

Howard Bancorp Inc
Form 10-Q
August 14, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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)

Edgar Filing: Howard Bancorp Inc - Form 10-Q

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during to preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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

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

The number of outstanding shares of common stock outstanding as of July 31, 2012.

Common Stock, \$0.01 par value – 4,036,628 shares

HOWARD BANCORP, INC.

TABLE OF CONTENTS

	Page
PART I Financial Information	4
Item 1. Financial Statements	4
Consolidated Balance Sheets (Unaudited)	4
Consolidated Statements of Operations (Unaudited)	5
Consolidated Statements of Comprehensive Income (Unaudited)	6
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)	7
Consolidated Statements of Cash Flows (Unaudited)	8
Notes to Financial Statements (Unaudited)	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative and Qualitative Disclosure about Market Risk	39
Item 4. Controls and Procedures	39
PART II Other Information	40
Item 1. Legal Proceeding	40
Item 1A. Risk Factors	40
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	40
Item 3. Defaults upon Senior Securities	40
Item 4. Mine Safety Disclosures	40
Item 5. Other Information	40
Item 6. Exhibits	41
Signature	42

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 identify 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 increasing originations of residential mortgage loans, our portfolio of mortgage loans and our selling of loans into the secondary market;
- the expected impact of our recently-completed initial public offering and concurrent private placement;
- statements regarding our intentions to not sell securities in our investment portfolio and the status of unrealized losses in such portfolios;
- our statement regarding anticipated changes in expenses;
- statements with respect to our allowance for credit losses, and the adequacy thereof;
- statements with respect to anticipated losses on, resolution of and additional reserves with respect to nonperforming loans;
- future cash requirements relating to commitments to extend credit, and that we do not anticipate any material losses in connection therewith;
- our statement with respect to expected retention of maturing certificates of deposits; and
- our statement with respect to adequate liquidity and future liquidity intentions.

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 prospectus.

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;

Edgar Filing: Howard Bancorp Inc - Form 10-Q

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;

- 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 final prospectus dated May 21, 2012 as filed with the SEC on May 23, 2012 and in other reports we may file.

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

PART I**Item 1. Financial Statements**

Howard Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

(in thousands)	Unaudited	
	June 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	\$ 20,648	\$ 17,926
Federal funds sold	462	279
Total cash and cash equivalents	21,110	18,205
Securities available-for-sale	30,001	13,376
Nonmarketable equity securities	1,097	1,313
Loans held for sale	309	646
Loans and leases, net of unearned income	291,059	276,531
Allowance for credit losses	(3,076)	(3,433)
Net loans and leases	287,983	273,098
Bank premises and equipment, net	9,786	9,484
Other real estate owned	1,396	1,885
Deferred income taxes	1,578	1,679
Interest receivable and other assets	2,882	3,396
 Total assets	 \$ 356,142	 \$ 323,082
LIABILITIES		
Noninterest-bearing deposits	\$ 72,778	\$ 62,044
Interest-bearing deposits	209,788	200,598
Total deposits	282,566	262,642
Short-term borrowings	29,726	12,984
Long-term borrowings	6,000	10,000
Accrued expenses and other liabilities	747	826
Total liabilities	319,039	286,452
COMMITMENTS AND CONTINGENCIES		
 SHAREHOLDERS' EQUITY		
Preferred stock—par value \$0.01 (liquidation preference of \$1,000 per share) authorized 5,000,000; shares issued and outstanding 12,562 series AA at June 30, 2012 and December 31, 2011, net of issuance cost	12,562	12,562
Common stock - par value of \$0.01 authorized 5,000,000 shares; issued and outstanding 2,640,264 shares at June 30, 2012 and December 31, 2011	26	26
Capital surplus	28,413	28,413
Accumulated deficit	(3,911)	(4,391)

Edgar Filing: Howard Bancorp Inc - Form 10-Q

Accumulated other comprehensive income	13	20
Total shareholders' equity	37,103	36,630
Total liabilities and shareholders' equity	\$ 356,142	\$ 323,082

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

Consolidated Statements of Operations

(in thousands)	Unaudited			
	For the Six months ended June 30, 2012	For the Six months ended June 30, 2011	For the Six months ended June 30, 2012	For the Six months ended June 30, 2011
INTEREST INCOME				
Interest and fees on loans and leases	\$7,531	\$7,062	\$ 3,758	\$ 3,559
Interest and dividends on securities	46	52	23	28
Other interest income	31	11	18	5
Total interest income	7,608	7,125	3,799	3,592
INTEREST EXPENSE				
Deposits	939	860	475	410
Short-term borrowings	86	86	46	47
Long-term borrowings	38	53	15	27
Total interest expense	1,063	999	536	484
NET INTEREST INCOME				
Provision for credit losses	342	182	201	70
Net interest income after provision for credit losses	6,203	5,944	3,062	3,038
NONINTEREST INCOME				
Service charges on deposit accounts	148	154	70	76
Loss on the sale of other real estate owned	(131)	-	-	-
Other operating income	316	210	177	106
Total noninterest income	333	364	247	182
NONINTEREST EXPENSE				
Compensation and benefits	2,800	2,496	1,443	1,245
Occupancy and equipment	743	720	396	364
Marketing and business development	290	259	173	156
Professional fees	310	171	91	90
Data processing fees	216	164	110	90
FDIC Assessment	145	216	75	104
Provision for OREO	48	393	48	202
Other operating expense	631	725	301	391
Total noninterest expense	5,184	5,145	2,638	2,643
INCOME BEFORE INCOME TAXES				
Income tax expense	558	469	276	227
NET INCOME				
Preferred stock dividends	\$794	\$694	\$ 395	\$ 351
	314	163	157	82

Edgar Filing: Howard Bancorp Inc - Form 10-Q

Net income available to common shareholders	\$480	\$531	\$ 238	\$ 269
NET INCOME PER COMMON SHARE AVAILABLE				
Basic	\$0.18	\$0.20	\$ 0.09	\$ 0.10
Diluted	\$0.18	\$0.20	\$ 0.09	\$ 0.10

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

Consolidated Statements of Comprehensive Income

	Unaudited For the six months ended June 30,	
(in thousands)	2012	2011
Net Income	\$ 794	\$ 694
Other comprehensive income		
Investments available-for-sale:		
Unrealized holding (losses) gains	(12)	36
Related income tax benefit (expense)	5	(14)
Comprehensive income	787	716

	Unaudited For the three months ended June 30,	
(in thousands)	2012	2011
Net Income	\$ 395	\$ 351
Other comprehensive income		
Investments available-for-sale:		
Unrealized holding (losses) gains	1	33
Related income tax benefit (expense)	-	(13)
Comprehensive income	396	371

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

Consolidated Statements of Changes in Shareholders' Equity

(dollars in thousands, except per share data) (Unaudited)	Preferred stock	Number of shares	Common stock	Capital Surplus	Accumulated deficit	Accumulated other comprehensive gain/loss	Total
Balances at January 1, 2011	\$6,272	2,636,837	\$ 26	\$28,285	\$ (5,325)	\$ 30	\$29,288
Net income	-	-	-	-	694	-	694
Net unrealized gain/(loss) on securities	-	-	-	-	-	5	5
Dividends paid on preferred stock	-	-	-	-	(163)	-	(163)
Balances at June 30, 2011	\$6,272	2,636,837	\$ 26	\$28,285	\$ (4,794)	\$ 35	\$29,824
Balances at January 1, 2012	\$12,562	2,640,264	\$ 26	\$28,413	\$ (4,391)	\$ 20	\$36,630
Net income	-	-	-	-	794	-	794
Net unrealized gain/(loss) on securities	-	-	-	-	-	(7)	(7)
Dividends paid on preferred stock	-	-	-	-	(314)	-	(314)
Balances at June 30, 2012	\$12,562	2,640,264	\$ 26	\$28,413	\$ (3,911)	\$ 13	\$37,103

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

Consolidated Statements of Cash Flows

(in thousands)	Unaudited Six months ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$794	\$694
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	342	182
Deferred income taxes	105	394
Provision for other real estate owned	48	393
Depreciation	246	228
Net accretion of investment securities	22	124
Loans originated for sale	(6,256)	(1,145)
Proceeds from loans originated for sale	6,674	2,222
Gains on sales of loans	(80)	(14)
Loss on sales of other real estate owned, net	131	-
Increase (decrease) in interest receivable	4	(23)
Increase in interest payable	12	9
Decrease in other assets	728	66
Increase (decrease) in other liabilities	(92)	325
Net cash provided by operating activities	2,678	3,455
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available-for-sale	(34,020)	(18,384)
Proceeds from maturities of investment securities available-for-sale	17,361	16,195
Net increase in loans and leases outstanding	(15,354)	(2,983)
Proceeds from the sale of other real estate owned	436	-
Purchase of premises and equipment	(548)	(143)
Net cash used in investing activities	(32,125)	(5,315)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in noninterest-bearing deposits	10,734	3,479
Net increase in interest-bearing deposits	9,190	(722)
Net increase in short-term borrowings	16,742	4,855
Proceeds from issuance of long-term debt	-	2,000
Repayment of long-term debt	(4,000)	-
Cash dividends on preferred stock	(314)	(163)
Net cash provided by financing activities	32,352	9,449
Net increase in cash and cash equivalents	2,905	7,589
Cash and cash equivalents at beginning of period	18,205	11,754
Cash and cash equivalents at end of period	\$21,110	\$19,343

Edgar Filing: Howard Bancorp Inc - Form 10-Q

SUPPLEMENTAL INFORMATION

Cash payments for interest	\$1,050	\$991
Cash payments for income taxes	\$460	\$50
Transferred from loans to other real estate owned	\$112	\$1,805

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

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations

On December 15, 2005, Howard Bancorp, Inc. (“Bancorp”) acquired all of the stock and became the holding company of Howard Bank (the “Bank”) pursuant to the Plan of Reorganization approved by the shareholders of the Bank and by federal and state regulatory agencies. Each share of Bank common stock was converted into two shares of Bancorp common stock effected by the filing of Articles of Exchange on that date, and the shareholders of the Bank became the shareholders of Bancorp. The Bank has three subsidiaries, two 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. These consolidated financial statements included herein are unaudited, however they reflect all adjustments consisting only of normal recurring accruals that, in the opinion of management, are necessary to present fairly the Company’s financial condition, results of operations, and cash flows for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The Company believes that the disclosures are adequate to make the information presented not misleading. The balances as of December 31, 2011 have been derived from audited financial statements. There have been no significant changes to the Company’s accounting policies as disclosed in the 2011 Annual Report. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results of operations to be expected for the remainder of the year or any other period.

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

The Company is a diversified financial services company providing commercial banking, mortgage banking and consumer finance through banking branches, the internet and other distribution channels to businesses, business owners, professionals and other consumers located primarily in Howard County Maryland, Anne Arundel County Maryland and their contiguous counties.

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 accounting principles generally accepted in the United States of America ("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

In April 2011, the FASB issued ASU No. 2011-03, "Reconsideration of Effective Control for Repurchase Agreements." ASU No. 2011-03 affects all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The amendments in ASU No. 2011-03 remove from the assessment of effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. ASU No. 2011-03 also eliminates the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The guidance is effective for the Company's reporting period ended June 30, 2012. The guidance will be applied prospectively to transactions or modifications of existing transaction that occur on or after January 1, 2012.

Note 2: Investments Securities

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

(in thousands)	June 30, - Unaudited 2012				December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Federal agencies	\$29,547	\$ 2	\$ 8	\$ 29,541	\$12,774	\$ 1	\$ 2	\$ 12,773
Mortgage-backed	432	28	-	460	568	35	-	603
	\$29,979	\$ 30	\$ 8	\$ 30,001	\$13,342	\$ 36	\$ 2	\$ 13,376

There have not been any individual securities with an unrealized loss position for a period greater than one year as of either June 30, 2012 or December 31, 2011. Gross unrealized losses and fair value by investment category and length of time the individual securities have been in a continuous unrealized loss position at June 30, 2012 and December 31, 2011 are presented below:

June 30, 2012 -Unaudited

(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. Federal agencies	\$ 16,510	\$ 8	\$ -	\$ -	\$16,510	\$ 8

Edgar Filing: Howard Bancorp Inc - Form 10-Q

Mortgage-backed	-	-	-	-	-	-
	\$ 16,510	\$ 8	\$ -	\$ -	\$16,510	\$ 8

December 31, 2011

(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. Federal agencies	\$ 9,722	\$ 2	\$ -	\$ -	\$9,722	\$ 2
Mortgage-backed	-	-	-	-	-	-
	\$ 9,722	\$ 2	\$ -	\$ -	\$9,722	\$ 2

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

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

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

(in thousands)	June 30, - Unaudited 2012		December 31, 2011	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Amounts maturing:				
One year or less	\$ 18,575	\$ 18,573	\$6,000	\$ 6,000
After one through five years	11,165	11,173	7,021	7,036
After five through ten years	127	135	168	177
After ten years	112	120	153	163
	\$ 29,979	\$ 30,001	\$13,342	\$ 13,376

There were no sales of investment securities during the six months ended June 30, 2012 or in 2011. At June 30, 2012 and December 31, 2011, \$23.1 million and \$5.8 million fair value of securities was pledged as collateral for repurchase agreements, respectively. The outstanding balance of no single issuer, except for U. S. Government and U. S. Government agency securities, exceeded ten percent of shareholders' equity at either period.

Note 3: Loans and Leases

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

The loan portfolio segment balances at June 30, 2012 and December 31, 2011 are presented in the following table:

(in thousands)	Unaudited June 30, 2012		December 31, 2011	
		% of Total		% of Total
Real estate				
Construction and land	38,993	13.3	% \$39,268	14.2 %
Residential - first lien	22,701	7.8	22,087	8.0
Residential - junior lien	8,682	3.0	9,242	3.3
Total residential real estate	31,383	10.8	31,329	11.3
Commercial - owner occupied	55,228	19.0	46,588	16.8

Edgar Filing: Howard Bancorp Inc - Form 10-Q

Commercial - non-owner occupied	81,398	28.0	76,880	27.8	
Total commercial real estate	136,626	46.9	123,468	44.6	
Total real estate loans	207,002	71.1	194,065	70.2	
Commercial loans and leases	81,746	28.1	81,243	29.4	
Consumer	2,311	0.8	1,223	0.4	
Total loans and leases	\$291,059	100.0	% \$276,531	100.0	%

There were \$309 thousand in loans held for sale at June 30, 2012 and \$646 thousand at December 31, 2011.

Note 4: Credit Quality Assessment**Allowance for Credit Losses**

Summary information on the allowance for credit loss activity for the six months ended June 30, 2012 and June 30, 2011 is provided in the following table:

(in thousands)	Unaudited Six months ended June 30,	
	2012	2011
Balance at beginning of year	\$ 3,433	\$ 3,523
Provision for credit losses	342	182
Loan and lease charge-offs	(749)	(142)
Loan and lease recoveries	50	305
Balance at period end	\$ 3,076	\$ 3,868

The following table provides information on the activity in the allowance for credit losses by the respective loan portfolio segment for the three months and six months ended June 30, 2012 and June 30, 2011, and for the year ended December 31, 2011:

(in thousands)	June 30, 2012 - Unaudited							
	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Commercial Consumer loans	Total
Allowance for credit losses:								
Six Months ended June 30, 2012								
Beginning balance	\$ 174	\$ 111	\$ 64	\$ 611	\$ 197	\$ 2,233	\$ 43	\$ 3,433
Charge-offs	-	(23)	(44)	-	-	(667)	(15)	(749)
Recoveries	-	-	-	-	-	49	1	50
Provision for credit losses	(75)	(23)	22	(58)	335	129	12	342
Ending balance	\$ 99	\$ 65	\$ 42	\$ 553	\$ 532	\$ 1,744	\$ 41	\$ 3,076

Edgar Filing: Howard Bancorp Inc - Form 10-Q

Three Months ended
June 30, 2012

Beginning balance	\$ 162	\$ 79	\$ 42	\$ 598	\$ 396	\$ 2,205	\$ 38	\$ 3,521
Charge-offs	-	-	-	-	-	(664)	(6)	(670)
Recoveries	-	-	-	-	-	23	1	24
Provision for credit losses	(63)	(14)	(0)	(45)	136	180	8	201
Ending balance	\$ 99	\$ 65	\$ 42	\$ 553	\$ 532	\$ 1,744	\$ 41	\$ 3,076

Ending balance:

individually evaluated for impairment	-	33	-	-	205	509	-	747
collectively evaluated for impairment	99	32	42	553	327	1,235	41	2,329

Loans:

Ending balance	38,993	22,701	8,682	55,228	81,398	81,746	2,311	291,059
Ending balance: individually evaluated for impairment	-	472	-	1,970	3,753	2,419	-	8,614
collectively evaluated for impairment	38,993	22,229	8,682	53,258	77,645	79,327	2,311	282,445

Edgar Filing: Howard Bancorp Inc - Form 10-Q

June 30, 2011 - Unaudited

(in thousands)	Commercial							Total
	Constructi and land	Residential first lien	Residential junior lien	owner occupied	non-owner occupied	loans and leases	Consumer loans	
Allowance for credit losses:								
Six Months ended June 30, 2011								
Beginning balance	\$ 143	\$ 16	\$ 20	\$ 892	\$ 124	\$ 2,294	\$ 34	\$ 3,523
Charge-offs	-	-	-	-	-	(137)	(5)	(142)
Recoveries	-	-	-	-	-	304	1	305
Provision for credit losses	17	1	-	254	(1)	(95)	6	182
Ending balance	\$ 160	\$ 17	\$ 20	\$ 1,146	\$ 123	\$ 2,366	\$ 36	\$ 3,868
Three Months ended June 30, 2011								
Beginning balance	\$ 152	\$ 17	\$ 20	\$ 1,118	\$ 124	\$ 2,342	\$ 34	\$ 3,806
Charge-offs	-	-	-	-	-	(7)	(5)	(12)
Recoveries	-	-	-	-	-	3	1	4
Provision for credit losses	8	0	-	29	(1)	28	6	70
Ending balance	\$ 160	\$ 17	\$ 20	\$ 1,146	\$ 123	\$ 2,366	\$ 36	\$ 3,868
Ending balance:								
individually evaluated for impairment	-	-	-	1,050	-	112	-	1,162
collectively evaluated for impairment	160	17	20	96	123	2,254	36	2,706
Loans:								
Ending balance	34,260	23,691	10,009	47,405	57,728	83,367	1,187	257,648
Ending balance:								
individually evaluated for impairment	-	-	-	2,136	(0)	-	1,363	3,499
collectively evaluated for impairment	34,260	23,691	10,009	45,269	57,729	83,367	(176)	254,149

December 31, 2011

(in thousands)	Commercial							Total
	Constructi and land	Residential first lien	Residential junior lien	owner occupied	non-owner occupied	loans and leases	Consumer loans	
Allowance for credit losses:								

Edgar Filing: Howard Bancorp Inc - Form 10-Q

Beginning balance	\$ 143	\$ 16	\$ 20	\$ 892	\$ 124	\$ 2,294	\$ 34	\$ 3,523
Charge-offs	-	-	-	(1,033)	-	(562)	(21)	(1,616)
Recoveries	-	-	-	-	-	361	1	362
Provision for credit losses	31	95	44	752	73	140	29	1,164
Ending balance	\$ 174	\$ 111	\$ 64	\$ 611	\$ 197	\$ 2,233	\$ 43	\$ 3,433
Ending balance:								
individually evaluated for impairment	-	68	44	-	-	1,161	-	1,273
collectively evaluated for impairment	174	43	20	611	197	1,072	43	2,160
Loans:								
Ending balance	39,268	22,087	9,242	46,588	76,880	81,243	1,223	276,531
Ending balance:								
individually evaluated for impairment	-	611	44	1,988	2,783	3,498	9	8,933
collectively evaluated for impairment	39,268	21,476	9,198	44,600	74,097	77,745	1,214	267,598

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:

(in thousands)	June 30, 2012 - Unaudited							Total
	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Commercial Consumer loans	
Credit quality indicators:								
Not classified	\$ 38,993	\$ 22,468	\$ 8,682	\$ 53,258	\$ 80,408	\$ 79,582	\$ 2,311	\$ 285,701
Special mention	-	-	-	-	-	-	-	-
Substandard	-	233	-	1,970	990	2,164	-	5,357
Doubtful	-	-	-	-	-	-	-	-
Total	\$ 38,993	\$ 22,701	\$ 8,682	\$ 55,228	\$ 81,398	\$ 81,746	\$ 2,311	\$ 291,059

Edgar Filing: Howard Bancorp Inc - Form 10-Q

(in thousands) Credit quality indicators:	December 31, 2011							Total
	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Commercial Consumer loans	
Not classified	\$39,268	\$21,476	\$9,198	\$44,600	\$76,880	\$78,014	\$1,214	\$270,650
Special mention	-	-	-	-	-	-	-	-
Substandard	-	611	44	1,988	-	3,229	9	5,881
Doubtful	-	-	-	-	-	-	-	-
Total	\$39,268	\$22,087	\$9,242	\$46,588	\$76,880	\$81,243	\$1,223	\$276,531

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:

(in thousands)	June 30, 2012 - Unaudited							
	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Commercial Consumer loans	Total
Analysis of past due loans:								
Accruing loans current	\$38,993	\$22,468	\$8,640	\$53,258	\$80,408	\$79,684	\$2,311	\$285,761
Accruing loans past due:								
31-59 days past due	-	-	-	-	-	90	-	90
60-89 days past due	-	-	42	-	-	-	-	42
Greater than 90 days past due	-	-	-	-	-	-	-	-
Total past due	\$-	\$-	\$42	\$-	\$-	\$90	\$-	\$132
Non-accrual loans	-	233	-	1,970	990	1,972	-	5,166
Total loans	\$38,993	\$22,701	\$8,682	\$55,228	\$81,398	\$81,746	\$2,311	\$291,059

(in thousands)	December 31, 2011							
	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Commercial Consumer loans	Total
Analysis of past due loans:								
Accruing loans current	\$39,268	\$21,719	\$9,198	\$44,600	\$75,790	\$77,951	\$1,214	\$269,740
Accruing loans past due:								
31-59 days past due	-	-	-	-	-	-	-	-
60-89 days past due	-	-	-	-	1,000	63	-	1,063

Edgar Filing: Howard Bancorp Inc - Form 10-Q

Greater than 90 days past due	-	-	-	-	90	-	-	90
Total past due	\$-	\$-	\$-	\$-	\$ 1,090	\$ 63	\$-	\$1,153
Non-accrual loans	-	368	44	1,988	-	3,229	9	5,638
Total loans	\$39,268	\$ 22,087	\$ 9,242	\$ 46,588	\$ 76,880	\$ 81,243	\$ 1,223	\$276,531

Total loans either in non-accrual status or in excess of ninety days delinquent totaled \$5.2 million or 1.77% of total loans outstanding as of June 30, 2012 compared to \$5.6 million or 2.04% of total loans outstanding as of December 31, 2011.

Edgar Filing: Howard Bancorp Inc - Form 10-Q

The impaired loans for the six months ended June 30, 2012 and the year ended December 31, 2011 are as follows:

(in thousands)	June 30, 2012 - Unaudited							Total
	Commercial & land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Commercial Consumer loans	
Impaired loans:								
Recorded investment	-	472	-	1,970	3,753	2,419	-	8,614
With an allowance recorded	-	233	-	-	990	1,785	-	3,008
With no related allowance recorded	-	239	-	1,970	2,763	634	-	5,606
Related allowance	-	33	-	-	205	509	-	747
Un-paid principal Six months ended June 30, 2012	-	472	-	3,003	3,754	2,431	-	9,659
Average balance of impaired loans	-	473	-	3,034	3,768	2,735	-	10,011
Interest income recognized Three months ended June 30, 2012	-	6	-	-	102	17	-	125
Average balance of impaired loans	-	472	-	3,034	3,754	2,532	-	9,792
Interest income recognized	-	3	-	-	50	9	-	62
	December 31, 2011							
(in thousands)	Commercial & land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Commercial Consumer loans	Total
Impaired loans:								
Recorded investment	-	611	44	1,988	2,783	3,498	9	8,933
With an allowance recorded	-	368	44	-	-	1,884	-	2,296
With no related allowance recorded	-	243	-	1,988	2,783	1,614	9	6,637
Related allowance	-	68	44	-	-	1,161	-	1,273
Un-paid principal	-	611	44	3,021	2,783	3,533	9	10,001
Average balance of impaired loans	-	609	44	3,044	2,778	3,593	9	10,078

Edgar Filing: Howard Bancorp Inc - Form 10-Q

Interest income recognized - 23 2 52 114 157 - 348

Nonaccrual loans included in impaired loans totaled \$5.2 million and \$5.6 million at June 30, 2012 and December 31, 2011, respectively. Interest income that would have been recorded if nonaccrual loans had been current and in accordance with their original terms was \$65 thousand for the first six months of 2012.

Management routinely evaluates other real estate owned (“OREO”) based upon periodic appraisals. For the six months ended June 30, 2012 one loan was transferred from loans to OREO totaling \$112 thousand, net of reserves. In 2011, the Bank transferred two loans totaling \$1.8 million, net of reserves, to OREO. For the six months ended June 30, 2012 the Bank recorded an additional valuation allowance of \$48 thousand in non-interest expense for several properties whose current appraised value was less than the recorded OREO amount. For 2011 the Bank recorded a valuation allowance of \$393 thousand during the same six month period.

The trouble debt restructured loans (“TDRs”) for June 30, 2012 and December 31, 2011 are as follows:

(dollars in thousands)	June 30, 2012 - Unaudited				
	Number of Loans	Non-Accrual Status	Number of Loans	Accrual Status	Total TDR's
Residential real estate - first lien	-	\$ -	-	\$ -	\$ -
Commercial real estate non-owner occupied	-	-	-	-	-
Commercial loans	2	324	2	191	515
	2	\$ 324	2	\$ 191	\$ 515

(dollars in thousands)	December 31, 2011				
	Number of Loans	Non-Accrual Status	Number of Loans	Accrual Status	Total TDR's
Residential real estate - first lien	-	\$ -	1	\$ 240	\$ 240
Commercial real estate non-owner occupied	-	-	-	-	-
Commercial loans	5	751	-	-	751
	5	\$ 751	1	\$ 240	\$ 991

A summary of TDRs modifications outstanding and performance under modified terms are as follows:

(in thousands)	June 30, 2012 - Unaudited		
	Not Performing to Modified Terms	Performing Modified	Total TDR's
Residential real estate - first lien			
Interest only payments	\$ -	\$ -	\$ -
Rate modification	-	-	-
Forbearance	-	-	-
Extension or other modification	-	-	-
Total residential real estate	-	-	-
Commercial loans			
Interest only payments	\$ -	\$ -	\$ -
Rate modification	-	-	-
Forbearance	-	191	191
Extension or other modification	324	-	324
Total commercial	324	191	515
Total TDR's	\$ 324	\$ 191	\$ 515

(in thousands)	December 31, 2011		
	Not Performing to Modified Terms	Performing Modified	Total TDR's
Residential real estate - first lien			
Interest only payments	\$-	\$ -	\$ -
Rate modification	-	-	-
Forbearance	-	-	-
Extension or other modification	-	240	240
Total residential real estate	-	240	240
Commercial loans			
Interest only payments	\$-	\$ -	\$ -
Rate modification	-	-	-
Forbearance	353	-	353
Extension or other modification	398	-	398
Total commercial	751	-	751
Total TDR's	\$751	\$ 240	\$ 991

Note 5: Deposits

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

(dollars in thousands)	Unaudited		December 31,		
	June 30,	% of Total	2011	% of Total	
Noninterest-bearing demand	\$72,778	26	% \$62,044	24	%
Interest-bearing checking	17,767	6	17,687	7	
Money market accounts	62,948	22	61,267	23	
Savings	12,084	4	10,644	4	
Certificates of deposit \$100,000 and over	79,530	28	79,718	30	
Certificates of deposit under \$100,000	37,459	13	31,282	12	
Total deposits	\$282,566	100	% \$262,642	100	%

Note 6: Stock Options, Awards and Warrants

The Company initially raised \$4,775,000 of capital by selling to its founders investment units consisting of one share of common stock and a fully detachable warrant equal to .25 shares of common stock per unit. The warrants were issued in recognition of the financial and organizational risk undertaken by the purchasers in the organizational offering. The warrants are immediately exercisable and will expire ten (10) years from the date of issuance on August 8, 2014. As of June 30, 2012 there have not been any exercises of these warrants and the Company has outstanding warrants to purchase 119,376 shares at the price of \$10.00 per share.

The Company's stock incentive plans provide 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 options and 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. The Company previously maintained an Advisory Board, for which non-employee members were compensated via stock options for meeting attendance. These nonqualified stock options can be granted with terms up to ten years, vest immediately, and are fully exercisable at time of grant. Stock awards granted to directors are based on the fair value of the awards, which is generally the market price of the common stock on the

Edgar Filing: Howard Bancorp Inc - Form 10-Q

measurement date, and vest immediately. For the six months ended June 30, 2012 the Company's issued 2,063 shares of stock to directors as compensation for their service.

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

	June 30, 2012	
	Shares	Weighted Average Exercise Price
Balance at January 1, 2012	395,351	\$ 11.16
Granted	-	-
Exercised	-	-
Forfeited		
Balance at June 30, 2012	395,351	\$ 11.16
Exercisable at June 30, 2012	394,751	\$ 11.17
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 \$6.55 at June 30, 2012 the options outstanding had no aggregate intrinsic value. There have not been any exercises of options during the first half of 2012.

Note 7: Profit Sharing Plan

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 \$55 thousand for the six months ended June 30, 2012 and \$47 thousand for the same period in 2011. The Company's matching contributions vest immediately.

Note 8: Income per Common Share

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

(dollars in thousands, except per share data)	Six months ended June 30,		Three months ended June 30,	
	2012	2011	2012	2011
Net income	\$794	\$694	\$395	\$351
Preferred dividends	\$(314)	\$(163)	\$(157)	\$(82)
Net income available to common shareholders (numerator)	\$480	\$531	\$238	\$269
BASIC				
Average common shares outstanding (denominator)	2,640,264	2,636,837	2,640,264	2,636,837
Basic income per common share	\$0.18	\$0.20	\$0.09	\$0.10
DILUTED				
Average common shares outstanding	2,640,264	2,636,837	2,640,264	2,636,837
Diluted effect of stock options and warrants	-	-	-	-
Diluted average common shares outstanding (denominator)	2,640,264	2,636,837	2,640,264	2,636,837
Diluted income per common share	\$0.18	\$0.20	\$0.09	\$0.10
Stock options and warrants outstanding that are anti-dilutive and thus excluded from calculation of diluted number of shares presented above	514,127	487,910	514,127	487,910

Note 9: Risk-Based Capital

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) required that the federal regulatory agencies adopt regulations defining five capital tiers for banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company’s financial statements. Quantitative measures, established by the regulators to ensure capital adequacy, require that the Bank and Bancorp maintain minimum ratios (set forth below) of capital to risk-weighted assets. Under the guidelines, capital is compared to the relative risk related to the balance sheet. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Edgar Filing: Howard Bancorp Inc - Form 10-Q

Management believes that, as of June 30, 2012 and December 31, 2011 the Bank met all capital adequacy requirements to which it is subject.

(dollars in thousands)	Actual		For capital adequacy purposes		To be well capitalized under the FDICIA prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2012: (unaudited)						
Total capital (to risk-weighted assets)						
Howard Bank	\$38,810	13.23 %	\$ 23,464	8.00 %	\$ 29,330	10.00 %
Howard Bancorp	\$40,011	13.53 %	\$ 23,655	8.00 %	N/A	
Tier 1 capital (to risk-weighted assets)						
Howard Bank	\$35,734	12.18 %	\$ 11,732	4.00 %	\$ 17,598	6.00 %
Howard Bancorp	\$36,935	12.49 %	\$ 11,828	4.00 %	N/A	
Tier 1 capital (to average assets) (Leverage ratio)						
Howard Bank	\$35,734	10.27 %	\$ 13,912	4.00 %	\$ 17,390	5.00 %
Howard Bancorp	\$36,935	10.61 %	\$ 13,929	4.00 %	N/A	
As of December 31, 2011:						
Total capital (to risk-weighted assets)						
Howard Bank	\$38,172	13.75 %	\$ 22,214	8.00 %	\$ 27,768	10.00 %
Howard Bancorp	\$40,127	14.36 %	\$ 22,349	8.00 %	N/A	
Tier 1 capital (to risk-weighted assets)						
Howard Bank	\$34,739	12.51 %	\$ 11,107	4.00 %	\$ 16,661	6.00 %
Howard Bancorp	\$36,694	13.14 %	\$ 11,174	4.00 %	N/A	
Tier 1 capital (to average assets) (Leverage ratio)						
Howard Bank	\$34,739	10.92 %	\$ 12,725	4.00 %	\$ 15,907	5.00 %
Howard Bancorp	\$36,694	11.52 %	\$ 12,737	4.00 %	N/A	

The Bank is currently prohibited from paying dividends without the prior approval of the Maryland State Banking Commissioner.

Note 10: Preferred Stock

On September 22, 2011, we entered into a Securities Purchase Agreement with the Secretary of the U. S. Treasury, pursuant to which we 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, has been initially set at 5% per annum based upon the current level of "Qualified Small Business Lending" ("QSBL") by the Bank. 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, from 1% per annum to 7% per annum for the eleventh through the first half of the nineteenth dividend periods. 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 the Company 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 11: 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.

Edgar Filing: Howard Bancorp Inc - Form 10-Q

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the 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.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by FASB ASC Topic 820, the Company does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within Level 2 of the fair value hierarchy.

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.

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 as of June 30, 2012 and December 31, 2011.

June 30, 2012 (unaudited)		Quoted Price in	Significant	
	Carrying	Active Markets	Other	Significant
(in thousands)	Value	for Identical	Observable	Unobservable
	(Fair Value)	Assets	Inputs	Inputs
		(Level 1)	(Level 2)	(Level 3)
U.S. Federal agencies	\$ 29,541	\$ -	\$ 29,541	\$ -
Mortgage-backed securities	460	-	460	-

December 31, 2011		Quoted Price in	Significant	
	Carrying	Active Markets	Other	Significant
(in thousands)	Value	for Identical	Observable	Unobservable
	(Fair Value)	Assets	Inputs	Inputs
		(Level 1)	(Level 2)	(Level 3)
U.S. Federal agencies	\$ 12,773	\$ -	\$ 12,773	\$ -
Mortgage-backed securities	603	-	603	-

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 as of June 30, 2012 and December 31, 2011.

June 30, 2012 - (unaudited)		Quoted Price in	Significant	
	Carrying	Active Markets	Other	Significant
		for Identical	Observable	Unobservable

Edgar Filing: Howard Bancorp Inc - Form 10-Q

(in thousands)	Value (Fair Value)	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Other real estate owned	\$ 1,396	\$ -	\$ -	\$ 1,396
Impaired loans:				
Residential - first lien	472	-	-	472
Residential - junior lien	-	-	-	-
Commercial - owner occupied	1,970	-	-	1,970
Commercial - non-owner occupied	3,753	-	-	3,753
Commercial loans and leases	2,419	-	-	2,419
Consumer	-	-	-	-

Edgar Filing: Howard Bancorp Inc - Form 10-Q

December 31, 2011	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)
(in thousands)				
Other real estate owned	\$ 1,885	\$ -	\$ -	\$ 1,885
Impaired loans:				
Residential - first lien	611	-	-	611
Residential - junior lien	44	-	-	44
Commercial - owner occupied	1,988	-	-	1,988
Commercial - non-owner occupied	2,783	-	-	2,783
Commercial loans and leases	3,498	-	-	3,498
Consumer	9	-	-	9

The following table provides a reconciliation of all assets measured at fair value on a nonrecurring basis using significant unobservable inputs for the six months ended June 30, 2012 and the twelve months ended December 31, 2011.

(in thousands)	Foreclosed Properties	Impaired Loans
Balance at December 31, 2011	\$ 1,885	\$ 8,933
Total net gain (losses) for the year included in:		
Gain (loss) on sale of foreclosed properties	(131)	-
Other comprehensive gain (loss)	-	-
Purchase and sales, net	(422)	-
Net transfers in (out)	112	(319)
Valuation allowance	(48)	-
Balance at June 30, 2012 - (unaudited)	\$ 1,396	\$ 8,614

(in thousands)	Foreclosed Properties	Impaired Loans
Balance at December 31, 2010	\$ 3,024	\$ 9,433
Total net gain (losses) for the year included in:		
Gain on sale of foreclosed properties	459	-
Other comprehensive gain (loss)	-	-
Purchase and sales, net	(2,625)	-
Net transfers in (out)	1,804	218
Valuation allowance	(777)	(718)
Balance at December 31, 2011	\$ 1,885	\$ 8,933

The following table presents required information in accordance with ASC Topic 825 “Financial Instruments” at June 30, 2012 and December 31, 2011. 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:

Cash and cash equivalents: The fair value of cash and cash equivalents is estimated to approximate the carrying amounts.

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. See Note 2 for additional information.

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

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.

(in thousands)	June 30, 2012 - Unaudited				
	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					
Cash and cash equivalents	\$21,110	\$21,110	\$ -	\$ 21,110	\$ -
Nonmarketable equity securities	1,097	1,097	-	1,097	-
Loans	291,368	294,326	-	-	294,326
Financial Liabilities					
Deposits	282,566	283,174	-	283,174	-

Edgar Filing: Howard Bancorp Inc - Form 10-Q

Short-term borrowings	29,726	29,726	-	29,726	-
Long-term borrowings	6,000	6,026	-	6,026	-

December 31, 2011

(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					
Cash and cash equivalents	\$18,205	\$18,205	\$ -	\$ 18,205	\$ -
Nonmarketable equity securities	1,313	1,313	-	1,313	-
Loans	277,177	280,653	-	-	280,653
Financial Liabilities					
Deposits	262,642	262,412	-	262,412	-
Short-term borrowings	12,984	12,984	-	12,984	-
Long-term borrowings	10,000	10,052	-	10,052	-

Note 12: Subsequent Event

On July 20, 2012, Bancorp closed its previously announced common stock offering, pursuant to an effective registration statement, and concurrent private placement of its common stock. Bancorp raised \$10.2 million of additional capital and issued 1,396,364 shares of its common stock as of the closing date of the offerings. The following table represents the additional capital raised and the number of shares issued under each segment of the offerings:

	Gross Proceeds \$	Shares Issued #
Rights Offering	1,778,039	243,567
Public Offer	4,264,616	584,194
Private Placement	4,150,802	568,603
Total	10,193,457	1,396,364

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

This section is intended to help potential investors understand our financial performance through a discussion of the factors affecting our consolidated financial condition. This section should be read in conjunction with the Consolidated Financial Statements and notes to the consolidated financial statements.

Overview

Bancorp is the holding company for the Bank. The 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. The 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 Howard County, Maryland and Anne Arundel County, Maryland. Our secondary market area, primarily for commercial lending, includes the Maryland counties of Baltimore, Carroll, Frederick, Montgomery and Prince George's as well as Baltimore City. 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. We call it Hands-On Service.

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 law, regulations or government policies may materially affect our financial condition and results of operations.

Bancorp's total assets increased by over \$33 million or 10.2% when comparing June 30, 2012 assets of \$356.1 million to the \$323.1 million at December 31, 2011. Total loans outstanding of \$291.1 million at the end of June 2012, showed an increase of 5.3% compared to total loans of \$276.5 million on December 31, 2011. Demand deposits, which not only represent the lowest cost source of funding available to a bank, but also are most reflective of the core customer relationships targeted by the Bank, grew from \$62.0 million at December 31, 2011 to \$72.8 million at the end of the second quarter of 2012, representing growth in this highly coveted deposit category of \$10.7 million or 17.3%. Total deposits grew by \$19.9 million or 7.6% when comparing June 30, 2012 to December 31, 2011. Because of the significant increases in deposits, even after funding the 5.3% loan growth, the Bank was able to utilize the additional deposits to increase our balance sheet liquidity measures.

Through the end of the second quarter of 2012 net income was \$794 thousand, which represents an increase of 14.4% over net income for the six months ended June 30, 2011. Net interest income for the first half of 2012 was \$6.5 million versus \$6.1 million for the first six months of 2011, an increase of approximately \$419 thousand or 6.8%. Partially offsetting the increase in net interest income was a decrease in noninterest income for the first half of 2012 compared to the first half of 2011. Total noninterest income was \$364 thousand for the six months ended June 30, 2011, compared to a total of \$333 thousand for the same period in 2012. This decrease of \$31 thousand or 8.5% was impacted by a loss on the sale of one property classified as other real estate owned (“OREO”), which resulted in a loss on the sale of \$131 thousand in the first quarter of 2012. Total noninterest expenses were basically unchanged at \$5.2 million for first half of 2012 compared to \$5.1 million for the same period 2011, an increase of \$39 thousand or less than 1%.

We closed our initial public offering and a concurrent private placement, pursuant to which we issued a total of 1,396,364 shares of our common stock, for total gross proceeds of \$10.2 million on July 20, 2012. We expect the net proceeds of the offering to increase our capital levels, which will permit additional growth in our loan levels and asset size. This growth may be either organic growth, which could take a longer time to occur, or growth that could come more quickly via merger or acquisition of other financial institutions. As such growth is realized, our operating results will reflect the additional income generated from the higher levels of earning assets.

Critical Accounting Policies

Our accounting and financial reporting policies conform to the accounting principles generally accepted in the United States of America (“GAAP”) and general practice within the banking industry. Accordingly, the financial statements require management to exercise significant judgment or discretion or make significant assumptions 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. We consider the allowance for credit losses to be our most significant accounting policy, which is further described in the Notes to the financial statements.

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 June 30, 2012 and December 31, 2011 balance sheets are presented below.

Assets

Total assets increased \$33.0 million, or 10.2%, to \$356.1 million at June 30, 2012 compared to \$323.1 million at December 31, 2011. This asset growth was primarily due to a \$2.9 million increase in cash and cash equivalents, a \$16.6 million increase in investment securities and \$14.5 million growth in total loans. The asset growth was funded primarily from increases in customer deposits, which increased from \$262.6 million at December 31, 2011 to \$282.6 million at June 30, 2012, an increase of \$20.0 million or 7.6%. From a funding perspective, most important was the growth in noninterest-bearing deposits of \$10.7 million or 17.3% from \$62.0 million at December 31, 2011 to \$72.8 million at June 30, 2012. Additional funding for asset growth came from securities sold under an agreement to repurchase and other short term borrowings which increased \$16.7 million to \$29.7 million at June 30, 2012 from \$13.0 million at December 31, 2011.

Securities Available for Sale

We currently hold both U.S. agency securities and mortgage backed securities in our securities portfolio, all of which are considered as available for sale. Our securities portfolio is used 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 June 30, 2012 we held an investment in stock of the Federal Home Loan Bank of Atlanta ("FHLB") of \$1.1 million compared to \$1.3 million held at December 31, 2011. 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)	Unaudited		December 31, 2011	
	June 30, 2012	December 31, 2011	Amortized	Estimated
	Cost	Fair Value	Cost	Fair Value
U.S. Federal agencies	\$29,547	\$ 29,541	\$ 12,774	\$ 12,773
Mortgage-backed	432	460	568	603

Total	\$29,979	\$ 30,001	\$ 13,342	\$ 13,376
-------	----------	-----------	-----------	-----------

We had securities available for sale of \$30.0 million and \$13.4 million at June 30, 2012 and December 31, 2011, respectively, which were recorded at fair value. This represents an increase of \$16.6 million, or 124.3%, from the prior year end. We did not record any gains or losses on the sales or calls of securities or mortgage backed securities in either period presented. At June 30, 2012 and December 31, 2011, \$23.1 million and \$5.8 million fair value of securities, respectively, was pledged as collateral for repurchase agreements.

With respect to our total portfolio of securities available for sale, we held certain securities that had unrealized losses of \$8 thousand and \$2 thousand at June 30, 2012 and December 31, 2011, respectively. The minimal 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 impairment losses.

Loan and Lease Portfolio

Total loans increased by \$14.5 million or 5.3%, to \$291.1 million at June 30, 2012 from \$276.5 million at December 31, 2011. At June 30, 2012, total loans were 81.7% of total assets, down slightly compared to 85.6% of total assets at December 31, 2011. Loan growth throughout the banking industry has been impacted by decreased loan demand resulting from uncertain economic conditions.

The following table sets forth the composition of our loan and lease portfolio at the dates indicated. We had loans held for sale of \$309 thousand at June 30, 2012, and \$646 thousand at December 31, 2011.

(in thousands)	June 30, 2012	% of Total	December 31, 2011	% of Total	
Real estate					
Construction and land	38,993	13.3	% \$39,268	14.2	%
Residential - first lien	22,701	7.8	22,087	8.0	
Residential - junior lien	8,682	3.0	9,242	3.3	
Total residential real estate	31,383	10.8	31,329	11.3	
Commercial - owner occupied	55,228	19.0	46,588	16.8	
Commercial - non-owner occupied	81,398	28.0	76,880	27.8	
Total commercial real estate	136,626	46.9	123,468	44.6	
Total real estate loans	207,002	71.1	194,065	70.2	
Commercial loans and leases	81,746	28.1	81,243	29.4	
Consumer	2,311	0.8	1,223	0.4	
Total loans and leases	\$291,059	100.0	% \$276,531	100.0	%

Deposits

Our deposits increased from \$262.6 million at December 31, 2011 to \$282.6 million at June 30, 2012, an increase of \$20.0 million or 7.6%. The increase resulted primarily from a \$10.7 million or 17.3% increase in noninterest-bearing checking accounts, which increased from \$62.0 million at December 31, 2011 to \$72.8 million at June 30, 2012. In addition, interest bearing certificate of deposit and money market accounts increased \$7.7 million or 4.5% from December 31, 2011 to June 30, 2012. The growth in these deposits was more than sufficient to fund the growth in loans and assets during the six month period. Other categories of deposits maintained their previous levels.

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

(dollars in thousands)	June 30,		December 31,		
	2012	% of Total	2011	% of Total	
Noninterest-bearing demand	\$72,778	26	% \$62,044	24	%
Interest-bearing checking	17,767	6	17,687	7	
Money market accounts	62,948	22	61,267	23	
Savings	12,084	4	10,644	4	
Certificates of deposit \$100,000 and over	79,530	28	79,718	30	
Certificates of deposit under \$100,000	37,459	13	31,282	12	
Total deposits	\$282,566	100	% \$262,642	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 \$35.7 million at June 30, 2012 and \$23.0 million at December 31, 2011, respectively. Short-term borrowings totaled \$29.7 million at June 30, 2012 and \$13.0 million at December 31, 2011. We had three long-term FHLB advances outstanding totaling \$6 million at June 30, 2012 compared to five FHLB advances outstanding totaling \$10 million at December 31, 2011.

Shareholders' Equity

Total shareholders' equity increased by \$473 thousand or 1.3% from \$36.6 million at December 31, 2011 to \$37.1 million at June 30, 2012. The increase in shareholder's equity is the result of the retention of the earnings for the first half of 2012, net of preferred dividends paid.

Total shareholders' equity at June 30, 2012 represents a capital to asset ratio of 10.42%, while the total shareholders' equity at December 31, 2011 represents a capital to asset ratio of 11.34%. Even though capital levels increased, the overall growth in asset levels resulted in a decline in the capital to asset ratio.

Average Balance and Yields

Edgar Filing: Howard Bancorp Inc - Form 10-Q

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.

Edgar Filing: Howard Bancorp Inc - Form 10-Q

(dollars in thousands)	For the six months ended June 30,					
	2012			2011		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
Earning assets						
Loans and leases : ¹						
Commercial loans and leases	\$77,902	\$ 2,142	5.53 %	\$84,861	\$ 2,423	5.76 %
Commercial real estate	128,791	3,551	5.54	103,820	3,001	5.83
Construction and land	38,374	1,034	5.42	32,313	786	4.91
Residential real estate	31,058	766	4.96	32,911	821	5.03
Consumer	1,711	39	4.60	1,301	32	4.91
Total loans and leases	277,836	7,531	5.45	255,206	7,063	5.58
Federal funds sold	28,778	31	0.22	11,484	11	0.19
Securities : ²						
U.S Gov agencies	18,113	21	0.24	13,156	23	0.35
Mortgage-backed	539	13	4.71	909	22	4.88
Other investments	1,261	12	1.90	1,509	6	0.80
Total securities	19,913	46	0.46	15,574	51	0.66
Total earning assets	326,528	7,608	4.69	282,264	7,125	5.09
Cash and due from banks	3,610			2,822		
Bank premises and equipment, net	9,625			9,205		
Other assets	6,547			9,267		
Less : allowance for credit losses	(3,491)			(3,776)		
Total assets	\$342,819			\$299,782		
Interest-bearing liabilities						
Deposits :						
Interest-bearing demand accounts	\$17,572	34	0.39	\$16,457	35	0.43
Money market	63,767	203	0.64	64,020	223	0.70
Savings	11,279	33	0.60	12,855	42	0.66
Time deposits \$100,000 and over	62,450	373	1.20	55,687	344	1.25
Other time deposits	52,258	295	1.14	39,553	216	1.10
Total interest-bearing deposits	207,326	939	0.91	188,572	860	0.92
Short-term borrowings	21,768	86	0.79	24,513	86	0.71
Long-term borrowings	7,879	38	0.98	7,017	53	1.52
Total interest-bearing funds	236,973	1,063	0.90	220,102	999	0.92
Noninterest-bearing deposits	67,928			49,202		
Other liabilities and accrued expenses	909			766		
Total liabilities	305,810			270,070		
Shareholders' equity	37,009			29,712		
Total liabilities & shareholders' equity	\$342,819			\$299,782		
Net interest rate spread ³		\$ 6,545	3.78 %		\$ 6,126	4.17 %
Effect of noninterest-bearing funds			0.25			0.20
Net interest margin on earning assets ⁴			4.03 %			4.38 %

(1) Loan fee income is included in the interest income calculation, and nonaccrual 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.*

Edgar Filing: Howard Bancorp Inc - Form 10-Q

(dollars in thousands)	For the three months ended June 30,					
	2012			2011		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
Earning assets						
Loans and leases : ¹						
Commercial loans and leases	\$78,007	\$ 1,057	5.45 %	\$86,522	\$ 1,193	5.53 %
Commercial real estate	130,607	1,789	5.51	103,342	1,532	5.95
Construction and land	37,750	515	5.48	32,343	400	4.96
Residential real estate	30,815	375	4.89	33,279	418	5.04
Consumer	2,151	23	4.34	1,283	16	5.13
Total loans and leases	279,330	3,758	5.41	256,769	3,559	5.56
Federal funds sold	28,989	18	0.24			