certificates of deposit under $100,000	71,823	12	80,640	15
Total deposits	$580,655	100 %	$ 554,039	100 %

Borrowings

Customer deposits remain the primary source utilized to meet funding needs. Borrowings consist of overnight unsecured master notes, overnight securities sold under agreement to repurchase (“repurchase agreements”) and FHLB advances. Our borrowings totaled $60.5 million at March 31, 2015 and $67.6 million at December 31, 2014. Short-term borrowings totaled $41.0 million at March 31, 2015 and $48.6 million at December 31, 2014. We had seven long-term FHLB advances outstanding totaling $19.5 million at March 31, 2015 compared to seven FHLB advances outstanding totaling $19.0 million at December 31, 2014.

Shareholders’ Equity

Total shareholders’ equity increased by $741 thousand, or approximately 1.2%, from $59.6 million at December 31, 2014 to $60.4 million at March 31, 2015. The increase in shareholders’ equity is primarily the result of the retention of the earnings for the first quarter of 2015.

Total shareholders’ equity at March 31, 2015 represents a capital to asset ratio of 8.5%, while the total shareholders’ equity at December 31, 2014 represented a capital to asset ratio of 8.6%. Even though capital levels increased, the overall growth in asset levels resulted in a slight decline in the capital to asset ratio.

Average Balance and Yields

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, and have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

	Three months ended March 31,					
	2015			2014		
(dollars in thousands)	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
Earning assets						
Loans and leases: [1]						
Commercial loans and leases	$131,415	$ 1,679	5.18 %	$98,339	$ 1,175	4.84 %
Commercial real estate	242,986	3,168	5.29	203,157	2,426	4.84
Construction and land	62,747	724	4.68	52,017	675	5.26
Residential real estate	111,750	1,350	4.90	48,625	539	4.50
Consumer	4,343	60	5.57	976	14	5.76
Total loans and leases	553,241	6,981	5.12	403,114	4,829	4.86
Loans held for sale	41,351	377	3.70	7,674	70	3.70
Federal funds sold	22,951	13	0.24	26,015	14	0.21
Securities: [2]						
U.S. Treasury	3,998	-	-	-	-	
U.S. Gov agencies	30,256	28	0.37	25,746	6	0.10
Mortgage-backed	93	1	4.51	160	2	4.56
Other investments	2,739	26	3.81	2,254	22	3.94
Total securities	37,086	55	0.60	28,160	30	0.43
Total earning assets	654,629	7,426	4.60	464,963	4,943	4.43
Cash and due from banks	7,513			5,108		
Bank premises and equipment, net	12,124			11,060		
Other assets	20,241			17,689		
Less: allowance for credit losses	(3,681)			(2,586)		
Total assets	$690,826			$496,234		
Interest-bearing liabilities						
Deposits:						
Interest-bearing demand accounts	$47,851	$ 24	0.20 %	$31,433	$ 19	0.25 %
Money market	142,381	173	0.49	99,727	94	0.38
Savings	32,726	14	0.17	12,750	8	0.26
Time deposits	200,370	366	0.74	155,038	320	0.84
Total interest-bearing deposits	423,328	577	0.55	298,948	441	0.60
Short-term borrowings	47,138	29	0.25	39,165	31	0.32

Long-term borrowings	17,750	53	1.21	16,394	43	1.06
Total interest-bearing funds	488,216	659	0.55	354,507	515	0.59
Noninterest-bearing deposits	135,699			92,098		
Other liabilities and accrued expenses	8,233			819		
Total liabilities	632,148			447,424		
Shareholders' equity	58,678			48,810		
Total liabilities & shareholders' equity	$690,826			$496,234		
Net interest rate spread [3]		$ 6,767	4.05 %		$ 4,428	3.84
Effect of noninterest-bearing funds			0.14			0.02
Net interest margin on earning assets [4]			4.19 %			3.86 %

(1) Loan fee income is included in the interest income calculation, and non-accrual loans are included in the average loan base upon which the interest rate earned on loans is calculated.

(2) Available for sale securities are presented at amortized cost.

(3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average total interest-earning assets.

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total column is further broken down to show the impact of changes in either rates or volumes.

	Three months ended March 31, 2015 vs. 2014		
		Due to variances in	
(in thousands)	Total	Rates	Volumes [1]
Interest earned on:			
Loans and leases:			
Commercial loans and leases	$ 505	$ 333	$ 172
Commercial real estate	742	904	(162)
Construction and land	49	(302)	351
Residential real estate	811	195	616
Consumer	46	(2)	48
Loans held for sale	307	(0)	307
Taxable securities	24	45	(21)
Federal funds sold	(1)	5	(6)
Total interest income	2,483	1,178	1,305
Interest paid on:			
Savings deposits	6	(11)	17
Interest-bearing demand deposits	5	(15)	20
Money market accounts	79	110	(31)
Time deposits	46	(149)	195
Short-term borrowings	(2)	(29)	27
Long-term borrowing	10	24	(14)
Total interest expense	144	(70)	214
Net interest earned	$ 2,339	$ 1,248	$ 1,091

(1) Change attributed to mix (rate and volume) are included in volume variance

Comparison of Results of Operations

A comparison between the three months ended March 31, 2015 and March 31, 2014 is presented below.

General

Net income available to common shareholders increased $383 thousand, or 162.8%, to $618 thousand for the three months ended March 31, 2015 compared to $235 thousand for the three months ended March 31, 2014. The increase in net income available to common shareholders was primarily due to the $4.1 million increase in revenues (net interest income plus non-interest income) partially offset by a $3.3 million increase in non-interest expense. Much of this revenue growth and the increased operating expenses are attributable to our continued strategic and organic growth initiatives.

Interest Income

Interest income increased $2.5 million, or 50.2%, to $7.4 million for the three months ended March 31, 2015 compared to $4.9 million for the same period in 2014. The increase was due to a $2.1 million, or 44.6% increase in interest income on loans and leases, and a $377 thousand increase in interest on mortgage loans held for sale. The increase in interest income on loans was due to a $150 million or 37.2% increase in the average balance of portfolio loans quarter over quarter. Also contributing to the increase in interest income was an increase in the average yield on loans and leases from 4.86% for first quarter of 2014 to 5.12% for the same period in 2015. This yield increase was partially impacted by the yields on loans acquired since March 31, 2014. Interest income from other sources, primarily loans held for sale, increased primarily due to increased average balance of loans held for sale. The average balance of our loans held for sale portfolio during the quarter ended March 31, 2015 increased $33.7 million from the average balance during the quarter ended March 31, 2014.

Interest Expense

Interest expense increased $144 thousand, or 27.9%, to $659 thousand for the three months ended March 31, 2015, compared to $515 thousand for the same period in 2014. Even though we grew average interest-bearing sources of funds 41.6% during the first quarter of 2015 compared to the first quarter of 2014, we only experienced a 27.9% increase in interest expense due to an overall decrease in the average rates paid on interest-bearing liabilities, which dropped from 0.59% for the first quarter of 2014 to 0.55% for the same period in 2015. This lower cumulative cost of funds benefited from our ability to raise additional deposits at lower rates, including the funds added via acquisition.

Net Interest Income

Net interest income is our largest source of operating revenue. Net interest income is affected by various factors including changes in interest rates and the composition of interest-earning assets and interest-bearing liabilities and maturities. Net interest income is determined by the interest rate spread (i.e., the difference between the yields earned on interest-earning assets and the rates paid on interest-bearing liabilities) and the relative amounts of interest-earning assets and interest-bearing liabilities. Net interest income increased $2.3 million, or 52.8%, during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. As noted above, the increase in net interest income was due to an increase of $2.5 million, or 50.2%, in interest income partially offset by an increase of $144 thousand or 27.9% in interest expense.

Provision for Credit Losses

We establish a provision for credit losses, which is a charge to earnings, in order to maintain the allowance for credit losses at a level we consider adequate to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for credit losses, management considers past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower’s ability to repay a loan and the levels of nonperforming loans. The amount of the allowance is based on estimates and actual losses may vary from such estimates as more information becomes available or economic conditions change. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as circumstances change as more information becomes available. The allowance for credit losses is assessed on a quarterly basis and provisions are made for credit losses as required in order to maintain the allowance.

Based on management’s evaluation of the above factors, we had a provision for credit losses of $250 thousand for the three months ended March 31, 2015 compared to $176 thousand for the same period in 2014, an increase of $74 thousand. The provision for 2015 reflects additional general provisions that are required given our continued growth

in the size of the loan portfolio, while maintaining specific provisions required on loans that are individually evaluated and deemed to be impaired.

Management analyzes the allowance for credit losses as described in the section entitled “Allowance for Credit Losses.” The provision that is recorded is sufficient, in management’s judgment, to bring the allowance for credit losses to a level that reflects the losses inherent in our loan portfolio relative to loan mix, economic conditions and historical loss experience. Management believes, to the best of its knowledge, that all known losses as of the balance sheet dates have been recorded. However, although management uses the best information available to make determinations with respect to the provisions for credit losses, additional provisions for credit losses may be required to be established in the future should economic or other conditions change substantially. In addition, as an integral part of their examination process, the Commissioner and the FDIC will periodically review the allowance for credit losses. The Commissioner and the FDIC may require us to recognize additions to the allowance based on their analysis of information available to them at the time of their examination.

Noninterest Income

Noninterest income was $2.3 million for the three months ended March 31, 2015 compared to $623 thousand for the three months ended March 31, 2014, a $1.7 million or 277.0% increase. The increase in noninterest income in the first quarter of 2015 was primarily derived from substantial growth in our mortgage banking activities. Due to higher levels of mortgage originations, total loan fees generated and gains recorded on the sales of loans produced approximately $1.8 million in noninterest revenues for the first quarter of 2015 compared to $292 thousand for the same period in 2014. This generated a quarterly increase of $1.5 million or over 500%. In addition, service charges on deposits increased by nearly $62 thousand or 40.0% for the first three months of 2015 compared to the same period in 2014, due to higher levels of overdraft and analysis fees. Other operating income consists mainly of non-depository account fees for customer related services such as wire, merchant card and ATM activity, which increased $122 thousand or 143% primarily due to increased fee income resulting from our organic and acquired deposit growth.

Noninterest Expenses

Noninterest expenses increased $3.3 million or 74.4%, to $7.8 million for the three months ended March 31, 2015 from $4.5 million for the three months ended March 31, 2014. This $3.3 million increase in expenses included (a) approximately $900 thousand in higher costs relating to the mortgage banking operations, (b) an incremental $1.6 million in expenses associated with operating the branches and operations of NBRS acquired during the fourth quarter of 2014, of which $255 thousand were costs incurred in the first quarter for our data systems conversion, which will be completed in the second quarter of 2015, (c) nearly $168 thousand in legal costs associated with the Patapsco merger agreement, and (d) an additional $600 thousand in additional costs from continued growth in organic operations. Compensation related expenses represented nearly one-third of the increase in expenses as they increased by $1.1 million for the first quarter of 2015 versus the same period in 2014. Of this $1.1 million increase, $277 thousand resulted from the mortgage division, which was still in formation in the first quarter of 2014, $643 thousand related to the additional staffing costs associated with the NBRS acquisition, and the remaining $170 thousand related to increases in the core infrastructure staff for the Bank's legacy operations. We had 210 full time equivalent employees (FTE) at March 31, 2015 compared to 134 FTE at March 31, 2014, representing an increase of 76 FTE or 57%. Occupancy related expense increased by $505 thousand, or 107%, for the first quarter of 2015 compared to the first quarter of 2014, totaling $975 thousand in the first three months of 2015 versus $470 thousand in the same period of 2014. Similar to compensation costs, the majority of the increase was due to our expansion as $79 thousand of the total increase in occupancy related to additional mortgage office sites and $357 thousand related to the 2014 acquired locations, with the remainder for continued operations of all of our other offices. Other than compensation and occupancy expenses, the remainder of our operating costs increased by $1.7 million for the first quarter of 2015 versus the first quarter of 2014. Similar to the two expense categories discussed above, a full quarter of mortgage banking operations for 2015 accounted for $555 thousand of the other expenses, while the other expenses of the acquired operations totaled $642 thousand during the first quarter of 2015.

Net Income Available to Common Shareholders

Net income available to common shareholders for the three months ended March 31, 2015 increased $383 thousand, or 162.7%, to $618 thousand compared to net income available to common shareholders of $235 thousand for the three months ended March 31, 2014. The increase in net income available to common shareholders was primarily due to the $4.1 million increase in revenues (net interest income plus non-interest income) partially offset by the $3.3 million increase in non-interest expense. Much of this revenue growth and the increased operating expenses are attributable to our continued growth initiatives.

Taking into consideration the above-stated changes in net interest income, the provision for credit losses, our noninterest income and noninterest expense levels, pretax income increased by $649 thousand from $382 thousand in the first quarter of 2014 to $1.0 million in the first quarter of 2015. Income tax expense amounted to $382 thousand during the first three months of 2015 compared to $116 thousand for the first three months of 2014.

Nonperforming and Problem Assets

Management performs reviews of all delinquent loans and our loan officers contact customers to attempt to resolve potential credit issues in a timely manner. When in the best interests of the Bank and the customer, we will do a troubled debt restructure with respect to a particular loan. When not possible, we are aggressively moving loans through the legal and foreclosure process within applicable legal constraints.

Loans are generally placed on non-accrual status when payment of principal or interest is 90 days or more past due and the value of the collateral securing the loan, if any, is less than the outstanding balance of the loan. Loans are also placed on non-accrual status if management has serious doubt about further collectability of principal or interest on the loan, even though the loan is currently performing. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received. The loan may be returned to accrual status if the loan is brought current, has performed in accordance with the contractual terms for a reasonable period of time and ultimate collectability of the total contractual principal and interest is no longer in doubt.

The table below sets forth the amounts and categories of our nonperforming assets, which consist of non-accrual loans, troubled debt restructurings and OREO (which includes real estate acquired through, or in lieu of, foreclosure), at the dates indicated.

(in thousands)	March 31, 2015	December 31, 2014
Non-accrual loans:		
Real estate loans:		
Construction and land	$ 1,144	$ 1,144
Residential - First Lien	344	719
Residential - Junior Lien	59	57
Commercial	594	-
Commercial and leases	1,443	2,015
Consumer	112	92
Total non-accrual loans	3,696	4,027
Accruing troubled debt restructure loans:		
Real estate loans:		
Residential - First Lien	301	-
Commercial	2,100	-
Commercial and leases	224	226
Total accruing troubled debt restructure loans	2,625	226
Total non-performing loans	6,321	4,253
Other real estate owned:		
Land	595	595
Commercial	1,877	1,877
Residential	-	-
Total other real estate owned	2,472	2,472
Total non-performing assets	$ 8,793	$ 6,725
Ratios:		
Non-performing loans to total gross loans	1.11 %	0.77 %
Non-performing assets to total assets	1.24 %	0.97 %

At March 31, 2015, included in total non-accrual loans above was one troubled debt restructured loan totaling $594 thousand that was not performing in accordance with the modified terms, and the accrual of interest has ceased. There were three troubled debt restructured loans totaling $2.6 million currently performing subject to their modified terms. There were six loans that were 90 days or more past due and still accruing interest at March 31, 2015 consisting of three commercial credits totaling $332 thousand, one home equity line of credit totaling $74 thousand, and two residential first lien loans totaling $458 thousand.

Under GAAP, we are required to account for certain loan modifications or restructurings as “troubled debt restructurings.” In general, the modification or restructuring of a debt constitutes a troubled debt restructuring if Howard Bank, for economic or legal reasons related to the borrower’s financial difficulties, grants a concession, such as a reduction in the effective interest rate, to the borrower that we would not otherwise consider. However, all debt restructurings or loan modifications for a borrower do not necessarily always constitute troubled debt restructurings.

Nonperforming assets amounted to $8.8 million, or 1.24% of total assets, at March 31, 2015 compared to $6.7 million or 0.97% of total assets, at December 31, 2014. Total nonperforming assets have increased by $2.1 million during 2015 primarily as a result of one credit being restructured. The decrease in non-accrual loans was impacted by five credits to one borrower returning to accruing status.

The composition of our nonperforming loans at March 31, 2015 is further described below:

Non-Accrual Loans:

- Two construction and land loans totaling $1.1 million, one that includes a specific reserve.
- One commercial non-owner occupied loan of $594 thousand.
- Three residential first lien loans totaling $344 thousand. All of these loans were acquired from NBRS.
- One residential junior lien for $59 thousand, acquired from NBRS.
- Nineteen commercial loans totaling $1.4 million, one with an SBA guarantee and four that included a specific reserve.
- One consumer loan for $112 thousand, acquired from NBRS.

Trouble Debt Restructured Loans:

- One residential first lien for $301 thousand
- One non-owner occupied commercial real estate loan for $2.1 million
- One commercial loan for $224 thousand.

Allowance for Credit Losses

We provide for credit losses based upon the consistent application of our documented allowance for credit loss methodology. All credit losses are charged to the allowance for credit losses and all recoveries are credited to it. Additions to the allowance for credit losses are provided by charges to income based on various factors which, in our judgment, deserve current recognition in estimating probable losses. We regularly review the loan portfolio and make provisions for credit losses in order to maintain the allowance for credit losses in accordance with GAAP. The allowance for credit losses consists primarily of two components:

1) Specific allowances are established for loans classified as Substandard or Doubtful. For loans classified as impaired, the allowance is established when the net realizable value (collateral value less costs to sell) of the impaired loan is lower than the carrying amount of the loan. The amount of impairment provided for as a specific allowance is represented by the deficiency, if any, between the underlying collateral value and the carrying value of the loan. Impaired loans for which the estimated fair value of the loan, or the loan's observable market price or the fair value of the underlying collateral, if the loan is collateral dependent, exceeds the carrying value of the loan are not considered in establishing specific allowances for credit losses; and

2) General allowances established for credit losses on a portfolio basis for loans that do not meet the definition of impaired loans. The portfolio is grouped into similar risk characteristics, primarily loan type and regulatory classification. We apply an estimated loss rate to each loan group. The loss rates applied are based upon our loss experience adjusted, as appropriate, for the qualitative factors discussed below. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions.

The allowance for credit losses is maintained at a level to provide for losses that are probable and can be reasonably estimated. Management's periodic evaluation of the adequacy of the allowance is based on Howard Bank's past credit loss experience, known and inherent losses in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

A loan is considered past due or delinquent when a contractual payment is not paid on the day it is due. A loan is considered impaired when, based on current information and events, it is probable that Howard Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. The impairment of a loan may be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided by the collateral. Generally, Howard Bank's impairment on such loans is measured by reference to the fair value of the collateral. Interest income on impaired loans is recognized on the cash basis.

Our loan policies state that after all collection efforts have been exhausted, and the loan is deemed to be a loss, then the remaining loan balance will be charged to the established allowance for credit losses. All loans are evaluated for loss potential once it has been determined by the Watch Committee that the likelihood of repayment is in doubt. When a loan is past due for at least 90 days or a deterioration in debt service coverage ratio, guarantor liquidity, or loan-to-value ratio has occurred that would cause concern regarding the likelihood of the full repayment of principal and interest, and the loan is deemed not to be well secured, the loan should be moved to non-accrual status and a specific reserve is established if the net realizable value is less than the principal value of the loan balance(s). Once the actual loss value has been determined a charge-off against the allowance for credit losses for the amount of the loss is taken. Each loss is evaluated on its specific facts regarding the appropriate timing to recognize the loss.

The adjustments to historical loss experience are based on our evaluation of several qualitative factors, including:

- changes in lending policies, procedures, practices or personnel;
- changes in the level and composition of construction portfolio and related risks;
- changes and migration of classified assets;

- changes in exposure to subordinate collateral lien positions;
- levels and composition of existing guarantees on loans by SBA or other agencies;
- changes in national, state and local economic trends and business conditions;
- changes and trends in levels of loan payment delinquencies; and
- any other factors that managements considers relevant to the quality or performance of the loan portfolio.

We evaluate the allowance for credit losses based upon the combined total of the specific and general components. Generally when the loan portfolio increases, absent other factors, the allowance for credit loss methodology results in a higher dollar amount of estimated probable losses than would be the case without the increase. Generally when the loan portfolio decreases, absent other factors, the allowance for credit loss methodology results in a lower dollar amount of estimated probable losses than would be the case without the decrease.

Commercial and commercial real estate loans generally have greater credit risks compared to the one- to four-family residential mortgage loans we originate, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties typically depends on the successful operation of the related business and thus may be subject to a greater extent to adverse conditions in the real estate market and in the general economy. Actual credit losses may be significantly more than the allowance for credit losses we have established, which could have a material negative effect on our financial results.

Generally, we underwrite commercial loans based on cash flow and business history and receive personal guarantees from the borrowers where appropriate. We generally underwrite commercial real estate loans and residential real estate loans at a loan-to-value ratio of 85% or less at origination. Accordingly, in the event that a loan becomes past due and, randomly with respect to performing loans, we will conduct visual inspections of collateral properties and/or review publicly available information, such as online databases, to ascertain property values. We will also obtain formal appraisals on a regular basis even if we are not considering liquidation of the property to repay a loan. It is our practice to obtain updated appraisals if there is a material change in market conditions or if we become aware of new or additional facts that indicate a potential material reduction in the value of any individual property collateral.

For impaired loans, we utilize the appraised value in determining the appropriate specific allowance for credit losses attributable to a loan. In addition, changes in the appraised value of multiple properties securing our loans may result in an increase or decrease in our general allowance for credit losses as an adjustment to our historical loss experience due to qualitative and environmental factors, as described above.

At March 31, 2015 and December 31, 2014, impaired loans amounted to $7.1 million and $7.2 million, respectively. The amount of impaired loans requiring specific reserves totaled $1.1 million at both March 31, 2015 and December 31, 2014. The amount of impaired loans with no specific valuation allowance totaled $6.0 million and $6.1 million, respectively, at such dates.

Nonperforming loans are evaluated and valued at the time the loan is identified as impaired on a case by case basis, at the lower of cost or market value. Market value is measured based on the value of the collateral securing the loan. The value of real estate collateral is determined based on an appraisal by qualified licensed appraisers hired by us. Appraised values may be discounted based on management's historical experience, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. The difference between the appraised value and the principal balance of the loan will determine the specific allowance valuation required for the loan, if any. Nonperforming loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly.

We evaluate the loan portfolio on at least a quarterly basis, more frequently if conditions warrant, and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations. In addition, as an integral part of their examination process, the Commissioner and the FDIC will periodically review the allowance for credit losses. The Commissioner and the FDIC may require us to recognize additions to the allowance based on their analysis of information available to them at the time of their examination.

The following table sets forth activity in our allowance for credit losses for the periods ended:

(in thousands)	March 31, 2014	December 31, 2014
Balance at beginning of year	$ 3,602	$ 2,506
Charge-offs:		
Real estate		
Commercial non-owner occupied loans	-	(160)
Commercial loans and leases	(13)	(2,054)
Consumer loans	(4)	(5)
	(17)	(2,219)
Recoveries:		
Real estate		
Residential first lien loans	3	1
Commercial non-owner occupied loans	-	4
Commercial loans and leases	1	55
Consumer loans	-	-
	4	60
Net charge-offs	(13)	(2,159)
Provision for credit losses	250	3,255
Balance at end of year	$ 3,839	$ 3,602
Net charge-offs to average loans and leases	0.002 %	0.479 %

Allocation of Allowance for Credit Losses

The following tables set forth the allowance for credit losses allocated by loan category and the percent of loans in each category to total loans at the dates indicated. The allowance for credit losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	March 31, 2015		December 31, 2014	
(dollars in thousands)	Amount	**Percent** [1]	Amount	Percent [1]
Real estate				
Construction and land loans	$ 164	10.3 %	$ 174	11.6 %
Residential first lien loans	278	16.7	272	16.0
Residential junior lien loans	55	3.6	55	3.5
Commercial owner occupied loans	175	18.9	160	20.4
Commercial non-owner occupied loans	625	24.3	562	22.4
Commercial loans and leases	2,527	25.4	2,366	25.2
Consumer loans	15	0.8	13	0.9
Total	$ 3,839	100.0 %	$ 3,602	100.0 %

(1) Represents the percent of loans in each category to total loans

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations. Our primary sources of funds consist of deposit inflows, loan repayments, advances from the FHLB, principal repayments and the sale of securities available for sale. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Our Asset Liability Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of March 31, 2015 and December 31, 2014. We regularly monitor and adjust our investments in liquid assets based upon our assessment of:

1) Expected loan demand;
2) Expected deposit flows and borrowing maturities;

3) Yields available on interest-earning deposits and securities; and
4) The objectives of our asset/liability management program.

Excess liquid assets are invested generally in interest-earning deposits and short-term securities.

Our most liquid assets are cash and cash equivalents. The level of these assets is dependent on our operating, financing, lending and investing activities during any given period. At March 31, 2015 and December 31, 2014, cash and cash equivalents totaled $28.5 million and $24.5 million, respectively.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our statements of cash flows included in our financial statements.

At March 31, 2015 and December 31, 2014, we had $112.8 million and $115.3 million, respectively, in loan commitments outstanding, including commitments issued to originate loans of $54.1 million and $64.4 million at March 31, 2015 and December 31, 2014, respectively, and $58.6 million and $50.9 million in unused lines of credit to borrowers at March 31, 2015 and December 31, 2014, respectively. In addition to commitments to originate loans and unused lines of credit we had $9.9 million and $12.4 million in letters of credit at March 31, 2015 and December 31, 2014, respectively. Certificates of deposit due within one year of March 31, 2015 totaled $142.1 million, or 24.5% of total deposits. Should these deposits not remain with us, we may be required to seek other sources of funds, including loan and securities sales, and FHLB advances. Depending on market conditions, we may be required to pay higher rates on our deposits or other borrowings than we currently pay on the certificates of deposit. We believe, however, based on historical experience and current market interest rates that we will retain upon maturity a large portion of our certificates of deposit with maturities of one year or less.

Our primary investing activity is originating loans. During the three months ended March 31, 2015 cash was utilized to increase our portfolio of loans by $17.5 million and increase our loans held for sale portfolio by $6.3 million. For the three month period ended March 31, 2014, these amounts were $13.8 million and $12.6 million, respectively. During the first quarter of 2015 we utilized cash to purchase additional securities totaling $8.5 million while receiving $19.0 million as a result of securities maturing. For the same period in 2014 we did not purchase any additional securities and we received $8.0 in security maturities.

Financing activities consist primarily of activity in deposit accounts and FHLB advances. We experienced a net increase in deposits of $26.6 million during the three months ended March 31, 2015. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the FHLB, which provide an additional source of funds. FHLB advances were $45 million at March 31, 2015 compared to $43 million at December 31, 2014. At March 31, 2015, we had the ability to borrow up to a total of $80.6 million based upon our credit availability at the FHLB, subject to collateral requirements.

The Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At March 31, 2015 and December 31, 2014, the Bank exceeded all regulatory capital requirements. The Bank is considered “well capitalized” under regulatory guidelines.

Commitments, Contingent Liabilities, and Off-Balance Sheet Arrangements

We are party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our customers. These financial instruments are limited to commitments to originate loans and involve, to varying degrees, elements of credit, interest rate, and liquidity risk. These do not represent unusual risks, and management does not anticipate any losses which would have a material effect on us.

Outstanding loan commitments and lines of credit at March 31, 2015 and December 31, 2014 are as follows:

(in thousands)	March 31, 2015	December 31, 2014
Unfunded loan commitments	$ 54,138	$ 64,375
Unused lines of credit	58,619	50,889
Letters of credit	9,915	12,397

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. We generally require collateral to support financial instruments with credit risk on the same basis as we do for balance sheet instruments. Management generally bases the collateral required on the credit evaluation of the counterparty. Commitments generally have interest rates at current market rates, expiration dates or other termination clauses and may require payment of a fee. Available credit lines represent the unused portion of lines of credit previously extended and available to the customer so long as there is no violation of any contractual condition. These lines generally have variable interest rates. Since we expect many of the commitments to expire without being drawn upon, and since it is unlikely that all customers will draw upon their lines of credit in full at any one time, the total commitment amount or line of credit amount does not necessarily represent future cash requirements. We evaluate each customer’s credit-worthiness on a case-by-case basis. Because we conservatively underwrite these facilities at inception, we have not had to withdraw any commitments. We are not aware of any loss that we would incur by funding our commitments or lines of credit.

The credit risk involved in these financial instruments is essentially the same as that involved in extending loan facilities to customers. No amount has been recognized in the statement of financial condition at March 31, 2015 or December 31, 2014 as a liability for credit loss related to these commitments.

Impact of Inflation and Changing Prices

Our financial statements and related notes have been prepared in accordance with GAAP. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration of changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

Item 4. Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q Bancorp’s Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of Bancorp’s disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon that evaluation, Bancorp’s Chief Executive Officer and Chief Financial Officer concluded that Bancorp’s disclosure controls and procedures are effective as of March 31, 2015. Disclosure controls and procedures are controls and other procedures

that are designed to ensure that information required to be disclosed by Bancorp in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

In addition, there were no changes in Bancorp's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect Bancorp's internal control over financial reporting.

PART II - Other Information

Item 1. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our normal course of business. As of the date of this report, we are not aware of any material pending litigation matters.

Item 1A. Risk Factors

There have been no material changes in the risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on March 27, 2015.

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

None

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

2.1 Agreement and Plan of Merger, dated as of March 2, 2015, by and between Howard Bancorp, Inc. and Patapsco Bancorp, Inc. - incorporated by reference from Exhibit 2.1 of Bancorp's Form 8-K filed on March 3, 2015

10.1 Form of Investment Agreement, dated as of March 2, 2015, between Howard Bancorp, Inc. and certain investors - incorporated by reference from Exhibit 10.1 of Bancorp's Form 8-K filed on March 3, 2015

31(a) Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - filed herewith

31(b) Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - filed herewith

32 Certifications pursuant to 18 U.S.C. Section 1350, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – filed herewith

101 Extensible Business Reporting Language ("XBRL") – filed herewith

101.INS XBRL Instance File
101.SCH XBRL Schema File
101.CAL XBRL Calculation File
101.DEF XBRL Definition File

101.LAB XBRL Label File
101.PRE XBRL Presentation File

Signatures

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

	HOWARD BANCORP, INC. (Registrant)
May 12, 2015 Date	/s/ Mary Ann Scully MARY ANN SCULLY PRESIDENT AND CEO
May 12, 2015 Date	/s/ George C. Coffman GEORGE C. COFFMAN EVP AND CFO