Howard Bancorp Inc
Form 10-Q
May 15, 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 March 31, 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 April 30, 2013.

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

HOWARD BANCORP, INC.

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

This report contains forward-looking statements, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “plan,” “seek,” “expect,” “will,” “may,” “should” and words of similar meaning. You can also them by the fact that they do not relate strictly to historical or current facts.

These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations, particularly our business plans and strategies, increasing originations of residential mortgage loans, and our selling of loans into the secondary market;
- the expected closing date of our purchase of a branch from Cecil Bank;
- statements regarding our intentions in our investment portfolio and the status of unrealized losses in such portfolios;
- statements with respect to our allowance for credit losses, and the adequacy thereof;
- statements with respect to anticipated losses on nonperforming loans;
- future cash requirements relating to commitments to extend credit, and that we do not anticipate any material losses in connection therewith;
- our ability to retain maturing certificates of deposits;
- our statement with respect to adequate liquidity; and
- the impact on us of pending legal proceedings.

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

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

- general economic conditions, either nationally or in our market area, that are worse than expected;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;

- our ability to enter new markets successfully and capitalize on growth opportunities, and to otherwise implement our growth strategy;
- our ability to successfully integrate acquired entities, if any
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission ("SEC") and the Public Company Accounting Oversight Board;
- changes in our organization, compensation and benefit plans
- loss of key personnel; and
- other risk discussed in this report, in our annual report on Form 10-K for the year ended December 31, 2012, as filed with the SEC, and in other reports we may file.

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

PART I

Item 1. Financial Statements

Howard Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

(in thousands)	Unaudited March 31, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$ 28,743	$ 25,739
Federal funds sold	6,448	10,622
Total cash and cash equivalents	35,191	36,361
Securities available-for-sale	17,318	26,875
Nonmarketable equity securities	1,742	1,475
Loans held for sale	1,221	1,639
Loans and leases, net of unearned income	331,005	322,218
Allowance for credit losses	(2,980)	(2,764)
Net loans and leases	328,025	319,454
Bank premises and equipment, net	9,438	9,573
Bank owned life insurance	8,067	-
Other real estate owned	2,725	2,903
Deferred income taxes	1,283	1,160
Interest receivable and other assets	2,311	2,235
Total assets	$ 407,321	$ 401,675
LIABILITIES		
Noninterest-bearing deposits	$ 89,866	$ 95,875
Interest-bearing deposits	233,551	218,983
Total deposits	323,417	314,858
Short-term borrowings	21,752	26,987
Long-term borrowings	14,000	12,000
Accrued expenses and other liabilities	1,025	1,109
Total liabilities	360,194	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 March 31, 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 March 31, 2013 and December 31, 2012	40	40
Capital surplus	37,484	37,484
Accumulated deficit	(2,973)	(3,386)
Accumulated other comprehensive income	14	21

Total shareholders' equity	47,127	46,721
Total liabilities and shareholders'equity	$ 407,321	$ 401,675

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

Consolidated Statements of Operations

(in thousands)	Unaudited For the three months ended March 31, 2013	2012
INTEREST INCOME		
Interest and fees on loans	$ 3,956	$ 3,773
Interest and dividends on securities	22	23
Other interest income	11	13
Total interest income	3,989	3,809
INTEREST EXPENSE		
Deposits	388	463
Short-term borrowings	30	40
Long-term borrowings	21	24
Total interest expense	439	527
NET INTEREST INCOME	3,550	3,282
Provision for credit losses	361	141
Net interest income after provision for credit losses	3,189	3,141
NONINTEREST INCOME		
Service charges on deposit accounts	86	78
Gains on the sale of loans	108	37
Loss on the sale of other real estate owned	(37)	(131)
Income from bank owned life insurance	67	-
Other operating income	103	102
Total noninterest income	327	86
NONINTEREST EXPENSE		
Compensation and benefits	1,592	1,357
Occupancy and equipment	388	347
Marketing and business development	133	117
Professional fees	146	219
Data processing fees	116	106
FDIC Assessment	77	70
Provision for other real estate owned	-	-
Other operating expense	300	330
Total noninterest expense	2,752	2,546
INCOME BEFORE INCOME TAXES	764	681
Income tax expense	281	282
NET INCOME	$ 483	$ 399
Preferred stock dividends	69	157
Net income available to common shareholders	$ 414	$ 242
NET INCOME PER COMMON SHARE AVAILABLE		

Basic	$ 0.10	$ 0.09
Diluted	$ 0.10	$ 0.09

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

Consolidated Statements of Comprehensive Income

	Unaudited For the three months ended March 31,	
(in thousands)	2013	2012
Net Income	$ 483	$ 399
Other comprehensive income		
Investments available-for-sale:		
Unrealized holding (losses) gains	(12)	(14)
Related income tax benefit (expense)	5	5
Comprehensive income	$ 476	$ 390

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
Comprehensive income:							
Net income	-	-	-	-	399	-	399
Net unrealized loss on securities	-	-	-	-	-	(7)	(7)
Dividends paid on preferred stock	-	-	-	-	(157)	-	(157)
Balances at March 31, 2012	$12,562	2,640,264	$ 26	$28,413	$ (4,149)	$ 13	$36,865
Balances at January 1, 2013	$12,562	4,040,471	$ 40	$37,484	$ (3,386)	$ 21	46,721
Comprehensive income:							
Net income	-	-	-	-	483	-	483
Net unrealized loss on securities	-	-	-	-	-	(7)	(7)
Dividends paid on preferred stock	-	-	-	-	(69)	-	(69)
Balances at March 31, 2013	$12,562	4,040,471	$ 40	$37,484	$ (2,973)	$ 14	$47,127

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

Consolidated Statements of Cash Flows

(in thousands)	Unaudited Three months ended March 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$483	$399
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	361	141
Deferred income taxes (benefit)	(119)	(82)
Depreciation	146	122
Net accretion of investment securities	12	10
Loans originated for sale	(4,205)	(3,988)
Proceeds from loans originated for sale	4,730	3,701
Gains on sales of loans	(108)	(37)
Loss on sales of other real estate owned, net	37	131
Earnings on cash surrender value of BOLI	(67)	-
(Decrease) increase in interest receivable	(37)	66
Increase in interest payable	4	9
(Increase) decrease in other assets	(305)	258
(Decrease) increase in other liabilities	(88)	41
Net cash provided by operating activities	844	771
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available-for-sale	(5,000)	(16,996)
Proceeds from maturities of investment securities available-for-sale	14,534	9,789
Net increase in loans and leases outstanding	(8,932)	(3,332)
Purchase of bank owned life insurance	(8,000)	-
Proceeds from the sale of other real estate owned	141	436
Purchase of premises and equipment	(11)	(250)
Net cash used in investing activities	(7,268)	(10,353)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in noninterest-bearing deposits	(6,008)	10,158
Net increase in interest-bearing deposits	14,567	12,100
Net (decrease) increase in short-term borrowings	(5,236)	6,196
Proceeds from issuance of long-term debt	4,000	-
Repayment of long-term debt	(2,000)	(4,000)
Cash dividends on preferred stock	(69)	(157)
Net cash provided by financing activities	5,254	24,297
Net increase in cash and cash equivalents	(1,170)	14,715
Cash and cash equivalents at beginning of period	36,361	18,205
Cash and cash equivalents at end of period	$35,191	$32,920
SUPPLEMENTAL INFORMATION		

Cash payments for interest	$434	$518
Cash payments for income taxes	$-	$330
Transferred from loans to other real estate owned	$-	$112

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 three subsidiaries, two of which hold foreclosed real estate and the other owns and manages real estate that is used as a branch location and has office and retail space. The accompanying consolidated financial statements of Bancorp and its wholly-owned subsidiary bank (collectively the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America.

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 require 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 OCI, nor do they require new information to be disclosed. The amendments are effective prospectively for reporting periods beginning after December 15, 2012.

Note 2: Investments Securities

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

(in thousands)	**March 31,** - Unaudited 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	$17,014	$ 5	$ -	$ 17,019	$26,526	$ 14	$ -	$ 26,540
Mortgage-backed	280	19	-	299	314	21	-	335
	$17,294	$ 24	$ -	$ 17,318	$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 March 31, 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 March 31, 2013 and December 31, 2012 are presented below:

March 31, 2013 -Unaudited

(in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Federal agencies	$ 7,000	$ -	$ -	$ -	$7,000	$ -
Mortgage-backed	-	-	-	-	-	-
	$ 7,000	$ -	$ -	$ -	$7,000	$ -

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.

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

(in thousands)	**March 31,** - Unaudited 2013		December 31, 2012	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Amounts maturing:				
One year or less	$ 14,027	$ 14,031	$ 23,536	$ 23,544
After one through five years	3,104	3,113	3,121	3,136
After five through ten years	163	174	90	96
After ten years	-	-	93	99
	$ 17,294	$ 17,318	$ 26,840	$ 26,875

There were no sales of investment securities during the three months ended March 31, 2013 or in 2012. At March 31, 2013 and December 31, 2012, $9.4 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 March 31, 2013 and December 31, 2012 are presented in the following table:

(in thousands)	Unaudited March 31, 2013	% of Total	December 31, 2012	% of Total	
Real estate					
Construction and land	41,588	12.6	% $ 37,963	11.8	%
Residential - first lien	28,796	8.7	29,826	9.3	
Residential - junior lien	8,241	2.5	7,983	2.5	
Total residential real estate	37,037	11.2	37,809	11.7	
Commercial - owner occupied	74,248	22.4	61,119	19.0	
Commercial - non-owner occupied	88,598	26.8	96,223	29.9	

Total commercial real estate	162,846	49.2	157,342	48.8	
Total real estate loans	241,471	73.0	233,114	72.3	
Commercial loans and leases	88,317	26.7	87,844	27.3	
Consumer	1,217	0.4	1,260	0.4	
Total loans	$331,005	100.0 %	$322,218	100.0	%

There were $1.2 million in loans held for sale at March 31, 2013 and $1.6 million at December 31, 2012.

Note 4: Credit Quality Assessment

Allowance for Credit Losses

The following table provides information on the activity in the allowance for credit losses by the respective loan portfolio segment for the three month ended March 31, 2013:

	For the three months ended March 31, 2013 - Unaudited							
(in thousands)	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Allowance for credit losses:								
Beginning balance	$127	$204	$22	$650	$505	$1,227	$29	$2,764
Charge-offs	-	(183)	-	-	-	-	-	(183)
Recoveries	-	-	-	-	30	8	-	38
Provision for credit losses	11	110	-	-	(67)	307	-	361
Ending balance	$138	$131	$22	$650	$468	$1,542	$29	$2,980
Ending balance: individually evaluated for impairment	21	-	-	-	148	547	-	716
collectively evaluated for impairment	117	131	22	650	320	995	29	2,264
Loans:								
Ending balance	41,588	28,796	8,241	74,248	88,598	88,317	1,217	331,005
Ending balance: individually evaluated for impairment	370	-	-	-	3,118	1,884	-	5,372
collectively evaluated for impairment	41,218	28,796	8,241	74,248	85,480	86,433	1,217	325,633

	For the three months ended March 31, 2012 - Unaudited							
(in thousands)	Construction and land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Allowance for credit losses:								
Beginning balance	$174	$111	$64	$611	$197	$2,233	$43	$3,433
Charge-offs	-	(23)	(44)	-	-	(3)	(9)	(79)

Recoveries	-	-	-	-	-	26	-	26
Provision for credit losses	(12)	(9)	22	(13)	199	(50)	4	141
Ending balance	$162	$79	$42	$598	$396	$2,206	$38	$3,521
Ending balance: individually evaluated for impairment	-	33	-	-	-	1,154	-	1,187
collectively evaluated for impairment	162	46	42	598	396	1,052	38	2,334
Loans:								
Ending balance	37,634	22,652	8,934	52,309	79,285	77,286	1,591	279,691
Ending balance: individually evaluated for impairment	-	473	-	1,983	3,771	3,347	-	9,574
collectively evaluated for impairment	37,634	22,179	8,934	50,326	75,514	73,939	1,591	270,117

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

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

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

	March 31, 2013 - Unaudited							
(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	$41,218	$ 28,796	$ 8,241	$ 74,248	$ 88,223	$ 86,849	$ 1,217	$328,792
Special mention	-	-	-	-	-	-	-	-
Substandard	370	-	-	-	375	1,468	-	2,213
Doubtful	-	-	-	-	-	-	-	-
Total	$41,588	$ 28,796	$ 8,241	$ 74,248	$ 88,598	$ 88,317	$ 1,217	$331,005

	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:

	March 31, 2013 - Unaudited							
(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	$41,218	$ 28,588	$ 8,200	$ 74,248	$ 88,223	$ 86,846	$ 1,217	$328,540
Accruing loans past due:								
31-59 days past due	-	-	-	-	-	-	-	-
60-89 days past due	-	-	-	-	-		-	-
Greater than 90 days past due	-	208	41	-	-	3	-	252
Total past due	$-	$ 208	$ 41	$ -	$ -	$ 3	$ -	$252
Non-accrual loans	370	-	-	-	375	1,468	-	2,213
Total loans	$41,588	$ 28,796	$ 8,241	$ 74,248	$ 88,598	$ 88,317	$ 1,217	$331,005

	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
Analysis of past due loans:								
Accruing loans current	$37,531	$ 29,176	$ 7,942	$ 61,119	$ 95,839	$ 86,393	$ 1,260	$319,260
Accruing loans past due:								
31-59 days past due	-	-	-	-	-	-	-	-
60-89 days past due	-	-	-	-	-	308	-	308
Greater than 90 days past due	-	208	41	-	-	-	-	249
Total past due	$-	$ 208	$ 41	$ -	$ -	$ 308	$ -	$557
Non-accrual loans	432	442	-	-	384	1,143	-	2,401
Total loans	$37,963	$ 29,826	$ 7,983	$ 61,119	$ 96,223	$ 87,844	$ 1,260	$322,218

Total loans either in non-accrual status or in excess of ninety days delinquent totaled $2.5 million or 0.74% of total loans outstanding as of March 31, 2013 which represents a decrease from $2.7 million as of December 31, 2012.

The impaired loans at March 31, 2013 and the year ended December 31, 2012 are as follows:

	March 31, 2013 - Unaudited							
(in thousands)	Construction & land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Impaired loans:								
Recorded investment	370	-	-	-	3,118	1,884	-	5,372
With an allowance recorded	370	-	-	-	375	1,468	-	2,213
With no related allowance recorded	-	-	-	-	2,743	416	-	3,159
Related allowance	21	-	-	-	148	547	-	716
Unpaid principal	370	-	-	-	3,181	1,895	-	5,446
Average balance of impaired loans	401	-	-	-	3,673	1,993	-	6,067
Interest income recognized	8	-	-	-	57	25	-	90

	December 31, 2012							
(in thousands)	Construction & land	Residential first lien	Residential junior lien	Commercial owner occupied	Commercial non-owner occupied	Commercial loans and leases	Consumer loans	Total
Impaired loans:								
Recorded investment	432	442	-	-	3,134	1,568	-	5,576
With an allowance recorded	432	442	-	-	381	540	-	1,795
With no related allowance recorded	-	-	-	-	2,753	1,028	-	3,781
Related allowance	21	138	-	-	148	257	-	564
Unpaid principal	432	442	-	-	3,372	1,580	-	5,826
Average balance of impaired loans	439	444	-	-	4,225	1,809	7	6,924
Interest income recognized	18	15	-	-	211	96	1	341

Nonaccrual loans included in impaired loans totaled $2.2 million and $2.4 million at March 31, 2013 and December 31, 2012, respectively. Interest income that would have been recorded if nonaccrual loans had been current and in accordance with their original terms was $33 thousand for the first three months of 2013.

Management routinely evaluates other real estate owned ("OREO") based upon periodic appraisals. For the three months ended March 31, 2013 and 2012 there were no additional valuation allowances recorded as the current appraised value was sufficient to cover the recorded OREO amount. For the three months ended March 31, 2013 there were no new loans transferred from loans to OREO and one OREO property totaling $178 thousand was sold. For the first three months of 2012, the Company transferred one loan totaling $112 thousand, net of reserves, to OREO. Also in 2012, the Company sold one OREO property totaling $567 thousand.

The trouble debt restructured loans ("TDRs") at March 31, 2013 and December 31, 2012 are as follows:

	March 31, 2013 - Unaudited				
(dollars in thousands)	Number of Loans	Non-Accrual Status	Number of Loans	Accrual Status	Total TDRs
Commercial real estate non-owner occupied	1	$ 381	-	$ -	$ 381
Commercial loans	6	885	-	-	885
	7	$ 1,266	-	$ -	$ 1,266

	December 31, 2012				
	Number	Non-Accrual	Number	Accrual	Total

(dollars in thousands)	of Loans	Status	of Loans	Status	TDRs
Commercial real estate non-owner occupied	1	$ 381	-	$ -	$381
Commercial loans	6	903	-	-	903
	7	$ 1,284	-	$ -	$1,284

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

	March 31, 2013 - Unaudited		
(in thousands)	Not Performing to Modified Terms	Performing to Modified Terms	Total TDRs
Commercial loans			
Interest only payments	$ -	$ -	$ -
Rate modification	-	-	-
Forberance	1,266	-	1,266
Extension or other modification	-	-	-
Total commercial	1,266	-	1,266
Total TDR's	$ 1,266	$ -	$ 1,266

(in thousands)	December 31, 2012 Not Performing to Modified Terms	Performing to Modified Terms	Total TDRs
Commercial loans			
Interest only payments	$-	$ -	$-
Rate modification	-	-	-
Forberance	1,284	-	1,284
Extension or other modification	-	-	-
Total commercial	1,284	-	1,284
Total TDR's	$1,284	$ -	$1,284

There were no new loans restructured in the three months ended March 31, 2013 or March 31, 2012.

Note 5: Deposits

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

(dollars in thousands)	Unaudited March 31, 2013		December 31, 2012	
	Amount	% of Total	Amount	% of Total
Noninterest-bearing demand	$89,866	28 %	$95,875	30 %
Interest-bearing checking	24,775	8	26,209	8
Money market accounts	77,202	24	70,856	23
Savings	11,919	4	11,107	4
Certificates of deposit $100,000 and over	86,403	27	77,759	25
Certificates of deposit under $100,000	33,252	10	33,052	10
Total deposits	$323,417	100 %	$314,858	100 %

Note 6: Stock Options, Awards and Warrants

The Company initially raised $4,775,000 of capital by selling to its founders investment units consisting of one share of common stock and a fully detachable warrant equal to .25 shares of common stock per unit. The warrants were issued in recognition of the financial and organizational risk undertaken by the purchasers in the organizational offering. The warrants are immediately exercisable and will expire ten (10) years from the date of issuance on August 8, 2014. As of March 31, 2013 there have not been any exercises of these warrants and the Company has outstanding

warrants to purchase 119,376 shares at the price of $10.00 per share.

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

Stock options and stock awards may also be granted to non-employee members of the Board of Directors as compensation for attendance and participation at meetings of the Board of Directors and meetings of the various committees of the Board. The Company previously maintained an Advisory Board, for which non-employee members were compensated via stock options for meeting attendance. These nonqualified stock options can be granted with terms up to ten years, vest immediately, and are fully exercisable at time of grant. Stock awards granted to directors are based on the fair value of the awards, which is generally the market price of the common stock on the measurement date, and vest immediately. For the three months ended March 31, 2013 directors earned 1,380 shares of stock as compensation for their service.

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

	Unaudited			
	March 31, 2013		December 31, 2012	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance at January 1, 2013	395,351	$ 11.16	395,351	$ 11.16
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Balance at March 31, 2013	395,351	$ 11.16	395,351	$ 11.16
Exercisable at March 31, 2013	395,351	$ 11.16	395,351	$ 11.16
Weighted average fair value of options granted during the year		$ -		$ -

The intrinsic value of a stock option is the amount that the market value of the underlying stock exceeds the exercise price of the option. Based upon a fair market value of $6.82 at March 31, 2013 the options outstanding had no aggregate intrinsic value. There were no options exercised during 2013.

Note 7: Profit Sharing Plan

The Company sponsors a defined contribution retirement plan through a Section 401(k) profit sharing plan. Employees may contribute up to 15% of their pretax compensation. Participants are eligible for matching Company contributions up to 4% of eligible compensation dependent on the level of voluntary contributions. Company matching contributions totaled $28 thousand for the three months ended March 31, 2013 and $24 thousand for the three months ended March 31, 2012. The Company's matching contributions vest immediately.

Note 8: Income per Common Share

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

	Unaudited Three months ended March 31,

(dollars in thousands, except per share data)	2013	2012
Net income	$483	$399
Preferred dividends	$(69)	$(157)
Net income available to common shareholders (numerator)	$414	$242
BASIC		
Average common shares outstanding (denominator)	4,040,471	2,640,264
Basic income per common share	$0.10	$0.09
DILUTED		
Average common shares outstanding	4,040,471	2,640,264
Diluted effect of stock options and warrants	-	-
Diluted average common shares outstanding (denominator)	4,040,471	2,640,264
Diluted income per common share	$0.10	$0.09
Stock options and warrants outstanding that are anti-dilutive and thus excluded from calculation of diluted number of shares presented above	514,727	514,127

Note 9: Risk-Based Capital

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

Management believes that, as of March 31, 2013 and December 31, 2012 the Bank met all capital adequacy requirements to which it is subject.

(dollars in thousands)	Actual Amount	Ratio	For capital adequacy purposes Amount	Ratio	To be well capitalized under the FDICIA prompt corrective action provisions Amount	Ratio
As of March 31, 2013: (unaudited)						
Total capital (to risk-weighted assets)						
Howard Bank	$40,490	11.91%	$ 27,196	8.00 %	$ 33,995	10.00 %
Howard Bancorp	$50,033	14.56%	$ 27,499	8.00 %	**N/A**	
Tier 1 capital (to risk-weighted assets)						
Howard Bank	$37,513	11.03%	$ 13,598	4.00 %	$ 20,397	6.00 %
Howard Bancorp	$47,053	13.69%	$ 13,750	4.00 %	**N/A**	
Tier 1 capital (to average assets) (Leverage ratio)						
Howard Bank	$37,513	9.61 %	$ 15,621	4.00 %	$ 19,526	5.00 %
Howard Bancorp	$47,053	12.04%	$ 15,629	4.00 %	**N/A**	
As of December 31, 2012:						
Total capital (to risk-weighted assets)						
Howard Bank	$39,739	12.17%	$ 26,127	8.00 %	$ 32,659	10.00 %
Howard Bancorp	$49,404	15.02%	$ 26,312	8.00 %	N/A	
Tier 1 capital (to risk-weighted assets)						
Howard Bank	$36,978	11.32%	$ 13,064	4.00 %	$ 19,595	6.00 %
Howard Bancorp	$46,640	14.18%	$ 13,156	4.00 %	N/A	
Tier 1 capital (to average assets) (Leverage ratio)						
Howard Bank	$36,978	9.79 %	$ 15,109	4.00 %	$ 18,887	5.00 %

Howard Bancorp	$46,640	12.34%	$ 15,114	4.00 %	N/A

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

Note 10: Preferred Stock

On September 22, 2011, we entered into a Securities Purchase Agreement with the Secretary of the Treasury, pursuant to which Bancorp issued and sold to the Treasury 12,562 shares of our Senior Non-Cumulative Perpetual Preferred Stock, Series AA, having a liquidation preference of $1,000 per share, for aggregate proceeds of $12,562,000. The issuance was pursuant to the Treasury's Small Business Lending Fund (SBLF) program, a $30 billion fund established under the Small Business Jobs Act of 2010, which encourages lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. The Series AA Preferred Stock holders are entitled to receive non-cumulative dividends payable quarterly on each January 1, April 1, July 1 and October 1, beginning October 1, 2011. The dividend rate, which is calculated on the aggregate Liquidation Amount, has been initially set at 5% per annum based upon the current level of "Qualified Small Business Lending" ("QSBL") by the Bank. The dividend rate for future dividend periods will be set based upon the percentage change in qualified lending between each dividend period and the baseline QSBL level established at the time the Agreement was entered into. Such dividend rate may vary from 1% per annum to 5% per annum for the second through tenth dividend periods and from 1% per annum to 7% per annum for the eleventh through the eighteenth dividend periods and though March 22, 2016 with respect to the nineteenth dividend period. If the Series AA Preferred Stock remains outstanding for more than four-and-one-half years, the dividend rate will be fixed at 9%. Prior to that time, in general, the dividend rate decreases as the level of the Bank's QSBL increases. Such dividends are not cumulative, but Bancorp may only declare and pay dividends on its common stock (or any other equity securities junior to the Series AA Preferred Stock) if it has declared and paid dividends for the current dividend period on the Series AA Preferred Stock, and will be subject to other restrictions on its ability to repurchase or redeem other securities. In addition, if (i) we have not timely declared and paid dividends on the Series AA Preferred Stock for six dividend periods or more, whether or not consecutive, the Treasury (or any successor holder of Series AA Preferred Stock) may designate a representative to attend all meetings of Bancorp's Board of Directors in a nonvoting observer capacity and Bancorp must give such representative copies of all notices, minutes, consents and other materials that Bancorp provide to its directors in connection with such meetings.

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

Note 11: Fair Value

FASB ASC Topic 820 “Fair Value Measurements” defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

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

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

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

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

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

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

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

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

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

The following table sets forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a recurring basis as of March 31, 2013 and December 31, 2012.

March 31, 2013 - Unaudited (in thousands)	Carrying Value (Fair Value)	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities:				
U.S. Federal agencies	$ 17,019	$ -	$ 17,019	$ -
Mortgage-backed securities	299	-	299	-
Loans held for sale	1,221	-	1,221	-

December 31, 2012 (in thousands)	Carrying Value (Fair Value)	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities:				
U.S. Federal agencies	$ 26,540	$ -	$ 26,540	$ -
Mortgage-backed securities	335	-	335	-
Loans held for sale	1,639	-	1,639	-

The following table sets forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis as of March 31, 2013 and December 31, 2012.

March 31, 2013 - Unaudited (in thousands)	Carrying Value (Fair Value)	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other real estate owned	$ 2,725	$ -	$ -	$ 2,725
Impaired loans:				
Construction and land	349	-	-	349
Residential - first lien	-	-	-	-
Residential - junior lien	-	-	-	-
Commercial - owner occupied	-	-	-	-
Commercial - non-owner occupied	2,970	-	-	2,970
Commercial loans and leases	1,337	-	-	1,337
Consumer	-	-	-	-

December 31, 2012 (in thousands)	Carrying Value (Fair Value)	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other real estate owned	$ 2,903	$ -	$ -	$ 2,903
Impaired loans:				
Construction and land	411	-	-	411
Residential - first lien	304	-	-	304
Residential - junior lien	-	-	-	-
Commercial - owner occupied	-	-	-	-
Commercial - non-owner occupied	2,985	-	-	2,985
Commercial loans and leases	1,311	-	-	1,311
Consumer	-	-	-	-

The following table presents required information in accordance with ASC Topic 825 “Financial Instruments” at March 31, 2013 and December 31, 2012. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are based on quoted market prices where available or calculated using present value techniques. Since quoted market prices are not available on many of our financial instruments, estimates may be based on the present value of estimated future cash flows and estimated discount rates. These financial assets and liabilities have not been recorded at fair value,

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

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

Securities available-for-sale: Based on quoted market prices. If quoted market price is not available fair value is estimated using quoted market prices for similar securities. See Note 2 for additional information.

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

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

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

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

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

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

	March 31, 2013 - Unaudited				
(in thousands)	Carrying Amount	Fair Value	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Cash and cash equivalents	$35,191	$35,191	$ -	$ 35,191	$ -
Nonmarketable equity securities	1,742	1,742	-	1,742	-
Loans and leases	328,025	335,872	-	-	335,872
Financial Liabilities					
Deposits	323,417	322,979	-	-	322,979
Short-term borrowings	21,752	21,752	-	21,752	-
Long-term borrowings	14,000	14,008	-	14,008	-

	December 31, 2012				
(in thousands)	Carrying Amount	Fair Value	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Cash and cash equivalents	$36,361	$36,361	$ -	$ 36,361	$ -
Nonmarketable equity securities	1,475	1,475	-	1,475	-
Loans and leases	319,454	322,495	-	-	322,495
Financial Liabilities					
Deposits	314,858	314,292	-	-	314,292
Short-term borrowings	26,987	26,987	-	26,987	-
Long-term borrowings	12,000	12,025	-	12,025	-

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

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

Overview

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

We are headquartered in Ellicott City, Maryland and we consider our primary market area to be Howard County, Maryland and Anne Arundel County, Maryland. Our secondary market area, primarily for commercial lending, includes the Maryland counties of Baltimore, Carroll, Frederick, Montgomery and Prince George's as well as Baltimore City. We engage in a general commercial banking business, making various types of loans and accepting deposits. We market our financial services to small to medium sized businesses and their owners, professionals and executives, and high-net-worth individuals. Our loans are primarily funded by core deposits of customers in our market.

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

Our results of operations depend mainly on our net interest income, which is the difference between the interest income we earn on our loan and investment portfolios and the interest expense we pay on deposits and borrowings. Results of operations are also affected by provisions for credit losses, noninterest income and noninterest expense.

Our noninterest expense consists primarily of compensation and employee benefits, as well as office occupancy, deposit insurance and general administrative and data processing expenses. Our operations are significantly affected by general economic and competitive conditions, particularly with respect to changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially affect our financial condition and results of operations.

Total assets increased by over $5.6 million or 1.4% when comparing March 31, 2013 assets of $407.3 million to the $401.7 million at December 31, 2012. Total loans outstanding of $331.0 million at the end of March 2013, showed an increase of $8.8 million or 2.7% compared to total loans of $322.2 million on December 31, 2012. Total deposits grew by $8.6 million or 2.7% when comparing March 31, 2013 to December 31, 2012. Early in the first quarter of 2013, the Bank initiated an investment of $8.0 million in bank owned life insurance (“BOLI”) that is included in other assets on the consolidated balance sheet.

The first quarter of 2013 net income was $483 thousand, which represents an increase of 21.0% over net income for the first quarter of 2012. Net interest income for the quarter ended March 31, 2013 was $3.6 million versus $3.3 million for the first three months of 2012, an increase of approximately $268 thousand or 8.2%. Total noninterest income was $86 thousand for the first quarter of 2012, compared to a total of $327 thousand for the same period in 2013. The first quarter 2012 noninterest income was impacted by a $131 thousand loss on sale of Other Real Estate Owned. Noninterest income for 2013 benefitted from increased income from mortgage banking activities, and the income generated from the recently initiated BOLI program. Total noninterest expenses increased to $2.8 million from $2.5 million for the three month ended March 31, 2013 and 2012, respectively. Most of the increase in expenses was due to additional compensation costs as we continue to expand.

On March 28, 2013, the Bank executed an agreement to acquire approximately $39 million in additional loans and deposits via the purchase of a branch in Harford County, Maryland from Cecil Bank. This transaction is subject to the normal regulatory approval process and is expected to close either late in the second quarter of 2013, or early in the third quarter of 2013.

Critical Accounting Policies

Our accounting and financial reporting policies conform to the accounting principles generally accepted in the United States of America and general practice within the banking industry. Accordingly, the financial statements require management to exercise significant judgment or discretion or make significant assumptions based on the information available that have, or could have, a material impact on the carrying value of certain assets or on income. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the periods presented. In reviewing and understanding financial information for us, you are encouraged to read and understand the significant accounting policies used in preparing our financial statements. We consider the allowance for credit losses to be our most significant accounting policy, which is further described in the Notes to the financial statements.

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

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

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

extent on matters that may, at least in part, be beyond our control. It is at least reasonably possible that management's judgment about the need for a valuation allowance for deferred tax assets could change in the near term.

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

Balance Sheet Analysis and Comparison of Financial Condition

A comparison between March 31, 2013 and December 31, 2012 balance sheets is presented below.

Assets

Total assets increased $5.6 million, or 1.4%, to $407.3 million at March 31, 2013 compared to $401.7 million at December 31, 2012. This asset growth was primarily due to an $8.8 million growth in total loans and an $8.1 million increase in other assets, partially offset by a $9.6 million decrease in investment securities. The increase in others asset is attributed to the Bank's investment of $8.0 million in BOLI which was purchased in the first quarter of 2013. The asset growth was funded primarily from increases in customer deposits, which increased from $314.9 million at December 31, 2012 to $323.4 million at March 31, 2013, an increase of $8.6 million or 2.7%.

Securities Available for Sale

We currently hold both U.S. agency securities and mortgage backed securities in our securities portfolio, all of which are considered as available for sale. Our securities portfolio is used to provide the required collateral for funding via commercial customer repurchase agreements as well as to provide sufficient liquidity to fund our loans and provide funds for withdrawals of deposited funds. At March 31, 2013 and December 31, 2012 we held an investment in stock of the Federal Home Loan Bank of Atlanta ("FHLB") of $1.7 million and $1.5 million, respectively. This investment is required for continued FHLB membership, and is based partially upon the dollar amount of borrowings outstanding from the FHLB. These investments are carried at cost. We have never held stock in Fannie Mae or Freddie Mac.

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

	March 31, 2013		December 31, 2012	
(in thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
U.S. Federal agencies	$17,014	$ 17,019	$26,526	$ 26,540
Mortgage-backed	280	299	314	335
Total	$17,294	$ 17,318	$26,840	$ 26,875

We had securities available for sale of $17.3 million and $26.9 million at March 31, 2013 and December 31, 2012, respectively, which were recorded at fair value. This represents a decrease of $9.6 million, or 35.6%, from the prior year end. The decreased in our securities was used to fund the $8.0 million BOLI program, while maintaining an appropriate amount of securities to collateralize our repurchase agreements at March 31, 2013. We did not record any gains or losses on the sales or calls of securities or mortgage backed securities in either period presented.

With respect to our total portfolio of securities available for sale, we held certain securities that had unrealized losses of less than $1 thousand at both March 31, 2013 and December 31, 2012. The minimal changes in the fair value of these securities resulted primarily from interest rate fluctuations. We do not intend to sell these securities nor is it more likely than not that we would be required to sell these securities before their anticipated recovery, and we believe the collection of the investment and related interest is probable. Based on this analysis, we consider all of the unrealized losses to be temporary in nature.

Loan Portfolio

Total loans increased by $8.8 million or 2.7%, to $331.0 million at March 31, 2013 from $322.2 million at December 31, 2012. At March 31, 2013, total loans were 81.3% of total assets, up slightly compared to 80.2% of total assets at December 31, 2012. Loan growth throughout the banking industry has been impacted by decreased loan demand resulting from uncertain economic conditions. As the economy in our market area has started to gradually improve so has demand for certain types of credit, especially commercial real estate, commercial and construction loans.

The following table sets forth the composition of our loan portfolio at the dates indicated. We had loans held for sale of $1.2 million at March 31, 2013, and $1.6 million at December 31, 2012.

(in thousands)	March 31, 2013	% of Total		December 31, 2012	% of Total	
Real estate						
Construction and land	41,588	12.6	%	$37,963	11.8	%
Residential - first lien	28,796	8.7		29,826	9.3	
Residential - junior lien	8,241	2.5		7,983	2.5	
Total residential real estate	37,037	11.2		37,809	11.7	
Commercial - owner occupied	74,248	22.4		61,119	19.0	
Commercial - non-owner occupied	88,598	26.8		96,223	29.9	
Total commercial real estate	162,846	49.2		157,342	48.8	
Total real estate loans	241,471	73.0		233,114	72.3	
Commercial loans and leases	88,317	26.7		87,844	27.3	
Consumer	1,217	0.4		1,260	0.4	
Total loans	$331,005	100.0	%	$322,218	100.0	%

Deposits

Our deposits increased from $314.9 million at December 31, 2012 to $323.4 million at March 31, 2013, an increase of $8.6 million or 2.7%. The increase resulted primarily from an $8.5 million or 8.0% increase in certificates of deposit, which increased from $110.8 million at December 31, 2012 to $119.7 million at March 31, 2013. In addition, interest bearing money market accounts increased $6.3 million or 9.0% from December 31, 2012 to March 31, 2013. Partially offsetting this growth was a decrease in transaction deposits, both interest and non-interest bearing, from $122.1 at December 31, 2012 to $114.6 at March 31, 2013 a decline of $7.4 million or 6.1%, primarily resulting from one customers large deposit at year end 2012, that was subsequently disbursed. The growth in total deposits was sufficient to fund the growth in loans.

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

	March 31, 2013		December 31, 2012	
(dollars in thousands)	Amount	% of Total	Amount	% of Total
Noninterest-bearing demand	$89,866	28 %	$95,875	30 %
Interest-bearing checking	24,775	8	26,209	8
Money market accounts	77,202	24	70,856	23
Savings	11,919	4	11,107	4
Certificates of deposit $100,000 and over	86,403	27	77,759	25
Certificates of deposit under $100,000	33,252	10	33,052	10
Total deposits	$323,417	100 %	$314,858	100 %

Borrowings

Customer deposits remain the primary source utilized to meet funding needs. Borrowings consist of overnight unsecured master notes, overnight securities sold under agreement to repurchase (“repurchase agreements”) and FHLB advances. Our borrowings totaled $34.7 million at March 31, 2013 and $39.0 million at December 31, 2012. Short-term borrowings totaled $21.8 million at March 31, 2013 and $27.0 million at December 31, 2012. We had seven long-term FHLB advances outstanding totaling $14 million at March 31, 2013 compared to six FHLB advances outstanding totaling $12 million at December 31, 2012.

Shareholders’ Equity

Total shareholders' equity increased by $406 thousand, or approximately 1%, from $46.7 million at December 31, 2012 to $47.1 million at March 31, 2013. The increase in shareholder's equity is the result of the retention of the earnings for the first quarter of 2013.

Total shareholders' equity at March 31, 2013 represents a capital to asset ratio of 11.57%, while the total shareholders' equity at December 31, 2012 represents a capital to asset ratio of 11.63%. Even though capital levels increased, the overall growth in asset levels resulted in a decline in the capital to asset ratio.

Average Balance and Yields

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

	For the three months ended March 31,					
	2013			2012		
(dollars in thousands)	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
Earning assets						
Loans and leases: [1]						
Commercial loans and leases	$84,898	$ 1,042	4.98 %	$77,797	$ 1,085	5.61 %
Commercial real estate	159,515	1,981	5.04	126,974	1,762	5.58
Construction and land	39,558	488	5.00	38,999	519	5.35
Residential real estate	37,933	430	4.60	31,301	391	5.03
Consumer	1,233	15	5.09	1,272	16	5.03
Total loans and leases	323,138	3,956	4.96	276,343	3,773	5.49
Federal funds sold	21,230	11	0.20	28,567	13	0.19
Securities: [2]						
U.S. Gov agencies	19,270	11	0.23	14,264	10	0.27
Mortgage-backed	318	4	4.68	575	7	4.69
Other investments	1,486	7	2.00	1,314	7	2.13
Total securities	21,074	22	0.43	16,154	23	0.58
Total earning assets	365,442	3,989	4.43	321,064	3,809	4.77
Cash and due from banks	4,534			3,445		
Bank premises and equipment, net	9,515			9,509		
Other assets	14,108			6,879		
Less: allowance for credit losses	(2,817)			(3,454)		
Total assets	$390,782			$337,443		
Interest-bearing liabilities						
Deposits:						
Interest-bearing demand accounts	$24,085	17	0.29	$16,422	17	0.43
Money market	73,828	85	0.47	63,553	111	0.70
Savings	11,656	12	0.41	10,959	17	0.64
Time deposits $100,000 and over	56,325	163	1.17	61,550	180	1.18
Other time deposits	55,103	111	0.82	51,741	137	1.07
Total interest-bearing deposits	220,998	388	0.71	204,224	463	0.91
Short-term borrowings	23,608	30	0.51	18,672	40	0.86
Long-term borrowing	12,089	21	0.69	9,758	24	0.99
Total interest-bearing funds	256,695	439	0.69	232,654	527	0.91
Noninterest-bearing deposits	86,022			66,963		

Other liabilities and accrued expenses	979			846		
Total liabilities	343,696			300,464		
Shareholders' equity	47,086			36,979		
Total liabilities & shareholders' equity	$390,782			$337,443		
Net interest rate spread [3]		$ 3,550	3.73 %		$ 3,282	3.86 %
Effect of noninterest-bearing funds			0.21			0.25
Net interest margin on earning assets [4]			3.94 %			4.11 %

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

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

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

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

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total column is further broken down to show the impact of changes in either rates or volumes. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	For the three months ended March 31, 2013 vs. 2012 Due to variances in		
(in thousands)	Total	Rates	Volumes [1]
Interest earned on:			
Loans and leases:			
Commercial loans and leases	$ (43)	$ (484)	$ 441
Commercial real estate	219	(684)	903
Construction and land	(31)	(137)	106
Residential real estate	39	(133)	171
Consumer	(1)	0	(1)
Taxable securities	(1)	(24)	23
Federal funds sold	(2)	3	(5)
Interest-bearing deposits in other banks	-	-	-
Total interest income	180	(1,458)	1,638
Interest paid on:			
Savings deposits	(5)	(24)	19
Checking plus interest deposits	(1)	(23)	23
Money market accounts	(25)	(146)	120
Time deposit $100,000 and over	(18)	(4)	(13)
Other time deposits	(26)	(126)	100
Short-term borrowings	(10)	(63)	53
Long-term borrowing	(3)	(28)	25
Total interest expense	(88)	(415)	327
Net interest earned	$ 268	$ (1,043)	$ 1,311

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

Comparison of Results of Operations

A comparison between the three months ended March 31, 2013 and March 31, 2012 is presented below.

General

Net income available to common shareholders increased $172 thousand, or 71.1%, to $414 thousand for the three months ended March 31, 2013 compared to net income of $242 thousand for the three months ended March 31, 2012. This increase was primarily due to increases of $268 thousand or 8.2% in net interest income and $241 thousand in non-interest income and an $88 thousand, or 56.1%, decrease in dividends paid on preferred stock. Partially offsetting these positive changes was an increase in non-interest expense of $206 thousand or 8.1%.

Interest Income

Interest income increased $180 thousand, or 4.7%, to $4.0 million for the three months ended March 31, 2013 compared to $3.8 million for the same period in 2012. The increase was due to a $183 thousand, or 4.9%, increase in interest income on loans. The increase in interest income on loans was due to a 16.9% increase in the average balance of the loan portfolio compared to the three months ended March 31, 2012, partially offset by a decrease in the average yield on such loans despite an improvement in the mix of loans towards higher-yielding loan products. Interest income from our other sources of interest income, our securities portfolio and our selling of fed funds, were generally unchanged.

Interest Expense

Interest expense decreased $88 thousand, or 16.7%, to $439 thousand for the three months ended March 31, 2013, compared to $527 thousand for the same period in 2012. Even though we were able to grow interest bearing sources of funds by $24.0 million or 10.3% for the first quarter of 2013 compared to the first quarter of 2012, total interest expense decreased as the average rates paid on deposits and borrowings decreased from .91% during the quarter ended March 31, 2012 to .69% during the first three months of 2013.

Net Interest Income

Net interest income is our largest source of operating revenue. Net interest income is affected by various factors including changes in interest rates and the composition of interest-earning assets and interest-bearing liabilities and maturities. Net interest income is determined by the interest rate spread (i.e., the difference between the yields earned on interest-earning assets and the rates paid on interest-bearing liabilities) and the relative amounts of interest-earning assets and interest-bearing liabilities. Net interest income increased $268 thousand, or 8.2%, during the three months ended March 31, 2013 compared to the three months ended March 31, 2012. As noted above, the increase in net interest income was due to an increase of $180 thousand, or 4.7%, in interest income with a reduction of $88 thousand or 16.7% in interest expense.

Provision for Credit Losses

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

Based on management’s evaluation of the above factors, we had a provision for credit losses of $361 thousand for the three months ended March 31, 2013 compared to $141 thousand for the same period in 2012, an increase of $220 thousand. The $361 thousand provision for 2013 reflects additional general provisions that are required given our continued growth in the size of the loan portfolio, as well as a specific provision required on one loan which was

individually evaluated and deemed to be impaired.

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

Noninterest Income

Noninterest income was $327 thousand for the three months ended March 31, 2013 compared to $86 thousand for the three months ended March 31, 2012, an $241 thousand increase. This increase was primarily a result of the Bank initiating a BOLI program in January 2013, which increased other operating income, as well as an increase in gain on the sale of loans and a decrease in loss on the sale of other real estate owned. The BOLI program generated $67 thousand of income during the first three months of 2013; there was no such income in the first quarter of 2012. The Bank continues to actively selling mortgage loans into the secondary market. The income derived from this activity increased $71 thousand for the first three months of 2013 compared to the same period in 2012. With respect to the decrease in the loss on the sale of other real estate owned, the Bank sold one property held in the other real estate owned (“OREO”) portfolio in the first quarter of 2013 at a loss of $37 thousand compared to the sale of one property sold in the same period of 2012 at a loss of $131 thousand. Other operating income consists mainly of certain loan fees, non-depository account fees and cash surrender value of the BOLI insurance previously mentioned. In addition to the BOLI increase various fees for customer related services such as wire, merchant card and ATM increased $9.3 thousand due to increased transaction related activity over the same period, partially offset by a lower amount of other transaction based fees. In addition to these changes, service charges on deposit accounts, which consist of account activity fees such as overdraft fees and other traditional banking fees, increased 10.7% to $86 thousand for the three months ended March 31, 2013.

Noninterest Expenses

Noninterest expenses increased $206 thousand or 8.1%, to $2.8 million for the three months ended March 31, 2013 from $2.5 million for the three months ended March 31, 2012. The increase was primarily due to an increase in salaries and employee benefits expenses and occupancy expenses resulting from the continuing growth of our business development initiatives, branch expansion efforts, and operating infrastructure enhancement. Salaries and employee benefits increased $235 thousand or 17.3% in the first three months of 2013 compared to the same period in 2012 primarily as a result of the staffing of our Annapolis branch which opened in the second quarter of 2012, additional business development officers focused on our expansion through the greater Baltimore market, along with additional back office support and normal merit increases. Occupancy costs increases of $41 thousand were primarily from the opening our Annapolis branch. In total, our other categories of expenses reflected a net decrease primarily as legal and loan collection expenses for 2013 were below the levels required during the first quarter of 2012.

Net Income Available to Common Shareholders

Net income available to common shareholders during the three months ended March 31, 2013 increased $172 thousand or 71.1% to $414 thousand compared to $242 thousand during the three months ended March 31, 2012, as a result of the above factors and an $88 thousand, or 56.1%, decrease in preferred stock dividends. Preferred stock dividends were lower during the 2013 period because of a reduction in the dividend rate paid on our SBLF Preferred Stock given the growth in applicable loan categories..

Nonperforming and Problem Assets

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

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

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

(in thousands)	March 31, 2013	December 31, 2012
Non-accrual loans:		
Real estate loans:		
Construction and land	$ 370	$ 432
Residential - First Lien	-	442
Residential - Junior Lien	-	-
Commercial	375	384
Commercial and leases	1,468	1,143
Consumer	-	-
Total non-accrual loans	2,213	2,401
Troubled debt restructure loans:		
Real estate loans:		
Commercial	-	-
Residential - First Lien	-	-
Commercial	-	-
Total troubled debt restructure loans	-	-
Total non-performing loans	2,213	2,401
Other real estate owned:		
Land	595	595
Commercial	2,130	2,130
Residential	-	178
Total other real estate owned	2,725	2,903
Total non-performing assets	$ 4,938	$ 5,304
Ratios:		
Non-performing loans to total gross loans	0.67 %	0.72 %
Non-performing assets to total assets	1.21 %	1.32 %

Included in total non-accrual loans above are seven trouble debt restructured loans totaling $1.3 million that were not performing in accordance with the modified terms, and the accrual of interest has ceased. There were three loans that were 90 days or more past due and still accruing interest at March 31, 2013 consisting of one commercial credit totaling $3 thousand, one residential first lien of $208 thousand and one residential junior lien for $41 thousand. At December 31, 2012 the two residential loans were 90 days or more past due and still accruing interest.

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

Nonperforming assets amounted to $4.9 million, or 1.21% of total assets, at March 31, 2013 compared to $5.3 million or 1.32% of total assets at December 31, 2012. Total nonperforming assets have decreased by $366 thousand during 2013, with OREO decreasing by $178 thousand with the sale of one commercial property for a loss on sale of $37 thousand, and a net $188 thousand or 7.8% decrease in balances of non-accrual loans. The decrease in non-accrual loans was impacted by the sale of two residential first mortgage loans totaling $442 for which no additional losses were incurred and reductions in the balances of several other non-accrual loans as payments were received, partially offset by three commercial credits totaling $330 thousand which were added to non-accrual status during the first quarter of 2013.

The composition of our nonperforming loans at March 31, 2013 is further described below:

- Six commercial loans to a local business totaling $0.88 million. Most of these loans have an SBA guarantee, and reserves have been taken to reflect the amount expected to be received once claims are submitted to the SBA.
- Nine commercial loans totaling approximately $0.28 million to borrowers that are in various stages of collection. Each relationship is independently evaluated, and no losses are anticipated from these eight loans.

- One land loan for $0.37 million to a borrower that based upon current valuation a specific reserve has been taken, and no further losses are anticipated on this loan.
- One commercial real estate loan for $0.38 million, which is guaranteed by a local business and is also secured by the assets of the business. A specific reserve has been established and based upon current valuations, no further losses are anticipated.
- One commercial loan for $0.30 million that was added to non-accrual during the first quarter of 2013, and based upon an independent evaluation, a specific reserve has been taken, and no further losses are anticipated on this loan.

Allowance for Credit Losses

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

- Specific allowances are established for loans classified as substandard or doubtful. For loans classified as impaired, the allowance is established when the net realizable value (collateral value less costs to sell) of the impaired loan is lower than the carrying amount of the loan. The amount of impairment provided for as a specific allowance is represented by the deficiency, if any, between the underlying collateral value and the carrying value of the loan. Impaired loans for which the estimated fair value of the loan, or the loan's observable market price or the fair value of the underlying collateral, if the loan is collateral dependent, exceeds the carrying value of the loan are not considered in establishing specific allowances for credit losses; and
- General allowances established for credit losses on a portfolio basis for loans that do not meet the definition of impaired loans. The portfolio is grouped into similar risk characteristics, primarily loan type and regulatory classification. We apply an estimated loss rate to each loan group. The loss rates applied are based upon our loss experience adjusted, as appropriate, for the qualitative factors discussed below. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions.

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

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

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

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

- changes in lending policies, procedures, practices or personnel;
- changes in the level and composition of construction portfolio and related risks;
- changes and migration of classified assets;
- changes in exposure to subordinate collateral lien positions;
- levels and composition of existing guarantees on loans by SBA or other agencies;
- changes in national, state and local economic trends and business conditions;

- changes and trends in levels of loan payment delinquencies; and
- any other factors that managements considers relevant to the quality or performance of the loan portfolio.

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

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

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

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

As of March 31, 2013 and December 31, 2012, impaired loans amounted to $5.4 million and $5.6 million, respectively. The amount of impaired loans requiring specific reserves totaled $2.2 million and $1.8 million, respectively. The amount of impaired loans with no specific valuation allowance totaled $3.2 million and $3.8 million, respectively.

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

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

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

	Three months ended	
(in thousands)	March 31, 2013	March 31, 2012
Balance at beginning of year	$ 2,764	$ 3,433
Charge-offs:		
Real estate		
Construction and land loans	-	-
Residential first lien loans	(183)	(23)
Residential junior lien loans	-	(44)
Commercial owner occupied laons	-	-
Commercial non-owner occupied loans	-	-
Commercial loans and leases	-	(3)
Consumer loans	-	(9)
	(183)	(79)
Recoveries:		
Real estate		
Construction and land loans	-	-
Residential first lien loans	-	-
Residential junior lien loans	-	-
Commercial owner occupied laons	-	-
Commercial non-owner occupied loans	30	-
Commercial loans and leases	8	26
Consumer loans	-	-
	38	26
Net recoveries (charge-offs)	(145)	(53)
Provision for credit losses	361	141
Balance at end of period	$ 2,980	$ 3,521

Allocation of Allowance for Credit Losses

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

	March 31, 2013	March 31, 2012

(dollars in thousands)	Amount	**Percent [1]**		Amount	Percent [1]	
Real estate						
Construction and land loans	$ 138	12.6	%	$ 162	13.5	%
Residential first lien loans	131	8.7		79	8.1	
Residential junior lien loans	22	2.5		42	3.2	
Commercial owner occupied laons	650	22.4		598	18.7	
Commercial non-owner occupied loans	468	26.8		396	28.3	
Commercial loans and leases	1,542	26.6		2,206	27.6	
Consumer loans	29	0.4		38	0.6	
Total	$ 2,980	100.0	%	$ 3,521	100.0	%

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

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations. Our primary sources of funds consist of deposit inflows, loan repayments, advances from the FHLB, principal repayments and the sale of securities available for sale. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Our Asset Liability Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of March 31, 2013 and December 31, 2012. We regularly monitor and adjust our investments in liquid assets based upon our assessment of:

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

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

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

Our most liquid assets are cash and cash equivalents. The level of these assets is dependent on our operating, financing, lending and investing activities during any given period. At March 31, 2013 and December 31, 2012, cash and cash equivalents totaled $35.2 million and $36.4 million, respectively.

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

At March 31, 2013 and December 31, 2012, we had $77.2 million and $74.6 million, respectively, in loan commitments outstanding, including commitments issued to originate loans of $38.3 million and $34.1 million at March 31, 2013 and December 31, 2012, respectively, and $38.9 million and $40.5 million in unused lines of credit to borrowers at March 31, 2013 and December 31, 2012, respectively. In addition to commitments to originate loans and unused line of credits we had $6.6 million and $6.2 million in letters of credit at March 31, 2013 and December 31, 2012, respectively. Certificates of deposit due within one year of March 31, 2013 totaled $60.5 million, or 18.7% of total deposits. Should these deposits not remain with us, we may be required to seek other sources of funds, including loan and securities sales, and FHLB advances. Depending on market conditions, we may be required to pay higher rates on our deposits or other borrowings than we currently pay on the certificates of deposit. We believe, however, based on historical experience and current market interest rates that we will retain upon maturity a large portion of our certificates of deposit with maturities of one year or less.

Our primary investing activity is originating loans. During the three months ended March 31, 2013 cash was utilized by net loan growth of $8.9 million, while for the three months ended March 31, 2012 cash was used to fund net loan growth totaling $3.3 million. During these periods, we purchased $5.0 million and $17.0 million of securities, respectively.

Financing activities consist primarily of activity in deposit accounts and FHLB advances. We experienced a net increase in deposits of $8.6 million during the three months ended March 31, 2013. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the FHLB, which provide an additional source of funds. FHLB advances were $24 million at March 31,2013 compared to $26 million at December 31, 2012. At March 31, 2013, we had the ability to borrow up to a total of $65.8 million based upon our credit availability at the FHLB, subject to collateral requirements.

The Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At March 31, 2013 and December 31, 2012, the Bank exceeded all regulatory capital requirements. The Bank is considered “well capitalized” under regulatory guidelines.

Commitments, Contingent Liabilities, and Off-Balance Sheet Arrangements

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

Outstanding loan commitments and lines of credit at March 31, 2013 and December 31, 2012 are as follows:

(in thousands)	March 31, 2013	December 31, 2012
Unfunded loan commitments	$ 38,299	$ 34,057
Unused lines of credit	38,895	40,493
Letters of credit	6,632	6,178

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

The credit risk involved in these financial instruments is essentially the same as that involved in extending loan facilities to customers. No amount has been recognized in the statement of financial condition at March 31, 2013 or December 31, 2012 as a liability for credit loss related to these commitments.

Impact of Inflation and Changing Prices

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

Item 4. Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q Bancorp's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of Bancorp's disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, Bancorp's Chief Executive Officer and Chief Financial Officer concluded that Bancorp's disclosure controls and procedures are effective as of March 31, 2013. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by Bancorp in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

In addition, there were no changes in Bancorp's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended March 31, 2013, that have materially affected, or are reasonably likely to materially affect Bancorp's internal control over financial reporting.

PART II - Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in the risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC on March 27, 2013.

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

Our registration statement on Form S-1, File Number 333-178204, with respect to our initial public offering of our common stock, was declared effective by the SEC on May 14, 2012. We sold a total of 1,396,364 shares of common stock in our initial public offering for aggregate gross proceeds of $10.2 million.

After expenses, we raised net proceeds of approximately $9.0 million in the public offering. We have not yet used any of the net proceeds of the initial public offering, which have been placed in deposit accounts at the Bank until they can be utilized.

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

10.19 Branch Purchase and Assumption Agreement between Cecil Bank and Howard Bank dated March 28, 2013 (incorporated by reference to Exhibit 10.19 of Bancorp's Current Report on Form 8-K filed with the SEC on April 1, 2013)

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

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

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

101 Extensible Business Reporting Language (“XBRL”) – filed herewith

101.INS XBRL Instance File
101.SCH XBRL Schema File
101.CAL XBRL Calculation File
101.DEF XBRL Definition File
101.LAB XBRL Label File
101.PRE XBRL Presentation File

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Signatures

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

HOWARD BANCORP, INC.
(Registrant)

May 14, 2013 /s/ Mary Ann Scully
Date MARY ANN SCULLY
PRESIDENT AND CEO

May 14, 2013 /s/ George C. Coffman
Date GEORGE C. COFFMAN
EVP AND CFO