Howard Bancorp Inc
Form 10-Q
August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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.)

3301 Boston Street, Baltimore, MD	**21224**
(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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨ Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The number of outstanding shares of common stock outstanding as of July 31, 2018.

Common Stock, $0.01 par value – 19,024,640 shares

HOWARD BANCORP, INC.

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As used in this report, "the Company," "we," "us," and "ours" refer to Howard Bancorp, Inc. and its subsidiaries. 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 our planned new branch in Columbia, Maryland, opening of additional branches, expansion into new markets, potential acquisitions, increasing capital, market share, loan, investments and asset growth, revenue and profit growth and expanding client relationships;
- statements with respect to expected benefits and other impacts of our acquisition of First Mariner Bank, including expected increases in non-interest expenses resulting from the merger;
- impact of recent branch closures and the opening of our anticipated new branch on expenses;
- statements regarding the asset quality of our investment portfolios and anticipated recovery and collection of unrealized losses on securities available for sale;
- expected continued focus on commercial customers as well as continuing to originate residential real estate loans and both maintaining our residential mortgage loan portfolio and continuing to sell loans into the secondary market;
- the expected impact of the recently enacted Tax Cuts and Jobs Act;
- expected increases in occupancy and equipment expenses;
- statements with respect to our allowance for credit losses, and the adequacy thereof;
- our expectations regarding the pending sale of OREO properties, including the timing and impact thereof;
- statement with respect to having adequate liquidity levels and future sources of liquidity;
- 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:

- potential problems in connection with the recent acquisition of First Mariner Bank, as further discussed in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on March 15, 2018;
- deterioration in general economic conditions, either nationally or in our market area, or a return to recessionary conditions;
- 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 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.

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, except share data)	Unaudited June 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$107,598	$ 28,856
Federal funds sold	363	116
Total cash and cash equivalents	107,961	28,972
Securities available for sale, at fair value	127,530	74,256
Securities held to maturity, at amortized cost	9,250	9,250
Nonmarketable equity securities	14,485	6,492
Loans held for sale, at fair value	55,956	42,153
Loans and leases, net of unearned income	1,609,978	936,608
Allowance for credit losses	(6,619)	(6,159)
Net loans and leases	1,603,359	930,449
Bank premises and equipment, net	51,668	19,189
Goodwill	71,278	603
Core deposit intangible	13,116	1,743
Bank owned life insurance	73,245	28,631
Other real estate owned	4,115	1,549
Deferred tax assets, net	31,023	813
Interest receivable and other assets	19,263	5,850
Total assets	$2,182,249	$ 1,149,950
LIABILITIES		
Noninterest-bearing deposits	$469,832	$ 218,139
Interest-bearing deposits	1,095,812	645,769
Total deposits	1,565,644	863,908
Short-term borrowings	189,112	130,385
Long-term borrowings	127,575	18,535
Accrued expenses and other liabilities	10,448	4,869
Total liabilities	1,892,779	1,017,697
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock - par value of $0.01 authorized 20,000,000 shares; issued and outstanding 19,008,960 shares at June 30, 2018 and 9,820,592 at December 31, 2017	190	98
Capital surplus	275,581	110,387

Retained earnings	14,152	22,105
Accumulated other comprehensive loss	(453)	(337)
Total stockholders' equity	289,470	132,253
Total liabilities and stockholders' equity	$2,182,249	$1,149,950

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

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Consolidated Statements of Operations

	Unaudited For the six months ended June 30,		For the three months ended June 30,	
(in thousands, except share data)	2018	2017	2018	2017
INTEREST INCOME				
Interest and fees on loans and leases	$33,366	$19,742	$ 19,788	$ 10,281
Interest and dividends on securities	1,684	626	1,116	340
Other interest income	475	208	261	87
Total interest income	35,525	20,576	21,165	10,708
INTEREST EXPENSE				
Deposits	3,079	1,825	1,729	941
Short-term borrowings	1,407	336	717	195
Long-term borrowings	1,011	167	839	75
Total interest expense	5,497	2,328	3,285	1,211
NET INTEREST INCOME	30,028	18,248	17,880	9,497
Provision for credit losses	2,545	540	1,425	340
Net interest income after provision for credit losses	27,483	17,708	16,455	9,157
NONINTEREST INCOME				
Service charges on deposit accounts	916	454	590	246
Realized and unrealized gains on mortgage banking activity	3,439	5,968	1,623	3,167
Loss on the sale of securities	(139)	-	-	-
Gain (loss) on the sale of portfolio loans	-	(179)	-	5
Income from bank owned life insurance	705	345	420	200
Loan fee income	3,925	2,673	2,059	1,412
Other operating income	1,475	490	925	262
Total noninterest income	10,321	9,751	5,617	5,292
NONINTEREST EXPENSE				
Compensation and benefits	17,480	11,620	9,911	6,063
Occupancy and equipment	4,167	2,096	2,617	1,034
Amortization of core deposit intangible	1,222	271	863	136
Marketing and business development	2,109	2,126	1,104	1,185
Professional fees	1,023	840	717	417
Data processing fees	1,648	956	1,047	480
Merger and restructuring expense	15,673	-	5,698	-
FDIC assessment	414	293	261	76
Other real estate owned	19	117	(3)	93
Loan production expense	2,252	1,880	1,309	950
Other operating expense	2,285	1,516	1,616	781
Total noninterest expense	48,292	21,715	25,140	11,215
(LOSS) INCOME BEFORE INCOME TAXES	(10,488)	5,744	(3,068)	3,234
Income tax (benefit) expense	(2,535)	2,140	(791)	1,196
NET (LOSS) INCOME	$(7,953)	$3,604	$ (2,277)	$ 2,038
NET (LOSS) INCOME PER COMMON SHARE				

Basic	$(0.50)	$0.39	$ (0.12)	$ 0.21
Diluted	$(0.50)	$0.39	$ (0.12)	$ 0.21

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

Consolidated Statements of Comprehensive (Loss) Income

	Unaudited Six months ended		Three months ended	
	June 30,		June 30,	
(in thousands)	2018	2017	2018	2017
Net (Loss) Income	$(7,953)	$3,604	$(2,277)	$2,038
Other comprehensive (loss) income				
Investments available-for-sale:				
Reclassification adjustment for loss	139	-	-	-
Related income tax benefit	(38)	-	-	-
Unrealized holding (losses) gains	(288)	48	18	48
Related income tax benefit (expense)	71	(17)	(69)	(17)
Comprehensive (loss) income	$(8,069)	$3,635	$(2,328)	$2,069

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

Consolidated Statements of Changes in Stockholders' Equity Unaudited

(dollars in thousands, except share data)	Number of shares	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive loss	Total
Balances at January 1, 2017	6,991,072	$ 70	$71,021	$14,849	$ (150)	$85,790
Net income	-	-	-	3,604	-	3,604
Net unrealized gain on securities	-	-	-	-	31	31
Common stock offering	2,760,000	28	38,355	-	-	38,383
Director stock awards	6,604	-	110	-	-	110
Exercise of options	19,759	-	234	-	-	234
Stock-based compensation	18,668	-	236	-	-	236
Balances at June 30, 2017	9,796,103	$ 98	$109,956	$18,453	$ (119)	$128,388
Balances at January 1, 2018	9,820,592	$ 98	$110,387	$22,105	$ (337)	$132,253
Net loss	-	-	-	(7,953)	-	(7,953)
Net unrealized loss on securities	-	-	-	-	(116)	(116)
Acquisition of First Mariner Bank	9,143,222	92	164,486	-	-	164,578
Director stock awards	4,800	-	101	-	-	101
Exercise of options	3,284	-	35	-	-	35
Stock-based compensation	37,062	-	572	-	-	572
Balances at June 30, 2018	19,008,960	$ 190	$275,581	$14,152	$ (453)	$289,470

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

Consolidated Statements of Cash Flows

	Unaudited Six months ended June 30	
(in thousands)	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(7,953)	$3,604
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Provision for credit losses	2,545	540
Deferred income tax	1,852	142
Provision for other real estate owned	-	96
Depreciation	1,200	665
Stock-based compensation	572	346
Net amortization of investment securities	25	30
Net accretion of discount on purchased loans	(628)	(354)
Loss on sales of securities	139	-
Net amortization of intangible asset	1,222	271
Loans originated for sale	(337,290)	(326,920)
Proceeds from sale of loans originated for sale	355,115	330,070
Realized and unrealized gains on mortgage banking activity	(3,439)	(5,968)
Gain on sales of other real estate owned, net	(45)	(19)
Loss on sale of portfolio loans, net	-	179
Cash surrender value of BOLI	(705)	(345)
Decrease (increase) in interest receivable	431	(67)
Increase in interest payable	340	51
Decrease in other assets	2,470	62
Decrease in other liabilities	(355)	(155)
Net cash provided by operating activities	15,496	2,228
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of interest bearing deposits with banks	-	9,880
Purchases of investment securities available-for-sale	(44,535)	(27,925)
Purchases of investment securities held-to-maturity	-	(3,000)
Proceeds from sale/maturities of investment securities available-for-sale	112,039	14,520
Net increase in loans and leases outstanding	(10,662)	(63,780)
Purchase of bank owned life insurance	-	(6,500)
Proceeds from the sale of other real estate owned	954	138
Proceeds from the sale of portfolio loans	-	3,759
Purchase of premises and equipment	(1,773)	(184)
Cash acquired in acquisition	29,285	-
Net cash provided by (used in) investing activities	85,308	(73,092)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in deposits	(4,699)	45,975
Net (decrease) increase in short-term borrowings	(126,293)	2,713
Proceeds from issuance of long-term debt	109,041	-
Repayment of long-term debt	-	(13,977)

Net proceeds from issuance of common stock, net of cost	136	38,617
Net cash (used in) provided by financing activities	(21,815)	73,328
Net increase in cash and cash equivalents	78,989	2,464
Cash and cash equivalents at beginning of period	28,972	39,366
Cash and cash equivalents at end of period	$107,961	$41,830
SUPPLEMENTAL INFORMATION		
Cash payments for interest	$4,881	$2,277
Cash payments for income taxes	-	1,930
Transferred from loans to other real estate owned	174	-
Assets acquired in business combination (net of cash received)	970,709	-
Liabilities assumed in business combination	897,569	-

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

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 seven subsidiaries, six of which are intended to hold foreclosed real estate (three of which are inactive) 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 Howard 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"). 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.

On March 1, 2018, Howard Bancorp, Inc. completed its previously announced merger (the "Merger") with First Mariner Bank, a Maryland chartered trust company ("First Mariner") pursuant to the Agreement and Plan of Reorganization dated as of August 14, 2017, as amended by Amendment No. 1 on November 8, 2017, by and among Bancorp, Howard Bank, a Maryland chartered trust company and wholly owned subsidiary of Bancorp, and First Mariner (as amended, the "Agreement"). At the effective time of the Merger, First Mariner merged with and into Howard Bank, with Howard Bank continuing as the surviving bank of the Merger and a wholly owned subsidiary of Bancorp. The Merger was described in the joint proxy and information statement/prospectus filed with the U.S. Securities and Exchange Commission (the "SEC") on November 22, 2017.

At the effective time of the Merger, pursuant to the terms of the Agreement, each outstanding share of First Mariner common stock and First Mariner Series A Non-Voting Non-Cumulative Perpetual Preferred Stock issued and outstanding was cancelled and converted into the right to receive 1.6624 shares of Bancorp common stock. To effect the Merger, Bancorp issued 9,143,222 shares of Bancorp common stock to First Mariner shareholders.

On February 1, 2017, Bancorp closed an underwritten public offering, including the exercise in full by the underwriters of their option to purchase an additional 360,000 shares, at the public offering price of $15.00 per share. The exercise of the option to purchase additional shares brought the total number of shares of common stock sold by Bancorp to 2,760,000 shares and increased the amount of gross proceeds raised in the offering to approximately $41.4 million, after underwriting discounts and estimated expenses, net proceeds raised in the offering were $38.4 million.

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.

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, the fair value of loans held for sale, and fair value estimates related to acquisition accounting.

Loans Held-For-Sale

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

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

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

For purposes of calculating fair value of rate lock commitments, the Bank estimates loan closing and investor delivery rate based on historical experience. The measurement of the estimated fair value of the rate lock commitments is presented as realized and unrealized gains from mortgage banking activities with the corresponding balance sheet amount presented as part of other assets.

The Company elected to measure loans held for sale at fair value to better align reported results with the underlying economic changes in value of the loans on the Company's balance sheet. Loans held for sale that were not ultimately sold, but instead were placed into the Bank's portfolio, are reclassified to loans held for investment and continue to be recorded at fair value.

Reclassifications

Certain items in prior financial statements have been reclassified to conform to the current presentation.

Accounting Pronouncements

The FASB has issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.* This ASU's objectives are to 1) improve the transparency and understanding of information conveyed to financial statements users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities; and 2) reduce the complexity of and simplify the application of hedge accounting by preparers. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018; early adoption is permitted. The Company currently does not designate any derivative financial instruments as formal hedging relationships and therefore, does not utilize hedge accounting. However, the Company is currently evaluating this ASU to determine whether its provision will enhance the Company's ability to employ risk management strategies, while improving the transparency and understanding of those strategies for financial statement users.

The FASB has issued ASU 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting.* This ASU clarifies when changes to the term or conditions of a share-based payment award must be accounted for as a modification. Under this ASU, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: 1) The fair value: 2) the award's vesting conditions; and 3) the award's classification as an equity or liability instrument. Adoption of ASU No. 2017-09 did not have an impact on the Company's Consolidated Financial Statements.

The FASB has issued ASU 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.* The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company will evaluate the guidance in this update but does not expect it to have a significant impact on the Company's financial position or result of operations.

The FASB has issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The amendments in this Update simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The Company should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. Impairment changes should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The impairment charge is limited to the amount of goodwill allocated to that reporting unit. The amendments in this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company will evaluate the guidance in this update but does not expect it to have a significant impact on the Company's financial position or result of operations.

The FASB has issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The amendments in this Update provide clarification on the definition of a business and provides criteria to aid in the assessment of whether a transaction should be accounted for as an acquisition or a disposal of assets or business. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Adoption of ASU 2017-01 did not have a material impact on the Company's financial position or result of operations.

The FASB has issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326).* The main objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the guidance in this update replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The guidance in this update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating this guidance to determine the impact on the Company's Consolidated Financial Statements.

The FASB has issued ASU 2016-02, *Leases (Topic 842).* The new guidance requires lessees to recognize lease assets and lease liabilities related to certain operating leases on their balance sheet and disclose key information about leasing arrangements. This guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The Company is currently evaluating this guidance to determine the impact on its consolidated financial statements. The Company leases certain properties under operating leases that will result in recognition on the Company's consolidated balance sheet.

The FASB has issued ASU No. 2016-01, *Financial Instruments – Recognition and Measurement of Financial Assets and Liabilities*. ASU No. 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income, excluding equity investments that are consolidated or accounted for under the equity method of accounting. The guidance allows equity investments without readily determinable fair values to be measured at cost minus impairment, with a qualitative assessment required to identify impairment. The guidance also: requires public companies to use exit prices to measure the fair value of financial instruments for disclosure purposes; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and eliminates the disclosure requirements related to measurement assumptions for the fair value of instruments measured at amortized cost. In addition, the guidance requires that for liabilities measured at fair value under the fair value option, changes in fair value due to changes in instrument-specific credit risk be presented in other comprehensive income. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Adoption of ASU 2016-01 did not have a material impact on the Company’s Consolidated Financial Statements.

The FASB has issued 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 guidance in this update is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. As allowed by this ASU the Company is permitted to adopt using the full retrospective transition method for all periods presented, or modified retrospective method where the guidance would only be applied to existing contracts in effect at the adoption date and new contracts going forward. The Company’s revenue stream within the scope of ASU No. 2014-09 is primarily from service charges on deposit accounts. The Company used a modified retrospective approach to uncompleted contracts at the date of adoption. Periods prior to the date of adoption are not retrospectively revised, but a cumulative effect of adoption is recognized for the impact of the ASU on uncompleted contracts at the date of adoption. The impact of guidance in this update, including method of implementation, did not have a material impact on the Company’s Consolidated Financial Statements. See Note 13 for additional information.

Note 2: Business Combinations

First Mariner Acquisition

On March 1, 2018, Howard Bancorp completed its merger with First Mariner Bank into Howard Bank, a wholly owned subsidiary of Howard Bancorp, pursuant to the Agreement and Plan of Reorganization. At the effective time of the Merger, First Mariner merged with and into Howard Bank, with Howard Bank continuing as the surviving bank of the Merger. At the effective time of the Merger, pursuant to the terms of the Agreement, each outstanding share of First Mariner common stock and First Mariner Series A Non-Voting Non-Cumulative Perpetual Preferred Stock issued and outstanding was cancelled and converted into the right to receive 1.6624 shares of Bancorp common stock. The aggregate merger consideration of $173.8 million included $9.2 million of cash and 9,143,222 shares of Howard Bancorp common stock, which was valued at approximately $164.6 million based on the closing price of Howard Bancorp common stock of $18.00 on February 28, 2018.

The Company has accounted for the Merger under the acquisition method of accounting in accordance with FASB ASC Topic 805, "*Business Combinations*," whereby the acquired assets and assumed liabilities were recorded by Bancorp at their estimated fair values as of their acquisition date.

Management made significant estimates and exercised significant judgment in accounting for the acquisition of First Mariner. Management judgmentally assigned risk ratings to loans based on appraisals and estimated collateral values, expected cash flows, prepayment speeds and estimated loss factors to measure fair values for loans. Deposits and borrowings were valued based upon interest rates, original and remaining terms and maturities, as well as current rates for similar funds in the same markets. Premises and equipment was valued based on recent appraised values. Management used quoted or current market prices to determine the fair value of investment securities.

The following table provides the purchase price as of the acquisition date, the current identifiable assets acquired and liabilities assumed at their estimated fair values, and the resulting goodwill of $70.7 million recorded from the acquisition:

(in thousands)

Purchase Price Consideration	
Cash consideration	$9,245
Purchase price assigned to shares exchanged for stock	164,578
Total purchase price for First Mariner acquisition	$173,823

Assets acquired at fair value:		
Cash and cash equivalents	$38,530	
Interest bearing deposits with banks	3,920	
Investment securities available for sale	130,302	
Loans held for sale	28,189	
Loans	664,338	
Accrued interest receivable	3,023	
Other assets	119,826	
Core deposit intangible	12,588	
Total fair value of assets acquired	$1,000,717	
Liabilities assumed at fair value:		
Deposits	706,435	
Borrowings	185,020	
Accrued expenses and other liabilities	6,114	
Total fair value of liabilities assumed	$897,569	
Net assets acquired at fair value:		$103,148
Transaction consideration paid to First Mariner		173,823
Amount of goodwill recorded from First Mariner Acquisition		$70,675

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Acquired loans

The following table outlines the contractually required payments receivable, cash flows we expect to receive, non-accretable credit adjustments and the accretable yield for all First Mariner loans as of the acquisition date.

	Contractually Required Payments Receivable	Non-Accretable Credit Adjustment	Cash Flows Expected to be Collected	Accretable FMV Adjustment	Carring Value of Loans Receivable
Performing loans acquired	$ 654,621	$ -	$ 654,621	$ 9,054	$ 645,567
Impaired loans acquired	29,470	9,644	19,826	1,055	18,771
Total loans acquired	$ 684,091	$ 9,644	$ 674,447	$ 10,109	$ 664,338

At the merger of First Mariner, all loans acquired were recorded at the estimated fair value on the purchase date with no carryover of the related allowance for loan losses. On the merger date, the loan portfolio was segregated into two loan pools, performing and non-performing loans to be retained in our portfolio.

The Company determined the net discounted value of cash flows on approximately 2,700 performing loans totaling $654.6 million. The valuation took into consideration the loans' underlying characteristics, including account types, remaining terms, annual interest rates, interest types such as fixed or variable rate, past delinquencies, timing of principal and interest payments, current market rates, loan-to-value ratios, loss exposures, and remaining balances. These performing loans were segregated into pools based on loan and payment type and in some cases, risk grade. The effect of this valuation process was a net accretable discount adjustment of $9.1 million at merger.

The Company also individually evaluated 57 impaired loans totaling $29.5 million of contractually required payments, to determine the fair value as of the March 1, 2018 measurement date. In determining the fair value for each individually evaluated impaired loan, the Company considered a number of factors including the remaining life of the acquired loan, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral and net present value of cash flows the Company expect to receive, among others.

The Company established a credit risk related non-accretable difference of $9.6 million relating to these acquired, credit impaired loans, reflected in the recorded net fair value. The Company further estimated the timing and amount of expected cash flows in excess of the estimated fair value and established an accretable discount adjustment of $1.1 million at acquisition relating to these impaired loans.

In connection with the acquisition, the Company incurred merger-related expenses relating to personnel, professional fees, occupancy and equipment and other costs of integrating and conforming acquired operations. Those expenses consisted largely of costs related to professional and consulting services, employment severance and early retirement charges, termination of contractual agreements and conversion of systems and/or integration of operations, initial communication expenses, printing and filing costs of completing the transaction and investment banking charges.

A summary of merger related costs included in the Consolidated Statements of Operations for the six month period ended June 30, 2018 is summarized as follows:

Compensation related	$9,860
Equipment disposition	1,918
Legal and consulting	2,005
Contract Terminations	925
Accounting & other	965
Total	$15,673

Pro Forma Condensed Combined Financial Information:

The following table presents unaudited proforma information as if the merger between Howard Bancorp and First Mariner had been completed on January 1, 2018 and on January 1, 2017. The pro forma information does not necessarily reflect the results of operations that would have occurred had the Company merged with First Mariner at the beginning of 2018 or 2017. Supplemental proforma earnings were adjusted to exclude merger related costs. The expected future amortizations of the various fair value adjustments were included beginning in each year presented. Cost savings are not reflected in the unaudited pro forma amounts for the periods presented. The pro forma financial information does not include the impact of possible business model changes, nor does it consider any potential impacts of current market conditions on revenues, expense efficiencies, or other factors.

	Six months ended June 30,		**Three months ended June 30,**	
	2018	2017	2018	2017
Net interest income after provision	$32,953	$32,931	$ 17,064	$ 16,920
Noninterest income	12,351	16,624	5,617	8,277
Noninterest expense	41,304	45,595	20,190	22,974
Net income	2,899	1,918	1,805	1,082
Net income per share	$0.15	$0.13	$ 0.10	$ 0.07

Note 3: Investment Securities

The Bank holds securities classified as available for sale and held to maturity.

Because of the composition and remaining duration of the securities portfolio acquired in the First Mariner merger, management deemed it prudent for interest rate risk management purposes to liquidate the majority of the acquired portfolio. Thus, in the first quarter of 2018, the Bank sold nearly $69.37 million of First Mariner securities, with no gains or losses incurred upon the liquidation, as the sales were executed within days of the merger. In addition the Bank sold $33.0 million of pre-acquisition investment securities, in the first quarter of 2018 and recorded a loss on the sale of $139 thousand. Nearly $51 million of the acquired securities that were retained in the securities portfolio were recorded at fair value and were all classified as available for sale.

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

(in thousands)	June 30, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale								
U.S. Government Agencies	$75,007	$ 9	$ 432	$74,584	$68,082	$ -	$ 342	$ 67,740
Treasuries	1,502	-	6	1,496	1,505	-	11	1,494
Mortgage-backed	48,445	12	132	48,325	2,541	-	62	2,479
Other investments	3,077	49	-	3,126	2,579	-	36	2,543
	$128,030	$ 70	$ 570	$127,530	$74,707	$ -	$ 451	$ 74,256
Held to maturity								
Corporate debentures	$9,250	$ 180	$ 13	$9,417	$9,250	$ 188	$ 17	$ 9,421

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, 2018 and December 31, 2017 are presented below:

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June 30, 2018 (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
Available for sale						
U.S. Government Agencies	$ 47,237	$ 236	$ 15,364	$ 196	$62,601	$ 432
Treasuries	-	-	1,496	6	1,496	6
Mortgage-backed	30,528	61	1,092	71	31,620	132
Other investments	3,230	99	-	-	3,230	99
	$ 80,995	$ 396	$ 17,952	$ 273	$98,947	$ 669
Held to maturity						
Corporate debentures	$ 2,750	$ 13	$ -	$ -	$2,750	$ 13

December 31, 2017 (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
Available for sale						
U.S. Government Agencies	$ 54,303	$ 216	$ 13,437	$ 126	$67,740	$ 342
Treasuries	-	-	1,494	11	1,494	11
Mortgage-backed	1,202	12	1,262	50	2,464	62
Other investments	2,500	36	-	-	2,500	36
	$ 58,005	$ 264	$ 16,193	$ 187	$74,198	$ 451
Held to maturity						
Corporate debentures	$ 500	$ 17	$ -	$ -	$500	$ 17

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 the (1) duration and magnitude of the decline in value, (2) financial condition of the issuer or issuers and (3) structure of the security. The portfolio contained 46 securities with unrealized losses and 38 securities with unrealized losses at June 30, 2018 and December 31, 2017, respectively.

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 securities by contractual maturity are shown below:

(in thousands)	June 30, 2018		December 31, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Amounts maturing:				
One year or less	$ 12,520	$ 12,410	$ 35,105	$ 34,995
After one through five years	64,000	63,681	34,489	34,248
After five through ten years	16,927	17,133	9,257	9,428
After ten years	43,833	43,723	2,526	2,464
	$ 137,280	$ 136,947	$ 81,377	$ 81,135

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At June 30, 2018 and December 31, 2017, $34.8 million and $28.8 million in fair value of securities were pledged as collateral for repurchase agreements and collateralized deposits, respectively.

Note 4: Loans and Leases

The Company makes loans and leases to customers primarily in the Greater Baltimore 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, 2018 and December 31, 2017 are presented in the following table:

	June 30, 2018				December 31, 2017	
(in thousands)	Legacy	Acquired	Total	% of Total	Total	% of Total
Real estate						
Construction and land	$74,136	$40,767	$114,903	7.1 %	$74,398	7.9 %
Residential - first lien	190,465	182,214	372,679	23.1	194,896	20.8
Residential - junior lien	45,429	50,439	95,868	6.0	43,047	4.6
Total residential real estate	235,894	232,653	468,547	29.1	237,943	25.4
Commercial - owner occupied	180,482	35,325	215,807	13.4	170,408	18.2
Commercial - non-owner occupied	266,011	162,541	428,552	26.6	260,802	27.8
Total commercial real estate	446,493	197,866	644,359	40.0	431,210	46.0
Total real estate loans	756,523	471,286	1,227,809	76.2	743,551	79.3
Commercial loans and leases	217,649	122,447	340,096	21.2	188,729	20.2
Consumer	3,738	38,335	42,073	2.6	4,328	0.5
Total loans	$977,910	$632,068	$1,609,978	100.0%	$936,608	100.0 %

Net loan origination fees, which are included in the amounts above, totaled $106 thousand and $54 thousand at June 30, 2018 and December 31, 2017, respectively.

<u>Acquired Impaired Loans</u>

The following table documents changes in the accretable discount on acquired impaired loans at June 30, 2018 and 2017:

	June 30,	
(in thousands)	2018	2017
Balance at beginning of period	$-	$60
Impaired loans acquired	1,055	-
Accretion of fair value discounts	(34)	(53)
Balance at end of period	$1,021	$7

The table below presents the outstanding balances and related carrying amounts for all acquired impaired loans at the end of the respective periods.

(in thousands)	Contractually Required Payments Receivable	Carrying Amount
At June 30, 2018	$ 17,166	$12,611
At December 31, 2017	1,292	851

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Note 5: 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 periods ended June 30, 2018 and June 30, 2017:

(in thousands)	June 30, 2018 Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Allowance for credit losses:								
Six months ended:								
Beginning balance	$735	$ 668	$ 177	$ 617	$ 1,410	$ 2,529	$ 23	$6,159
Charge-offs	(202)	(102)	(149)	(1)	(746)	(912)	(49)	(2,161)
Recoveries	-	1	-	-	2	68	5	76
Provision for credit losses	128	113	185	110	957	982	70	2,545
Ending balance	$661	$ 680	$ 213	$ 726	$ 1,623	$ 2,667	$ 49	$6,619
Three months ended:								
Beginning balance	$563	$ 736	$ 186	$ 698	$ 1,470	$ 2,472	$ 23	$6,148
Charge-offs	-	(3)	(60)	-	(212)	(644)	(45)	(964)
Recoveries	-	2	-	-	-	7	1	10
Provision for credit losses	98	(55)	87	28	365	832	70	1,425
Ending balance	$661	$ 680	$ 213	$ 726	$ 1,623	$ 2,667	$ 49	$6,619

(in thousands)	June 30, 2017 Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Allowance for credit losses:								
Six months ended:								
Beginning balance	$511	$ 454	$ 89	$ 327	$ 1,120	$ 3,800	$ 127	$6,428
Charge-offs	-	(132)	(31)	-	-	(1,366)	(108)	(1,637)
Recoveries	-	-	1	-	3	28	22	54
Provision for credit losses	51	221	52	74	53	28	61	540

Ending balance	$562	$ 543	$ 111	$ 401	$ 1,176	$ 2,490	$ 102	$5,385
Three months ended:								
Beginning balance	$534	$ 504	$ 99	$ 395	$ 1,098	$ 2,661	$ 69	$5,360
Charge-offs	-	(82)	(8)	-	-	(254)	-	(344)
Recoveries	-	-	1	-	2	16	10	29
Provision for credit losses	28	121	19	6	76	67	23	340
Ending balance	$562	$ 543	$ 111	$ 401	$ 1,176	$ 2,490	$ 102	$5,385

The following table provides additional information on the allowance for credit losses at June 30, 2018 and December 31, 2017:

	June 30, 2018							
(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:								
individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 25	$ -	$ 25
collectively evaluated for impairment	$ 661	$ 680	$ 213	$ 726	$ 1,623	$ 2,642	$ 49	$ 6,594
Loans:								
Legacy Loans:								
Ending balance	$ 74,136	$ 190,465	$ 45,429	$ 180,482	$ 266,011	$ 217,649	$ 3,738	$ 977,910
individually evaluated for impairment	$ 560	$ 6,483	$ 105	$ 508	$ 6,081	$ 2,370	$ -	$ 16,107
collectively evaluated for impairment	$ 73,576	$ 183,982	$ 45,324	$ 179,974	$ 259,930	$ 215,279	$ 3,738	$ 961,803
Acquired Loans:								
Ending balance	$ 40,767	$ 182,214	$ 50,439	$ 35,325	$ 162,541	$ 122,447	$ 38,335	$ 632,068
purchased credit impaired loans	$ 849	$ 9,582	$ 779	$ 1,249	$ -	$ 13	$ 151	$ 12,623
collectively evaluated for impairment	$ 39,918	$ 172,632	$ 49,660	$ 34,076	$ 162,541	$ 122,434	$ 38,184	$ 619,445

Acquired loans were evaluated for impairment subsequent to the merger. No allowance was required on these loans due to the recently assigned credit marks on these loans.

	December 31, 2017							
(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:								
individually evaluated for impairment	$ 202	$ -	$ 29	$ -	$ 11	$ 668	$ -	$ 910

collectively evaluated for impairment	$533	$668	$ 148	$ 617	$ 1,399	$ 1,861	$ 23	$5,249
Loans:								
Ending balance	$74,398	$ 194,896	$ 43,047	$ 170,408	$ 260,802	$ 188,729	$ 4,328	$936,608
individually evaluated for impairment	$761	$ 2,009	$ 396	$ 508	$ 5,867	$ 3,724	$ -	$13,265
collectively evaluated for impairment	$73,637	$ 192,887	$ 42,651	$ 169,900	$ 254,935	$ 185,005	$ 4,328	$923,343

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 Bank’s calculation of the probable loss inherent in the individual loan. The actual occurrence and severity of losses involving impaired credits can differ substantially from estimates.

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

	June 30, 2018							
(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	$73,701	$ 184,265	$ 45,324	$ 179,974	$ 259,845	$ 215,125	$ 3,738	$961,972
Special mention	-	-	-	-	-	-	-	-
Substandard	435	6,200	105	508	6,166	2,524	-	15,938
Doubtful	-	-	-	-	-	-	-	-
Total	$74,136	$ 190,465	$ 45,429	$ 180,482	$ 266,011	$ 217,649	$ 3,738	$977,910
Acquired Loans:								
Not classified	$39,839	$ 172,632	$ 49,660	$ 29,584	$ 162,339	$ 122,434	$ 38,184	$614,672
Special mention	79	-	-	3,935	-	-	-	4,014
Substandard	849	9,582	779	1,806	202	13	151	13,382
Doubtful	-	-	-	-	-	-	-	-
Total	$40,767	$ 182,214	$ 50,439	$ 35,325	$ 162,541	$ 122,447	$ 38,335	$632,068

	December 31, 2017							
(in thousands)	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Credit quality indicators:								
Not classified	$73,761	$ 193,174	$ 42,651	$ 169,900	$ 253,255	$ 184,858	$ 4,328	$921,927
Special mention	-	-	-	-	1,592	-	-	1,592
Substandard	637	1,103	5	508	3,725	801	-	6,779
Doubtful	-	619	391	-	2,230	3,070	-	6,310
Total	$74,398	$ 194,896	$ 43,047	$ 170,408	$ 260,802	$ 188,729	$ 4,328	$936,608

- **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 possible credit deterioration.

An aged analysis of past due loans are as follows:

	June 30, 2018							
	Construction	Residential	Residential	Commercial owner	Commercial non-owner	Commercial loans	Consumer	
(in thousands)	and land	first lien	junior lien	occupied	occupied	and leases	loans	Total
Analysis of past due loans:								
Legacy Loans:								
Accruing loans current	$73,701	$182,916	$44,771	$179,974	$259,930	$215,125	$3,730	$960,147
Accruing loans past due:								
30-59 days past due	-	-	140	-	-	404	3	547
60-89 days past due	-	1,195	413	-	-	-	5	1,613
Greater than 90 days past due	-	154	-	-	-	-	-	154
Total past due	-	1,349	553	-	-	404	8	2,314
Non-accrual loans	435	6,200	105	508	6,081	2,120	-	15,449
Total loans	$74,136	$190,465	$45,429	$180,482	$266,011	$217,649	$3,738	$977,910
Acquired Loans:								
Accruing loans current	$39,918	$169,818	$48,254	$34,076	$162,541	$122,434	$37,915	$614,956
Accruing loans past due:								
30-59 days past due	-	-	717	-	-	-	216	933
60-89 days past due	-	2,247	430	-	-	-	37	2,714
Greater than 90 days past due	-	567	259	-	-	-	16	842
Total past due	-	2,814	1,406	-	-	-	269	4,489
Non-accrual loans [1]	849	9,582	779	1,249	-	13	151	12,623
Total loans	$40,767	$182,214	$50,439	$35,325	$162,541	$122,447	$38,335	$632,068

(1) Included are purchased credit impaired loans where the Company amortizes the accretable discount into interest income, however these loans do not accrue interest based on the terms of the loan.

	December 31, 2017							
	Construction	Residential	Residential	Commercial owner	Commercial non-owner	Commercial loans	Consumer	
(in thousands)	and land	first lien	junior lien	occupied	occupied	and leases	loans	Total
Analysis of past due loans:								
Accruing loans current	$73,386	$185,135	$42,491	$169,596	$251,608	$185,239	$4,328	$911,783

Accruing loans past due:								
30-59 days past due	279	6,381	110	173	-	52	-	6,995
60-89 days past due	96	1,330	-	-	364	-	-	1,790
Greater than 90 days past due	-	328	50	131	2,963	-	-	3,472
Total past due	375	8,039	160	304	3,327	52	-	12,257
Non-accrual loans	637	1,722	396	508	5,867	3,438	-	12,568
Total loans	$74,398	$194,896	$43,047	$170,408	$260,802	$188,729	$4,328	$936,608

Total loans either in non-accrual status or in excess of 90 days delinquent totaled $29.1 million or 1.8% of total loans outstanding at June 30, 2018, which represents an increase from $16.0 million or 1.7% at December 31, 2017.

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The impaired loans at June 30, 2018 and December 31, 2017 are as follows:

(in thousands)	June 30, 2018 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	$560	$ 6,483	$ 105	$ 508	$ 6,081	$ 2,370	$ -	$16,107
With an allowance recorded	-	-	-	-	-	514	-	514
With no related allowance recorded	560	6,483	105	508	6,081	1,856	-	15,593
Related allowance	-	-	-	-	-	25	-	25
Unpaid principal	762	6,610	105	508	6,837	3,660	-	18,482
Six months ended:								
Average balance of impaired loans	762	6,689	107	508	8,872	3,182	-	20,120
Interest income recognized	-	51	2	-	2	22	-	77
Three months ended:								
Average balance of impaired loans	762	6,694	106	508	6,878	4,759	-	19,707
Interest income recognized	-	32	1	-	1	11	-	45
Acquired Loans:								
Recorded investment [1]	$849	$ 9,582	$ 779	$ 1,249	$ -	$ 13	$ 151	12,623
Unpaid principal	1,118	11,082	1,235	1,552	305	1,236	163	16,691
Six months ended:								
Average balance of impaired loans	1,118	12,806	1,235	1,552	305	1,236	166	18,418
Interest income recognized	-	217	21	-	-	-	2	240
Three months ended:								
Average balance of impaired loans	1,118	12,744	1,235	1,552	305	1,236	166	18,356
Interest income recognized	-	174	11	-	-	-	2	187

(1) Included are purchased credit impaired loans where the Company amortizes the accretable discount into interest income, however these loans do not accrue interest based on the terms of the loan.

(in thousands)	December 31, 2017 Construction & land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total

Impaired loans:								
Recorded investment	$761	$ 2,009	$ 396	$ 508	$ 5,867	$ 3,724	$ -	$13,265
With an allowance recorded	637	-	391	-	2,230	2,883	-	6,141
With no related allowance recorded	124	2,009	5	508	3,637	841	-	7,124
Related allowance	202	-	29	-	11	668	-	910
Unpaid principal	762	2,034	403	509	5,884	5,293	-	14,885
Average balance of impaired loans	756	2,100	403	519	5,956	5,988	-	15,722
Interest income recognized	19	60	12	-	132	150	-	373

Included in the total impaired loans above were non-accrual loans of $28.1 million and $12.6 million at June 30, 2018 and December 31, 2017, respectively. Interest income that would have been recorded if non-accrual loans had been current and in accordance with their original terms was $1.0 million and $258 thousand for the first six months of 2018 and 2017, respectively.

Loans may have their terms restructured (e.g., interest rates, loan maturity date, payment and amortization period, etc.) in circumstances that provide payment relief to a borrower experiencing financial difficulty. Such restructured loans are considered trouble debt restructured loans ("TDRs") that may either be impaired loans that may either be in accruing status or non-accruing status. Non-accruing TDRs may return to accruing status provided there is a sufficient period of payment performance in accordance with the restructure terms. Loans may be removed from the restructured category in the year subsequent to the restructuring if: a) the restructuring agreement specifies an interest rate equal to or greater than the rate that the creditor was willing to accept at the time of restructuring for a new loan with comparable risk; and b) the loan is not impaired based on the terms specified by the restructuring agreement.

TDRs at June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018				
(dollars in thousands)	Number of Loans	Non-Accrual Status	Number of Loans	Accrual Status	Total TDRs
Construction and land	-	$ -	1	$ 125	$125
Residential real estate - first lien	3	971	1	283	1,254
Commercial - non-owner occupied	2	2,816	-	-	2,816
Commercial loans and leases	1	514	1	192	706
	6	$ 4,301	3	$ 600	$4,901

	December 31, 2017				
(dollars in thousands)	Number of Loans	Non-Accrual Status	Number of Loans	Accrual Status	Total TDRs
Construction and land	-	$ -	1	$ 125	$125
Residential real estate - first lien	2	886	1	287	1,173
Residential real estate - junior lien	1	398	-	-	398
Commercial - non-owner occupied	2	2,815	-	-	2,815
Commercial loans and leases	2	599	1	208	807
	7	$ 4,698	3	$ 620	$5,318

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

	June 30, 2018			
(in thousands)	Related Allowance	Not Performing to Modified Terms	Performing to Modified Terms	Total TDRs
Construction and land				
Extension or other modification	$-	$ -	$ 125	$125
Residential real estate - first lien				
Extension or other modification	-	971	283	1,254
Commercial RE - non-owner occupied				
Rate modification	-	2,816	-	2,816
Commercial loans				
Extension or other modification	-	-	192	192
Forbearance	24	514	-	514
Total troubled debt restructured loans	$24	$ 4,301	$ 600	$4,901

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	December 31, 2017			
(in thousands)	Related Allowance	Not Performing to Modified Terms	Performing to Modified Terms	Total TDRs
Construction and land				
Extension or other modification	$-	$ -	$ 125	$125
Residential real estate - first lien				
Extension or other modification	-	886	287	1,173
Residential real estate - junior lien				
Forbearance	30	398	-	398
Commercial RE - non-owner occupied				
Rate modification	-	2,815	-	2,815
Commercial loans				
Extension or other modification	-	85	208	293
Forbearance	32	514	-	514
Total troubled debt restructured loans	$62	$ 4,698	$ 620	$5,318

There was one new loan restructured during the six months ended June 30, 2018. In the second quarter of 2018 the Bank extended the terms of a residential real estate loan that is currently non-performing.

As a part of the modification of the land development loan restructured during 2017, the Bank agreed to forgive $215 thousand in debt, and recorded this amount as a loss. The pre-modification principal amount on this loan was $340 thousand, while the post-modification principal amount was reduced to $125 thousand. The other modifications have been only interest rate concessions and payment term extensions, not principal reductions that resulted in the recordation of a loss. Thus, the pre-modification and post-modification recorded investment amounts are the same for these TDRs.

Performing TDRs were in compliance with their modified terms and there are no further commitments associated with these loans. During the six months ended June 30, 2018 there were no TDRs that subsequently defaulted within twelve months of their modification dates.

Management routinely evaluates other real estate owned (“OREO”) based upon periodic appraisals. For the three months ended June 30, 2018 and 2017 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 six months ended June 30, 2018 there was one loan for $174 thousand transferred from loans to OREO, while for the same period in 2017 there were no loans transferred to OREO. The Company sold one commercial property in Sussex County Delaware during the second quarter of 2018 with a carrying value was $593 thousand. The Company recorded a $45 thousand gain from the sale of this property. In conjunction with the First Mariner acquisition the Bank’s OREO balances increased $3.0 million representing 11 properties. At June 30, 2018 there were six residential first lien loans totaling $1.4 million in the process of foreclosure.

Note 6: Goodwill and Other Intangible Assets

Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset would more-likely-than-not reduce the fair value below the carrying amount.

On March 1, 2018 the Company initially recorded $71.4 million in goodwill relating to the First Mariner merger. Based upon updated information the goodwill was adjusted downward by $723 thousand in the second quarter 2018 to reflect revised valuations as detailed in Note 2.

The Bank has one unit, which is the core banking operation. The table below shows goodwill balances at June 30, 2018 and December 31, 2017.

(in thousands)	June 30, 2018	December 31, 2017
Goodwill		
Banking	$71,278	$ 603

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Core deposit intangible consists of premiums paid for the acquisition of core deposits and are amortized based upon the estimated economic benefits received. The gross carrying amount and accumulated amortization of other intangible assets are as follows:

June 30, 2018