Howard Bancorp Inc
Form 10-Q
November 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

Commission File Number: 001-35489

HOWARD BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland	**20-3735949**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6011 University Blvd. Suite 370, Ellicott City, MD	**21043**
(Address of principal executive offices)	(Zip Code)

(410) 750-0020
(Registrant's telephone number, including area code)

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

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

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

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

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

The number of outstanding shares of common stock outstanding as of October 31, 2013.

Common Stock, $0.01 par value 4,040,471 shares

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

This report contains forward-looking statements within the meaning Private Securities Litigation Reform Act of 1995, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “plan,” “seek,” “ex “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 our business plans and strategies, including increasing originations of residential mortgage loans and our mortgage lending portfolio and our selling of loans into the secondary market;
- expansion and the expected timing of the opening of our new office in Towson, Maryland;
- statements regarding our intentions with respect to our investment portfolio and the status of unrealized losses in such portfolio;
- statement regarding anticipated changes in occupancy costs;
- statement regarding our credit quality;
- statements with respect to anticipated losses on nonperforming loans;
- statements with respect to our allowance for credit losses, and the adequacy thereof;
- future cash requirements relating to commitments to extend credit, and that we do not anticipate any material losses in connection therewith;
- our ability to retain maturing certificates of deposits; and
- statement with respect to adequate liquidity.

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

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

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

- other risk discussed in this report 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. These and other risk factors are detailed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 under "Item 1A Risk Factors". You should not put undue reliance on any forward-looking statements.

PART I
Item 1. Financial Statements

Howard Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

(in thousands)	Unaudited September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$ 17,397	$ 25,739
Federal funds sold	2,017	10,622
Total cash and cash equivalents	19,414	36,361
Securities available-for-sale	21,205	26,875
Nonmarketable equity securities	2,282	1,475
Loans held for sale	804	1,639
Loans and leases, net of unearned income	401,508	322,218
Allowance for credit losses	(3,145)	(2,764)
Net loans and leases	398,363	319,454
Bank premises and equipment, net	10,385	9,573
Core deposit intangible	363	-
Bank owned life insurance	8,210	-
Other real estate owned	2,377	2,903
Deferred income taxes	1,458	1,160
Interest receivable and other assets	2,057	2,235
Total assets	$ 466,918	$ 401,675
LIABILITIES		
Noninterest-bearing deposits	$ 91,189	$ 95,875
Interest-bearing deposits	268,699	218,983
Total deposits	359,888	314,858
Short-term borrowings	39,934	26,987
Long-term borrowings	18,000	12,000
Accrued expenses and other liabilities	1,060	1,109
Total liabilities	418,882	354,954
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock par value $0.01 (liquidation preference of $1,000 per share) authorized 5,000,000; shares issued and outstanding 12,562 series AA at September 30, 2013 and December 31, 2012, net of issuance cost	12,562	12,562
Common stock - par value of $0.01 authorized 10,000,000 shares; issued and outstanding 4,040,471 shares at September 30, 2013 and December 31, 2012	40	40
Capital surplus	37,541	37,484
Accumulated deficit	(2,116)	(3,386)

Accumulated other comprehensive income		9		21
Total shareholders' equity		48,036		46,721
Total liabilities and shareholders'equity	$	466,918	$	401,675

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

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Consolidated Statements of Operations

(in thousands)	Unaudited Nine months ended September 30, 2013	2012	Three months ended September 30, 2013	2012
INTEREST INCOME				
Interest and fees on loans	$ 12,713	$ 11,386	$ 4,627	$ 3,854
Interest and dividends on securities	57	74	16	29
Other interest income	35	46	12	15
Total interest income	12,805	11,506	4,655	3,898
INTEREST EXPENSE				
Deposits	1,208	1,371	422	432
Short-term borrowings	83	125	26	40
Long-term borrowings	90	53	49	14
Total interest expense	1,381	1,549	497	486
NET INTEREST INCOME	11,424	9,957	4,158	3,412
Provision for credit losses	666	650	140	308
Net interest income after provision for credit losses	10,758	9,307	4,018	3,104
NONINTEREST INCOME				
Service charges on deposit accounts	275	235	106	87
Gains on the sale of loans	195	111	35	31
Loss on the sale of other real estate owned	(37)	(131)	-	-
Income from bank owned life insurance	210	-	72	-
Other operating income	319	334	106	98
Total noninterest income	962	549	319	216
NONINTEREST EXPENSE				
Compensation and benefits	5,260	4,291	1,905	1,491
Occupancy and equipment	1,154	1,124	406	381
Amortization of core deposit intangible	14	-	14	-
Marketing and business development	464	435	153	145
Professional fees	634	445	246	134
Data processing fees	387	331	148	116
FDIC Assessment	242	228	87	83
Provision for other real estate owned	347	48	347	-
Other operating expense	1,006	941	401	309
Total noninterest expense	9,508	7,843	3,707	2,659
INCOME BEFORE INCOME TAXES	2,212	2,013	630	661
Income tax expense	808	831	223	273
NET INCOME	$ 1,404	$ 1,182	$ 407	$ 388
Preferred stock dividends	134	471	31	157

Net income available to common shareholders	$	1,270	$	711	$	376	$	231
NET INCOME PER COMMON SHARE AVAILABLE								
Basic	$	0.31	$	0.24	$	0.09	$	0.06
Diluted	$	0.31	$	0.24	$	0.09	$	0.06

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

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Consolidated Statements of Comprehensive Income

(in thousands) (Unaudited)	For the nine months ended September 30, 2013	2012
Net Income	$ 1,404	$ 1,182
Other comprehensive income		
Investments available-for-sale:		
Unrealized holding (losses) gains	(21)	3
Related income tax benefit (expense)	9	(1)
Comprehensive income	$ 1,392	$ 1,184

(in thousands) (Unaudited)	For the three months ended September 30, 2013	2012
Net Income	$ 407	$ 388
Other comprehensive income		
Investments available-for-sale:		
Unrealized holding (losses) gains	(1)	15
Related income tax benefit (expense)	-	(5)
Comprehensive income	$ 406	$ 398

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, 2012	$ 12,562	2,640,264	$ 26	$ 28,413	$ (4,391)	$ 20	$ 36,630
Net income	-	-	-	-	1,182	-	1,182
Net unrealized gain on securities	-	-	-	-	-	2	2
Dividends paid on preferred stock	-	-	-	-	(471)	-	(471)
Issuance of common stock:							
Stock offering	-	1,396,364	14	8,966	-	-	8,980
Balances at September 30, 2012	$ 12,562	4,036,628	$ 40	$ 37,379	$ (3,680)	$ 22	$ 46,323
Balances at January 1, 2013	$ 12,562	4,040,471	$ 40	$ 37,484	$ (3,386)	$ 21	$ 46,721
Net income	-	-	-	-	1,404	-	1,404
Net unrealized loss on securities	-	-	-	-	-	(12)	(12)
Stock-based compensation	-	-	-	57	-	-	57
Dividends paid on preferred stock	-	-	-	-	(134)	-	(134)
Balances at September 30, 2013	$ 12,562	4,040,471	$ 40	$ 37,541	$ (2,116)	$ 9	$ 48,036

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

Consolidated Statements of Cash Flows

(in thousands)	Unaudited Nine months ended September 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,404	$ 1,182
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	666	650
Deferred income taxes (benefit) expense	(289)	470
Provision for other real estate owned	347	48
Depreciation	441	381
Stock-based compensation	57	8,980
Net accretion of investment securities	16	32
Net amortization of intangible asset	14	-
Loans originated for sale	(9,827)	(8,658)
Proceeds from loans originated for sale	10,856	8,841
Gains on sales of loans	(195)	(111)
Loss on sales of other real estate owned, net	37	131
Cash surrender value of BOLI	(210)	-
Decrease in interest receivable	(16)	(62)
Increase in interest payable	36	10
(Increase) decrease in other assets	(477)	1,003
(Decrease) increase in other liabilities	(86)	278
Net cash provided by operating activities	2,774	13,175
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available-for-sale	(34,997)	(44,018)
Proceeds from maturities of investment securities available-for-sale	40,631	21,413
Net increase in loans and leases outstanding	(42,389)	(25,358)
Purchase of bank owned life insurance	(8,000)	-
Proceeds from the sale of other real estate owned	141	527
Purchase of premises and equipment	(416)	(555)
Branch acquisition (net of cash received)	(3,195)	-
Net cash used in investing activities	(48,225)	(47,991)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in noninterest-bearing deposits	(4,685)	17,890
Net increase in interest-bearing deposits	14,376	6,893
Net increase in short-term borrowings	12,947	14,635
Proceeds from issuance of long-term debt	14,000	-
Repayment of long-term debt	(8,000)	(4,000)
Cash dividends on preferred stock	(134)	(471)
Net cash provided by financing activities	28,504	34,947
Net (decrease) increase in cash and cash equivalents	(16,947)	131
Cash and cash equivalents at beginning of period	36,361	18,205

Cash and cash equivalents at end of period	$	19,414	$	18,336
SUPPLEMENTAL INFORMATION				
Cash payments for interest	$	848	$	1,539
Cash payments for income taxes		707		475
Transferred from loans to other real estate owned		-		1,598
BRANCH ACQUSITION				
Tangible assets acquired (net of cash received)		38,159		-
Identifiable intangible assets acquired		376		-
Liabilities assumed		35,340		-

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 Bank common stock was converted into two shares of Bancorp common stock effected by the filing of Articles of Exchange on that date, and the shareholders of the Bank became the shareholders of Bancorp. The Bank has four subsidiaries, three of which hold foreclosed real estate and the other owns and manages real estate that is used as a branch location and has office and retail space. The accompanying consolidated financial statements of Bancorp and its wholly-owned subsidiary bank (collectively the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America. These consolidated financial statements included herein are unaudited; however in the opinion of management, present a fair representation of the Company's financial condition, results of operations, and cash flows for the periods presented. The Company believes that the disclosures are adequate to make the information presented not misleading. The balances as of December 31, 2012 have been derived from audited financial statements. There have been no significant changes to the Company's accounting policies as disclosed in the 2012 Annual Report. The results of operations for the three and nine months ended September 30, 2013 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

ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU No. 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount is reclassified in its entirety in the same reporting period. For other amounts that are not to be reclassified in their entirety to net income, an entity is required to provide cross references to related footnote disclosures. The amendments do not change the current requirements for reporting net income or other comprehensive income, nor do they require new information to be disclosed. The amendments were effective prospectively for reporting periods beginning after December 15, 2012. The adoption of ASU No. 2013-02 as of January 1, 2013 did not have a material impact on the Company’s consolidated financial statements.

Note 2: Investments Securities

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

(in thousands)	September 30, 2013				December 31, 2012			
	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	$ 21,007	$ 2	$ -	$ 21,009	$ 26,526	$ 14	$ -	$ 26,540
Mortgage-backed	184	12	-	196	314	21	-	335
	$ 21,191	$ 14	$ -	$ 21,205	$ 26,840	$ 35	$ -	$ 26,875

There have not been any individual securities with an unrealized loss position for a period greater than one year as of either September 30, 2013 or December 31, 2012. 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 September 30, 2013 and December 31, 2012 are presented below:

September 30, 2013 (in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Federal agencies	$ 4,000	$ -	$ -	$ -	$ 4,000	$ -
Mortgage-backed	-	-	-	-	-	-
	$ 4,000	$ -	$ -	$ -	$ 4,000	$ -

December 31, 2012 (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	$ 3,000	$ -	$ -	$ -	$ 3,000	$ -
Mortgage-backed	-	-	-	-	-	-
	$ 3,000	$ -	$ -	$ -	$ 3,000	$ -

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.

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

(in thousands)	September 30, 2013		December 31, 2012	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Amounts maturing:				
One year or less	$ 21,006	$ 21,008	$ 23,536	$ 23,544
After one through five years	62	66	3,121	3,136
After five through ten years	123	131	90	96
After ten years	-	-	93	99
	$ 21,191	$ 21,205	$ 26,840	$ 26,875

There were no sales of investment securities during the nine months ended September 30, 2013 or in 2012. At September 30, 2013 and December 31, 2012, $16.5 million and $16.6 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 September 30, 2013 and December 31, 2012 are presented in the following table:

(in thousands)	September 30, 2013	% of Total	December 31, 2012	% of Total
Real estate				
Construction and land	$ 49,390	12.3 %	$ 37,963	11.8 %
Residential - first lien	36,149	9.0	29,826	9.3
Residential - junior lien	8,244	2.1	7,983	2.5
Total residential real estate	44,393	11.1	37,809	11.7
Commercial - owner occupied	89,008	22.1	61,119	19.0
Commercial - non-owner occupied	116,306	29.0	96,223	29.9
Total commercial real estate	205,314	51.1	157,342	48.8
Total real estate loans	299,097	74.5	233,114	72.3
Commercial loans and leases	101,463	25.3	87,844	27.3
Consumer	948	0.2	1,260	0.4
Total loans	$ 401,508	100.0 %	$ 322,218	100.0 %

There were $.8 million and $1.6 million in loans held for sale at September 30, 2013 and at December 31, 2012, respectively.

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Note 4: Credit Quality Assessment

Allowance for Credit Losses

The following table provides information on the activity in the allowance for credit losses by the respective loan portfolio segment for the three months and nine months ended September 30, 2013 and September 30, 2012:

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

(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
September 30, 2012								

Allowance for credit losses:								
Nine months ended								
Beginning balance	$ 174	$ 111	$ 64	$ 611	$ 197	$ 2,233	$ 43	$ 3,433
Charge-offs	-	(23)	(44)	-	(268)	(1,130)	(15)	(1,480)
Recoveries	-	-	-	-	63	65	2	130
Provision for credit losses	18	17	2	40	357	215	1	650
Ending balance	$ 192	$ 105	$ 22	$ 651	$ 349	$ 1,383	$ 31	$ 2,733
Three months ended								
Beginning balance	$ 99	$ 65	$ 42	$ 553	$ 532	$ 1,744	$ 41	$ 3,076
Charge-offs	-	-	-	-	(268)	(463)	-	(731)
Recoveries	-	-	-	-	63	16	1	80
Provision for credit losses	93	40	(20)	98	22	87	(11)	308
Ending balance	$ 192	$ 105	$ 22	$ 651	$ 349	$ 1,383	$ 31	$ 2,733
Ending balance: individually evaluated for impairment	103	73	-	-	-	257	-	433
collectively evaluated for impairment	89	32	22	651	349	1,126	31	2,300
Loans:								
Ending balance	35,889	23,074	8,162	58,793	86,116	85,409	1,371	298,814
Ending balance: individually evaluated for impairment	432	471	-	-	3,146	1,978	-	6,027
collectively evaluated for impairment	35,457	22,603	8,162	58,793	82,970	83,431	1,371	292,787

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

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

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

	September 30, 2013							
(in thousands)	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Credit quality indicators:								
Not classified	$ 49,390	$ 36,149	$ 8,244	$ 89,008	$ 115,933	$ 98,453	$ 948	$ 398,125
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	373	3,010	-	3,383
Doubtful	-	-	-	-	-	-	-	-
Total	$ 49,390	$ 36,149	$ 8,244	$ 89,008	$ 116,306	$ 101,463	$ 948	$ 401,508

	December 31, 2012							
(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	$ 37,531	$ 29,384	$ 7,983	$ 61,119	$ 95,839	$ 86,701	$ 1,260	$ 319,817
Special mention	-	-	-	-	-	-	-	-
Substandard	432	442	-	-	384	1,143	-	2,401
Doubtful	-	-	-	-	-	-	-	-
Total	$ 37,963	$ 29,826	$ 7,983	$ 61,119	$ 96,223	$ 87,844	$ 1,260	$ 322,218

- **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:

	September 30, 2013							
(in thousands)	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Analysis of past due loans:								
Accruing loans current	$ 49,390	$ 35,494	$ 8,244	$ 89,008	$ 115,516	$ 97,951	$ 948	$ 396,551
Accruing loans past due:								
31-59 days past due	-	655	-	-	-	45	-	700
60-89 days past due	-	-	-	-	-	-	-	-
Greater than 90 days past due								