

SHORE BANCSHARES INC  
Form 10-Q  
November 14, 2013

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

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**FORM 10-Q**

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

For the Quarterly Period Ended September 30, 2013

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-22345

**SHORE BANCSHARES, INC.**

(Exact name of registrant as specified in its charter)

Maryland  
(State or Other Jurisdiction of  
Incorporation or Organization)

52-1974638  
(I.R.S. Employer  
Identification No.)

28969 Information Lane, Easton, Maryland  
(Address of Principal Executive Offices)

21601  
(Zip Code)

(410) 763-7800

Registrant's Telephone Number, Including Area Code

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No “

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
(Do not check if a smaller reporting company)			

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

**APPLICABLE ONLY TO CORPORATE ISSUERS**

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 8,461,289 shares of common stock outstanding as of October 31, 2013.

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**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.**

SHORE BANCSHARES, INC.  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except per share amounts)

	September 30, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
Cash and due from banks	\$ 26,133	\$ 26,579
Interest-bearing deposits with other banks	79,165	164,864
Federal funds sold	1,624	8,750
Investment securities:		
Available for sale, at fair value	135,862	145,508
Held to maturity, at amortized cost fair value of \$2,471 (2013) and \$2,884 (2012)	2,357	2,657
Loans held for sale	23,635	-
Loans	718,627	785,082
Less: allowance for credit losses	(11,301)	(15,991)
Loans, net	707,326	769,091
Premises and equipment, net	15,175	15,593
Goodwill	12,454	12,454
Other intangible assets, net	3,594	3,816
Other real estate owned, net	5,776	7,659
Other assets	38,283	28,836
<b>TOTAL ASSETS</b>	<b>\$ 1,051,384</b>	<b>\$ 1,185,807</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 166,225	\$ 153,992
Interest-bearing	764,188	895,281
Total deposits	930,413	1,049,273
Short-term borrowings	11,468	13,761
Other liabilities	7,502	8,747
<b>TOTAL LIABILITIES</b>	<b>949,383</b>	<b>1,071,781</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$.01 per share; shares authorized 35,000,000; shares issued	85	85
and outstanding 8,461,289 (2013) and 8,457,359 (2012)		
Additional paid in capital	32,187	32,155
Retained earnings	70,269	81,078
Accumulated other comprehensive (loss) income	(540)	708

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TOTAL STOCKHOLDERS' EQUITY	102,001	114,026
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,051,384	\$ 1,185,807

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)  
(Dollars in thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>INTEREST INCOME</b>				
Interest and fees on loans	\$ 9,767	\$ 10,604	\$ 29,816	\$ 32,505
Interest and dividends on investment securities:				
Taxable	357	685	1,568	2,149
Tax-exempt	5	22	14	92
Interest on federal funds sold	-	3	3	7
Interest on deposits with other banks	53	79	143	188
Total interest income	10,182	11,393	31,544	34,941
<b>INTEREST EXPENSE</b>				
Interest on deposits	1,348	2,647	5,218	7,931
Interest on short-term borrowings	6	10	20	36
Interest on long-term debt	-	6	-	16
Total interest expense	1,354	2,663	5,238	7,983
NET INTEREST INCOME	8,828	8,730	26,306	26,958
Provision for credit losses	22,460	6,200	27,310	18,095
NET INTEREST (EXPENSE) INCOME AFTER PROVISION FOR CREDIT LOSSES	(13,632)	2,530	(1,004)	8,863
<b>NONINTEREST INCOME</b>				
Service charges on deposit accounts	600	628	1,772	1,898
Trust and investment fee income	401	410	1,184	1,279
Gains on sales of investment securities	-	278	913	278
Insurance agency commissions	2,724	2,427	8,170	7,522
Loss on termination of cash flow hedge	-	-	(1,306)	-
Other noninterest income	1,067	258	2,511	2,175
Total noninterest income	4,792	4,001	13,244	13,152
<b>NONINTEREST EXPENSE</b>				
Salaries and wages	4,420	4,386	13,010	13,178
Employee benefits	971	945	3,111	3,071
Occupancy expense	566	625	1,775	1,950
Furniture and equipment expense	275	265	768	728
Data processing	718	703	2,127	2,063
Directors' fees	86	131	262	367

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Amortization of other intangible assets	74	96	222	318
Insurance agency commissions expense	409	275	1,328	1,004
FDIC insurance premium expense	467	376	1,200	993
Write-downs of other real estate owned	219	224	947	1,077
Other noninterest expenses	1,763	1,683	5,468	5,121
Total noninterest expense	9,968	9,709	30,218	29,870
LOSS BEFORE INCOME TAX BENEFIT	(18,808)	(3,178)	(17,978)	(7,855)
Income tax benefit	(7,416)	(1,357)	(7,169)	(3,291)
NET LOSS	\$ (11,392)	\$ (1,821)	\$ (10,809)	\$ (4,564)
Basic net loss per common share	\$ (1.35)	\$ (0.22)	\$ (1.28)	\$ (0.54)
Diluted net loss per common share	\$ (1.35)	\$ (0.22)	\$ (1.28)	\$ (0.54)
Dividends paid per common share	\$ -	\$ -	\$ -	\$ 0.01

See accompanying notes to Consolidated Financial Statements.



SHORE BANCSHARES, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)  
(Dollars in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Net loss	\$ (11,392)	\$ (1,821)	\$ (10,809)	\$ (4,564)
Other comprehensive (loss) income				
Securities available for sale:				
Unrealized holding (losses) gains on available-for-sale securities	(367)	609	(3,167)	1,524
Tax effect	148	(245)	1,278	(614)
Reclassification of gains recognized in net income	-	(278)	(913)	(278)
Tax effect	-	112	368	112
Net of tax amount	(219)	198	(2,434)	744
Cash flow hedging activities:				
Unrealized holding gains on cash flow hedging activities	-	479	681	1,259
Tax effect	-	(193)	(274)	(508)
Reclassification of losses recognized in net income	-	-	1,306	-
Tax effect	-	-	(527)	-
Net of tax amount	-	286	1,186	751
Total other comprehensive (loss) income	(219)	484	(1,248)	1,495
Comprehensive loss	\$ (11,611)	\$ (1,337)	\$ (12,057)	\$ (3,069)

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)  
For the Nine Months Ended September 30, 2013 and 2012  
(Dollars in thousands, except per share amounts)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, January 1, 2013	\$85	\$32,155	\$81,078	\$708	\$114,026
Comprehensive loss:					
Net loss	-	-	(10,809)	-	(10,809)
Unrealized losses on available-for-sale securities, net of reclassification adjustment, net of taxes	-	-	-	(2,434)	(2,434)
Unrealized gains on cash flow hedging activities, net of reclassification adjustment, net of taxes	-	-	-	1,186	1,186
Total comprehensive loss					(12,057)
Stock-based compensation	-	32	-	-	32
Balances, September 30, 2013	\$85	\$32,187	\$70,269	\$(540)	\$102,001
Balances, January 1, 2012	\$85	\$32,052	\$90,801	\$(1,689)	\$121,249
Comprehensive loss:					
Net loss	-	-	(4,564)	-	(4,564)
Unrealized gains on available-for-sale securities, net of taxes	-	-	-	744	744
Unrealized gains on cash flow hedging activities, net of taxes	-	-	-	751	751
Total comprehensive loss					(3,069)
Stock-based compensation	-	68	-	-	68
Cash dividends paid (\$0.01 per share)	-	-	(85)	-	(85)
Balances, September 30, 2012	\$85	\$32,120	\$86,152	\$(194)	\$118,163

See accompanying notes to Consolidated Financial Statements.



SHORE BANCSHARES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
(Dollars in thousands)

	For the Nine Months Ended September 30,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (10,809)	\$ (4,564)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for credit losses	27,310	18,095
Depreciation and amortization	1,839	2,011
Discount accretion on debt securities	(30)	(56)
Stock-based compensation expense	58	174
Excess tax expense from stock-based arrangements	(26)	(106)
Deferred income tax expense (benefit)	286	(63)
Gains on sales of investment securities	(913)	(278)
Gains on disposals of premises and equipment	-	(214)
Losses on sales and write-downs of other real estate owned	1,188	1,549
Loss on termination of cash flow hedge	1,306	-
Net changes in:		
Accrued interest receivable	27	473
Other assets	(8,561)	(3,085)
Accrued interest payable	(68)	(66)
Other liabilities	(1,220)	(265)
Net cash provided by operating activities	10,387	13,605
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from maturities and principal payments of investment securities available for sale	27,518	34,795
Proceeds from sales of investment securities available for sale	40,351	6,275
Purchases of investment securities available for sale	(62,049)	(36,717)
Proceeds from maturities and principal payments of investment securities held to maturity	294	2,395
Net change in loans	7,963	8,877
Purchases of premises and equipment	(292)	(1,842)
Proceeds from sales of premises and equipment	4	307
Proceeds from sales of other real estate owned	3,595	4,133
Return of investment in unconsolidated subsidiary	85	-
Net cash provided by investing activities	17,469	18,223
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net changes in:		
Noninterest-bearing deposits	12,233	22,778
Interest-bearing deposits	(131,093)	5,817
Short-term borrowings	(2,293)	(4,738)
Excess tax expense from stock-based arrangements	26	106
Common stock dividends paid	-	(85)

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Net cash (used in) provided by financing activities	(121,127)	23,878
Net (decrease) increase in cash and cash equivalents	(93,271)	55,706
Cash and cash equivalents at beginning of period	200,193	127,742
Cash and cash equivalents at end of period	\$ 106,922	\$ 183,448

Supplemental cash flows information:

Interest paid	\$ 5,307	\$ 8,050
Income taxes paid	\$ 265	\$ 122
Transfers from loans to other real estate owned	\$ 2,857	\$ 4,715
Transfers from loans to loans held for sale	\$ 23,635	\$ -

See accompanying notes to Consolidated Financial Statements.

Shore Bancshares, Inc.  
Notes to Consolidated Financial Statements  
For the Three and Nine Months Ended September 30, 2013 and 2012  
(Unaudited)

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Shore Bancshares, Inc. and its subsidiaries with all significant intercompany transactions eliminated. The consolidated financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") and to prevailing practices within the banking industry. The accompanying interim financial statements are unaudited; however, in the opinion of management all adjustments necessary to present fairly the consolidated financial position at September 30, 2013, the consolidated results of operations and comprehensive loss for the three and nine months ended September 30, 2013 and 2012, and changes in stockholders' equity and cash flows for the nine months ended September 30, 2013 and 2012, have been included. All such adjustments are of a normal recurring nature. The amounts as of December 31, 2012 were derived from the 2012 audited financial statements. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results to be expected for any other interim period or for the full year. This Quarterly Report on Form 10-Q should be read in conjunction with the Annual Report of Shore Bancshares, Inc. on Form 10-K for the year ended December 31, 2012. For purposes of comparability, certain reclassifications have been made to amounts previously reported to conform with the current period presentation.

When used in these notes, the term "the Company" refers to Shore Bancshares, Inc. and, unless the context requires otherwise, its consolidated subsidiaries.

Recent Accounting Standards

*Accounting Standards Update ("ASU") 2012-02, "Intangibles - Goodwill and Other (Accounting Standards Codification ("ASC") Topic 350) - Testing Indefinite-Lived Intangible Assets for Impairment."* ASU 2012-02 gives entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. If, under the quantitative impairment test, the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 became effective for the Company on January 1, 2013, and did not have a significant impact on the Company's financial statements.

*ASU 2013-04, "Liabilities (ASC Topic 405) - Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date."* ASU 2013-04 provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. This guidance requires an entity to measure the obligation as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors, and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. ASU 2013-04 is effective for the Company beginning January 1, 2014 and is not expected to have a significant impact on the Company's financial statements.

Note 2 Earnings/(Loss) Per Share

Basic earnings/(loss) per common share is calculated by dividing net income/(loss) available to (allocable to) common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings/(loss) per common share is calculated by dividing net income/(loss) available to (allocable to) common stockholders by the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents (stock-based awards). There is no dilutive effect on the loss per share during loss periods. The following table provides information relating to the calculation of earnings/(loss) per common share:

(In thousands, except per share data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Net loss	\$ (11,392)	\$ (1,821)	\$ (10,809)	\$ (4,564)
Weighted average shares outstanding - Basic	8,461	8,457	8,460	8,457
Dilutive effect of common stock equivalents	-	-	-	-
Weighted average shares outstanding - Diluted	8,461	8,457	8,460	8,457
Loss per common share - Basic	\$ (1.35)	\$ (0.22)	\$ (1.28)	\$ (0.54)
Loss per common share - Diluted	\$ (1.35)	\$ (0.22)	\$ (1.28)	\$ (0.54)

The calculations of diluted earnings/(loss) per share excluded weighted average common stock equivalents of 54 thousand for both the three and nine months ended September 30, 2013 and 54 thousand and 43 thousand for the three and nine months ended September 30, 2012, respectively, because the effect of including them would have been antidilutive.

### Note 3 Investment Securities

The following table provides information on the amortized cost and estimated fair values of investment securities.

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
September 30, 2013:				
Obligations of U.S. Treasury	\$ 5,375	\$ -	\$ 6	\$ 5,369
Obligations of U.S. Government agencies and corporations	46,552	56	394	46,214
Mortgage-backed securities	84,234	389	952	83,671
Equity securities	606	2	-	608
Total	\$ 136,767	\$ 447	\$ 1,352	\$ 135,862
December 31, 2012:				
Obligations of U.S. Government agencies and corporations	\$ 35,213	\$ 903	\$ 9	\$ 36,107
Mortgage-backed securities	106,524	2,464	208	108,780
Equity securities	596	25	-	621
Total	\$ 142,333	\$ 3,392	\$ 217	\$ 145,508
Held-to-maturity securities:				
September 30, 2013:				
Obligations of states and political subdivisions	\$ 2,357	\$ 114	\$ -	\$ 2,471
December 31, 2012:				
Obligations of states and political subdivisions	\$ 2,657	\$ 227	\$ -	\$ 2,884



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The following table provides information about gross unrealized losses and fair value by length of time that the individual available-for-sale securities have been in a continuous unrealized loss position at September 30, 2013.

(Dollars in thousands)	Less than 12 Months Fair Value	Unrealized Losses	More than 12 Months Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Available-for-sale securities:						
U.S. Treasury	\$ 5,369	\$ 6	\$ -	\$ -	\$ 5,369	\$ 6
U.S. Gov't. agencies and corporations	30,603	394	-	-	30,603	394
Mortgage-backed securities	56,177	952	-	-	56,177	952
Total	\$ 92,149	\$ 1,352	\$ -	\$ -	\$ 92,149	\$ 1,352

All of the securities with unrealized losses in the available-for-sale portfolio have modest duration risk, low credit risk, and minimal losses when compared to total amortized cost. The unrealized losses on debt securities that exist are the result of market changes in interest rates since original purchase. Because the Company does not intend to sell these debt securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost bases, which may be at maturity, the Company considers the unrealized losses in the available-for-sale portfolio to be temporary. There were no unrealized losses in the held-to-maturity securities portfolio at September 30, 2013.

The following table provides information on the amortized cost and estimated fair values of investment securities by maturity date at September 30, 2013.

(Dollars in thousands)	Available for sale		Held to maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 6,055	\$ 6,066	\$ 413	\$ 419
Due after one year through five years	42,500	42,372	433	454
Due after five years through ten years	3,894	3,936	1,007	1,077
Due after ten years	83,712	82,880	504	521
	136,161	135,254	2,357	2,471
Equity securities	606	608	-	-
Total	\$ 136,767	\$ 135,862	\$ 2,357	\$ 2,471

The maturity dates for debt securities are determined using contractual maturity dates.

Note 4 Loans and allowance for credit losses

The Company makes residential mortgage, commercial and consumer loans to customers primarily in Talbot County, Queen Anne's County, Kent County, Caroline County and Dorchester County in Maryland and in Kent County, Delaware. The following table provides information about the principal classes of the loan portfolio at September 30, 2013 and December 31, 2012.

(Dollars in thousands)	September 30, 2013	December 31, 2012
Construction	\$ 68,971	\$ 108,051
Residential real estate	280,153	288,011
Commercial real estate	303,154	314,941

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Commercial	55,101	60,786
Consumer	11,248	13,293
Total loans	718,627	785,082
Allowance for credit losses	(11,301)	(15,991)
Total loans, net	\$ 707,326	\$ 769,091

Loans are stated at their principal amount outstanding net of any deferred fees and costs. Interest income on loans is accrued at the contractual rate based on the principal amount outstanding. Fees charged and costs capitalized for originating loans are being amortized substantially on the interest method over the term of the loan. A loan is placed on nonaccrual (i.e., interest income is no longer accrued) when it is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more, unless the loan is well secured and in the process of collection. Any unpaid interest previously accrued on those loans is reversed from income. Interest payments received on nonaccrual loans are applied as a reduction of the loan principal balance unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is considered impaired if it is probable that the Company will not collect all principal and interest payments according to the loan's contractual terms. An impaired loan may show deficiencies in the borrower's overall financial condition, payment history, support available from financial guarantors and/or the fair market value of collateral. The impairment of a loan is measured at the present value of expected future cash flows using the loan's effective interest rate, or at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Generally, the Company measures impairment on such loans by reference to the fair value of the collateral. Once the amount of impairment has been determined, the uncollectible portion is charged off. Income on impaired loans is recognized on a cash basis, and payments are first applied against the principal balance outstanding (i.e., placing impaired loans on nonaccrual status). Generally, interest income is not recognized on impaired loans unless the likelihood of further loss is remote. The allowance for credit losses may include specific reserves related to impaired loans. Specific reserves remain until charge offs are made. Impaired loans do not include groups of smaller balance homogenous loans such as residential mortgage and consumer installment loans that are evaluated collectively for impairment. Reserves for probable credit losses related to these loans are based on historical loss ratios and are included in the formula portion of the allowance for credit losses. See additional discussion under the caption "Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

A loan is considered a troubled debt restructuring if a borrower is experiencing financial difficulties and a creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. All loans designated as troubled debt restructurings ("TDRs") are considered impaired loans and may be on either accrual or nonaccrual status.

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The following tables include impairment information relating to loans and the allowance for credit losses as of September 30, 2013 and December 31, 2012.

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Unallocated	Total
September 30, 2013							
Loans individually evaluated for impairment	\$ 9,938	\$ 22,171	\$ 14,919	\$ 952	\$ 80	\$ -	\$ 48,060
Loans collectively evaluated for impairment	59,033	257,982	288,235	54,149	11,168	-	670,567
Total loans	\$ 68,971	\$ 280,153	\$ 303,154	\$ 55,101	\$ 11,248	\$ -	\$ 718,627

Allowance for credit losses  
allocated to:

Loans individually evaluated for impairment	\$ 422	\$ 924	\$ 455	\$ 305	\$ 61	\$ -	\$ 2,167
Loans collectively evaluated for impairment	1,568	2,806	3,113	967	209	471	9,134
Total allowance for credit losses	\$ 1,990	\$ 3,730	\$ 3,568	\$ 1,272	\$ 270	\$ 471	\$ 11,301

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Unallocated	Total
December 31, 2012							
Loans individually evaluated for impairment	\$ 37,029	\$ 18,549	\$ 32,447	\$ 715	\$ 87	\$ -	\$ 88,827
Loans collectively evaluated for impairment	71,022	269,462	282,494	60,071	13,206	-	696,255
Total loans	\$ 108,051	\$ 288,011	\$ 314,941	\$ 60,786	\$ 13,293	\$ -	\$ 785,082

Allowance for credit  
losses allocated to:

Loans individually evaluated for impairment	\$ 941	\$ 598	\$ 614	\$ -	\$ 48	\$ -	\$ 2,201
Loans collectively evaluated for impairment	3,446	4,596	3,520	1,682	359	187	13,790
Total allowance for credit losses	\$ 4,387	\$ 5,194	\$ 4,134	\$ 1,682	\$ 407	\$ 187	\$ 15,991

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The following tables provide information on impaired loans and any related allowance by loan class as of September 30, 2013 and December 31, 2012. The difference between the unpaid principal balance and the recorded investment is the amount of partial charge-offs that have been taken.

(Dollars in thousands)	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Related allowance	Quarter-to- date average recorded investment	Year-to-date average recorded investment
September 30, 2013						
Impaired nonaccrual loans:						
Construction	\$ 11,863	\$ 6,582	\$ 1,457	\$ 421	\$ 9,672	\$ 8,654
Residential real estate	7,486	4,082	1,323	309	10,825	10,921
Commercial real estate	6,287	1,825	1,517	255	7,607	9,905
Commercial	1,678	546	122	122	656	595
Consumer	54	19	28	28	43	44
Total	27,368	13,054	4,447	1,135	28,803	30,119
Impaired accruing restructured loans:						
Construction	1,899	1,804	95	1	14,462	20,834
Residential real estate	16,735	14,347	2,388	584	11,290	9,225
Commercial real estate	10,704	9,439	1,265	92	12,849	15,331
Commercial	101	101	-	-	105	112
Consumer	-	-	-	-	-	-
Total	29,439	25,691	3,748	677	38,706	45,502
Impaired adversely rated loans:						
Construction	-	-	-	-	-	-
Residential real estate	31	-	31	31	16	8
Commercial real estate	873	-	873	108	437	218
Commercial	183	-	183	183	92	46
Consumer	33	-	33	33	17	8
Total	1,120	-	1,120	355	562	280
Total impaired loans:						
Construction	13,762	8,386	1,552	422	24,134	29,488
Residential real estate	24,252	18,429	3,742	924	22,131	20,154
Commercial real estate	17,864	11,264	3,655	455	20,893	25,454
Commercial	1,962	647	305	305	853	753
Consumer	87	19	61	61	60	52
Total	\$ 57,927	\$ 38,745	\$ 9,315	\$ 2,167	\$ 68,071	\$ 75,901

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(Dollars in thousands)	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Related allowance	Quarter-to- date average recorded investment	Year-to-date average recorded investment
December 31, 2012						
Impaired nonaccrual loans:						
Construction	\$ 14,288	\$ 3,371	\$ 6,323	\$ 941	\$ 10,600	\$ 12,428
Residential real estate	17,975	9,469	2,063	598	13,294	17,472
Commercial real estate	19,515	11,838	2,729	614	13,554	12,975
Commercial	1,556	594	-	-	1,126	1,538
Consumer	92	39	48	48	50	55
Total	53,426	25,311	11,163	2,201	38,624	44,468
Impaired accruing restructured loans:						
Construction	27,335	27,335	-	-	27,907	21,193
Residential real estate	7,017	7,017	-	-	6,124	5,064
Commercial real estate	17,880	17,880	-	-	17,433	16,252
Commercial	121	121	-	-	105	87
Consumer	-	-	-	-	-	-
Total	52,353	52,353	-	-	51,569	42,596
Impaired adversely rated loans:						
Construction	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total	-	-	-	-	-	-
Total impaired loans:						
Construction	41,623	30,706	6,323	941	38,507	33,621
Residential real estate	24,992	16,486	2,063	598	19,418	22,536
Commercial real estate	37,395	29,718	2,729	614	30,987	29,227
Commercial	1,677	715	-	-	1,231	1,625
Consumer	92	39	48	48	50	55
Total	\$ 105,779	\$ 77,664	\$ 11,163	\$ 2,201	\$ 90,193	\$ 87,064

The following tables provide information on loans that were modified and considered TDRs during the nine months ended September 30, 2013 and September 30, 2012.

(Dollars in thousands)	Number of contracts	Premodification outstanding recorded investment	Postmodification outstanding recorded investment	Related allowance
<b>TDRs:</b>				
For the nine months ended				
September 30, 2013				
Construction	3	\$ 218	\$ 218	\$ -
Residential real estate	6	11,758	11,772	38
Commercial real estate	4	2,212	2,211	82
Commercial	-	-	-	-
Consumer	-	-	-	-
Total	13	\$ 14,188	\$ 14,201	\$ 120
For the nine months ended				
September 30, 2012				
Construction	12	\$ 17,347	\$ 17,361	\$ -
Residential real estate	11	3,382	3,044	-
Commercial real estate	7	7,270	7,429	-
Commercial	1	24	24	-
Consumer	-	-	-	-
Total	31	\$ 28,023	\$ 27,858	\$ -

The following tables provide information on TDRs that defaulted during the nine months ended September 30, 2013 and September 30, 2012. Generally, a loan is considered in default when principal or interest is past due 90 days or more.

(Dollars in thousands)	Number of contracts	Recorded investment	Related allowance
<b>TDRs that subsequently defaulted (1):</b>			
For the nine months ended			
September 30, 2013			
Construction	-	\$-	\$-
Residential real estate	4	1,563	-
Commercial real estate	1	1,741	74
Commercial	-	-	-
Consumer	-	-	-
Total	5	\$3,304	\$74
<b>TDRs that subsequently defaulted (2):</b>			
For the nine months ended			
September 30, 2012			
Construction	1	\$666	\$-
Residential real estate	3	913	-
Commercial real estate	-	-	-
Commercial	-	-	-
Consumer	-	-	-

Total	4	\$1,579	\$-
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(1) These loans were classified as TDRs during 2012.

(2) These loans were classified as TDRs during 2011.



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Management uses risk ratings as part of its monitoring of the credit quality in the Company's loan portfolio. Loans that are identified as special mention, substandard or doubtful are adversely rated. They are assigned higher risk ratings than favorably rated loans in the calculation of the formula portion of the allowance for credit losses.

The following tables provide information on loan risk ratings as of September 30, 2013 and December 31, 2012.

(Dollars in thousands)	Pass/Performing	Special mention	Substandard	Doubtful	Nonaccrual	Total
September 30, 2013						
Construction	\$ 38,481	\$ 15,369	\$ 7,082	\$ -	\$ 8,039	\$ 68,971
Residential real estate	238,293	21,806	14,649	-	5,405	280,153
Commercial real estate	266,836	22,813	10,163	-	3,342	303,154
Commercial	50,313	3,406	714	-	668	55,101
Consumer	10,995	206	-	-	47	11,248
Total	\$ 604,918	\$ 63,600	\$ 32,608	\$ -	\$ 17,501	\$ 718,627

(Dollars in thousands)	Pass/Performing	Special mention	Substandard	Doubtful	Nonaccrual	Total
December 31, 2012						
Construction	\$ 45,385	\$ 30,817	\$ 22,155	\$ -	\$ 9,694	\$ 108,051
Residential real estate	237,299	23,657	15,090	433	11,532	288,011
Commercial real estate	257,418	21,554	21,402	-	14,567	314,941
Commercial	55,432	3,062	1,639	59	594	60,786
Consumer	13,147	-	59	-	87	13,293
Total	\$ 608,681	\$ 79,090	\$ 60,345	\$ 492	\$ 36,474	\$ 785,082

The following tables provide information on the aging of the loan portfolio as of September 30, 2013 and December 31, 2012.

	Accruing		30-59		60-89		90 days		Total past due	Nonaccrual	Total
(Dollars in thousands)	Current		days past due		days past due		or more past due				
September 30, 2013											
Construction	\$ 60,932		\$ -		\$ -		\$ -	\$ -		\$ 8,039	\$ 68,971
Residential real estate	272,819		1,554		375		-	1,929		5,405	280,153
Commercial real estate	297,841		-		1,971		-	1,971		3,342	303,154
Commercial	54,164		248		21		-	269		668	55,101
Consumer	11,099		48		45		9	102		47	11,248
Total	\$ 696,855		\$ 1,850		\$ 2,412		\$ 9	\$ 4,271		\$ 17,501	\$ 718,627
Percent of total loans	97.0	%	0.3	%	0.3	%	-	0.6	%	2.4	%

	Accruing						
(Dollars in thousands)	Current	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Nonaccrual	Total
December 31, 2012							
Construction	\$ 98,221	\$ 136	\$ -	\$ -	\$ 136	\$ 9,694	\$ 108,051
Residential real estate	272,311	3,116	762	290	4,168	11,532	288,011
Commercial real estate	298,522	887	800	165	1,852	14,567	314,941
Commercial	59,746	380	66	-	446	594	60,786

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Consumer	13,125	57	19	5	81	87	13,293
Total	\$ 741,925	\$ 4,576	\$ 1,647	\$ 460	\$ 6,683	\$ 36,474	\$ 785,082
Percent of total loans	94.5 %	0.6 %	0.2 %	0.1 %	0.9 %	4.6 %	

Management evaluates the adequacy of the allowance for credit losses at least quarterly and adjusts the provision for credit losses based on this analysis. The following tables provide a summary of the activity in the allowance for credit losses allocated by loan class for the three months ended September 30, 2013 and 2012. Allocation of a portion of the allowance to one loan class does not preclude its availability to absorb losses in other loan classes.

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Unallocated	Total
For the three months ended September 30, 2013							
Allowance for credit losses:							
Beginning balance	\$ 4,346	\$ 4,259	\$ 5,514	\$ 1,216	\$ 301	\$ 87	\$ 15,723
Charge-offs	(18,539)	(4,225)	(4,056)	(196)	(3)	-	(27,019)
Recoveries	3	51	20	47	16	-	137
Net charge-offs	(18,536)	(4,174)	(4,036)	(149)	13	-	(26,882)
Provision	16,180	3,645	2,090	205	(44)	384	22,460
Ending balance	\$ 1,990	\$ 3,730	\$ 3,568	\$ 1,272	\$ 270	\$ 471	\$ 11,301

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Unallocated	Total
For the three months ended September 30, 2012							
Allowance for credit losses:							
Beginning balance	\$ 2,845	\$ 4,237	\$ 3,952	\$ 1,063	\$ 304	\$ 408	\$ 12,990
Charge-offs	(3,222)	(2,323)	(742)	(73)	(31)	-	(6,391)
Recoveries	5	5	116	22	8	-	156
Net charge-offs	(3,217)	(2,318)	(626)	(51)	(23)	-	(6,235)
Provision	3,699	2,268	275	524	(158)	(408)	6,200
Ending balance	\$ 3,327	\$ 4,187	\$ 3,601	\$ 1,536	\$ 304	\$ -	\$ 12,955

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The following tables provide a summary of the activity in the allowance for credit losses allocated by loan class for the nine months ended September 30, 2013 and 2012.

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Unallocated	Total
For the nine months ended September 30, 2013							
Allowance for credit losses:							
Beginning balance	\$ 4,387	\$ 5,194	\$ 4,134	\$ 1,682	\$ 407	\$ 187	\$ 15,991
Charge-offs	(20,048)	(6,114)	(6,003)	(419)	(65)	-	(32,649)
Recoveries	5	349	113	149	33	-	649
Net charge-offs	(20,043)	(5,765)	(5,890)	(270)	(32)	-	(32,000)
Provision	17,646	4,301	5,324	(140)	(105)	284	27,310
Ending balance	\$ 1,990	\$ 3,730	\$ 3,568	\$ 1,272	\$ 270	\$ 471	\$ 11,301

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Unallocated	Total
For the nine months ended September 30, 2012							
Allowance for credit losses:							
Beginning balance	\$ 3,745	\$ 5,014	\$ 3,415	\$ 1,498	\$ 594	\$ 22	\$ 14,288
Charge-offs	(5,008)	(7,996)	(2,177)	(4,513)	(208)	-	(19,902)
Recoveries	5	99	123	230	17	-	474
Net charge-offs	(5,003)	(7,897)	(2,054)	(4,283)	(191)	-	(19,428)
Provision	4,585	7,070	2,240	4,321	(99)	(22)	18,095
Ending balance	\$ 3,327	\$ 4,187	\$ 3,601	\$ 1,536	\$ 304	\$ -	\$ 12,955

### Note 5 Other Assets

The Company had the following other assets at September 30, 2013 and December 31, 2012.

(Dollars in thousands)	September 30, 2013	December 31, 2012
Nonmarketable investment securities	\$ 2,058	\$ 2,750
Accrued interest receivable	2,769	2,796
Insurance premiums receivable	719	1,089
Income taxes receivable	12,698	5,160
Deferred income taxes	9,740	9,180
Prepaid expenses	1,209	2,227
Other assets	9,090	5,634
Total	\$ 38,283	\$ 28,836

### Note 6 Other Liabilities

The Company had the following other liabilities at September 30, 2013 and December 31, 2012.

(Dollars in thousands)	September 30, 2013	December 31, 2012
Accrued interest payable	\$ 271	\$ 339
Other accounts payable	3,824	3,657
Deferred compensation liability	1,481	2,431
Other liabilities	1,926	2,320
Total	\$ 7,502	\$ 8,747

### Note 7 - Stock-Based Compensation

As of September 30, 2013, the Company maintained the Shore Bancshares, Inc. 2006 Stock and Incentive Compensation Plan ("2006 Equity Plan") under which it may issue shares of common stock or grant other equity-based awards. Stock-based awards granted to date generally are time-based, vest in equal installments on each anniversary of the grant date over a three- to five-year period of time, and, in the case of stock options, expire 10 years from the grant date. Stock-based compensation expense is recognized ratably over the requisite service period for all awards, is based on the grant-date fair value and reflects forfeitures as they occur.

The following tables provide information on stock-based compensation expense for the three and nine months ended September 30, 2013 and 2012.

(Dollars in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Stock-based compensation expense	\$ 18	\$ 33	\$ 58	\$ 174
Excess tax expense related to stock-based compensation	-	-	26	106

(Dollars in thousands)	September 30, 2013	2012
Unrecognized stock-based compensation expense	\$ 112	\$ 178
Weighted average period unrecognized expense is expected to be recognized	1.7 years	2.2 years



The following table summarizes restricted stock award activity for the Company under the 2006 Equity Plan for the nine months ended September 30, 2013.

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period	6,548	\$ 14.89
Granted	3,930	6.81
Vested	(6,548)	14.89
Cancelled	-	-
Nonvested at end of period	3,930	\$ 6.81

The following table summarizes stock option activity for the Company under the 2006 Equity Plan for the nine months ended September 30, 2013.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Outstanding at beginning of period	54,216	\$ 6.64	\$ 3.44
Granted	-	-	-
Exercised	-	-	-
Expired/Cancelled	-	-	-
Outstanding at end of period	54,216	\$ 6.64	\$ 3.44
Exercisable at end of period	-	\$ -	\$ -

The Company estimates the fair value of stock options using the Black-Scholes valuation model with weighted average assumptions for dividend yield, expected volatility, risk-free interest rate and expected contract life (in years). The expected dividend yield is calculated by dividing the total expected annual dividend payout by the average stock price. The expected volatility is based on historical volatility of the underlying securities. The risk-free interest rate is based on the Federal Reserve Bank's constant maturities daily interest rate in effect at grant date. The expected contract life of the options represents the period of time that the Company expects the awards to be outstanding based on historical experience with similar awards. The following weighted average assumptions were used as inputs to the Black-Scholes valuation model for options outstanding at September 30, 2013.

Dividend yield	0.60	%
Expected volatility	58.65	%
Risk-free interest rate	1.69	%
Expected contract life (in years)	5.83	

At the end of the third quarter of 2013, the aggregate intrinsic value of the options outstanding under the 2006 Equity Plan was \$117 thousand based on the \$8.80 market value per share of Shore Bancshares, Inc.'s common stock at September 30, 2013. Since there were no options exercised during the first nine months of 2013 or 2012, there was no intrinsic value associated with stock options exercised and no cash received on exercise of options. At September 30, 2013, the weighted average remaining contract life of options outstanding was 8.5 years.

Note 8 Accumulated Other Comprehensive Income

The Company records unrealized holding gains (losses), net of tax, on investment securities available for sale and on cash flow hedging activities as accumulated other comprehensive income (loss), a separate component of stockholders' equity. The following table provides information on the changes in the components of accumulated other comprehensive income (loss) for the nine months ended September 30, 2013 and 2012.

(Dollars in thousands)	Accumulated net unrealized holding gains (losses) on available for sale securities	Accumulated net unrealized holding gains (losses) on cash flow hedging activities	Accumulated other comprehensive income (loss)
Balance, December 31, 2012	\$ 1,894	\$ (1,186)	\$ 708
Other comprehensive (loss) income	(1,889)	407	(1,482)
Reclassification of (gains) losses recognized	(545)	779	234
Balance, September 30, 2013	\$ (540)	\$ -	\$ (540)
Balance, December 31, 2011	\$ 1,370	\$ (3,059)	\$ (1,689)
Other comprehensive income	910	751	1,661
Reclassification of gains recognized	(166)	-	(166)
Balance, September 30, 2012	\$ 2,114	\$ (2,308)	\$ (194)

Note 9 Fair Value Measurements

Accounting guidance under GAAP 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. This accounting guidance 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 uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale and derivative assets and liabilities 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 impaired loans, loans held for sale and other real estate and other assets owned (foreclosed assets). These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Under fair value accounting guidance, assets and liabilities are grouped 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 their fair values. These hierarchy levels are:

**Level 1 inputs** Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

**Level 2 inputs** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.



Level 3 inputs Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Below is a discussion on the Company's assets measured at fair value on a recurring basis.

Investment Securities Available for Sale

Fair value measurement for investment securities available for sale is based on quoted prices from an independent pricing service. The fair value measurements consider observable data that may include present value of future cash flows, prepayment assumptions, credit loss assumptions and other factors. The Company classifies its investments in U.S. Treasury securities as Level 1 in the fair value hierarchy, and it classifies its investments in U.S. Government agencies securities and mortgage-backed securities issued or guaranteed by U.S. Government sponsored entities as Level 2.

Derivative Assets

Derivative instruments held by the Company for risk management purposes are traded in over-the-counter markets where quoted market prices are not readily available. For those derivatives, the Company measures fair value using third-party models that use primarily market observable inputs, such as yield curves and option volatilities, and include the value associated with counterparty credit risk. The Company classifies its derivative instruments held for risk management purposes as Level 2 in the fair value hierarchy and includes them in other assets in the accompanying consolidated balance sheets. As of September 30, 2013, the Company had no derivative instruments. At December 31, 2012, the Company's derivative instruments consisted solely of interest rate caps.

The tables below present the recorded amount of assets measured at fair value on a recurring basis at September 30, 2013 and December 31, 2012. No assets were transferred from one hierarchy level to another during the first nine months of 2013 or 2012.

(Dollars in thousands)	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2013				
Securities available for sale:				
U.S. Treasury	\$ 5,369	\$ 5,369	\$ -	\$ -
U.S. Government agencies	46,214	-	46,214	-
Mortgage-backed securities	83,671	-	83,671	-
Other equity securities	608	-	608	-
Total	\$ 135,862	\$ 5,369	\$ 130,493	\$ -
Interest rate caps	\$ -	\$ -	\$ -	\$ -

(Dollars in thousands)	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012				
Securities available for sale:				
U.S. Government agencies	\$ 36,107	\$ -	\$ 36,107	\$ -
Mortgage-backed securities	108,780	-	108,780	-
Other equity securities	621	-	621	-
Total	\$ 145,508	\$ -	\$ 145,508	\$ -
Interest rate caps	\$ 14	\$ -	\$ 14	\$ -

Below is a discussion on the Company's assets measured at fair value on a nonrecurring basis.

Loans held for sale

Loans held for sale are adjusted for fair value upon transfer of loans to loans held for sale. Subsequently, loans held for sale are carried at the lower of carrying value and fair value. Fair value is based on independent market prices, appraised value of the collateral or management's estimation of the value of the collateral. At September 30, 2013, loans held for sale were classified as Level 3 in the fair value hierarchy.

Loans

The Company does not record loans at fair value on a recurring basis; however, from time to time, a loan is considered impaired and a valuation allowance may be established if there are losses associated with the loan. Loans are considered impaired if it is probable that payment of interest and principal will not be made in accordance with contractual terms. The fair value of impaired loans can be estimated using one of several methods, including the collateral value, market value of similar debt, liquidation value and discounted cash flows. At September 30, 2013 and December 31, 2012, substantially all impaired loans were evaluated based on the fair value of the collateral and were classified as Level 3 in the fair value hierarchy.

Other Real Estate and Other Assets Owned (Foreclosed Assets)

Foreclosed assets are adjusted for fair value upon transfer of loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value and fair value. Fair value is based on independent market prices, appraised value of the collateral or management's estimation of the value of the collateral. At September 30, 2013 and December 31, 2012, foreclosed assets were classified as Level 3 in the fair value hierarchy.

The tables below summarize the changes in the recorded amount of assets measured at fair value on a nonrecurring basis for the nine months ended September 30, 2013 and 2012. All assets measured at fair value on a nonrecurring basis were classified as Level 3 in the fair value hierarchy for the periods presented.

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Total
For the nine months ended September 30, 2013						
Impaired loans:						
Beginning balance	\$ 36,088	\$ 17,951	\$ 31,833	\$ 715	\$ 39	\$ 86,626
Charge-offs	(19,377)	(4,664)	(6,893)	(90)	(38)	(31,062)
Payments	(1,510)	(2,183)	(8,170)	(47)	(13)	(11,923)
Transferred to loans held for sale	(9,820)	(5,492)	(6,795)	-	-	(22,107)
Transferred to other real estate owned	(205)	(729)	(1,601)	-	-	(2,535)
Returned to performing status	-	(2,448)	(1,075)	-	-	(3,523)
Changed to nonaccrual status	-	(1,626)	(1,741)	-	-	(3,367)
Additions	3,821	20,764	8,747	374	44	33,750
Changes in allowance	519	(326)	159	(305)	(13)	34
Ending balance	\$ 9,516	\$ 21,247	\$ 14,464	\$ 647	\$ 19	\$ 45,893

(Dollars in thousands)