UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2016

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: 0-19065

SANDY SPRING BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland **52-1532952**

(State of incorporation) (I.R.S. Employer Identification Number)

17801 Georgia Avenue, Olney, Maryland **20832**

(Address of principal executive office) (Zip Code)

301-774-6400

(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 filing requirements for the past 90 days.

Yes X No

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

Yes X No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large accelerated filer Accelerated filer X Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No X

The number of outstanding shares of common stock outstanding as of August 5, 2016

Common stock, $1.00 par value – 23,877,648 shares

SANDY SPRING BANCORP, INC.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, as well as other periodic reports filed with the Securities and Exchange Commission, and written or oral communications made from time to time by or on behalf of Sandy Spring Bancorp and its subsidiaries (the "Company"), may contain statements relating to future events or future results of the Company that are considered "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by the use of words such as "believe," "expect," "anticipate," "plan," "estimate," "intend" and "potential," or words of similar meaning, or future or conditional verbs such as "should," "could," or "may." Forward-looking statements include statements of our goals, intentions and expectations; statements regarding our business plans, prospects, growth and operating strategies; statements regarding the quality of our loan and investment portfolios; and estimates of our risks and future costs and benefits.

Forward-looking statements reflect our expectation or prediction of future conditions, events or results based on information currently available. These forward-looking statements are subject to significant risks and uncertainties that may cause actual results to differ materially from those in such statements. These risk and uncertainties include, but are not limited to, the risks identified in Item 1A of the Company's 2015 Annual Report on Form 10-K, Item 1A of Part II of this report and the following:

- general business and economic conditions nationally or in the markets that the Company serves could adversely affect, among other things, real estate prices, unemployment levels, and consumer and business confidence, which could lead to decreases in the demand for loans, deposits and other financial services that we provide and increases in loan delinquencies and defaults;
- changes or volatility in the capital markets and interest rates may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our balance sheet as well as our liquidity;
- our liquidity requirements could be adversely affected by changes in our assets and liabilities;
- our investment securities portfolio is subject to credit risk, market risk, and liquidity risk as well as changes in the estimates we use to value certain of the securities in our portfolio;
- the effect of legislative or regulatory developments including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry;
- competitive factors among financial services companies, including product and pricing pressures and our ability to attract, develop and retain qualified banking professionals;
- the effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board, the Securities and Exchange Commission, the Public Company Accounting Oversight Board and other regulatory agencies; and
- the effect of fiscal and governmental policies of the United States federal government.

Forward-looking statements speak only as of the date of this report. The Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date of this report or to reflect the occurrence of unanticipated events except as required by federal securities laws.

Part I
Item 1. FINANCIAL STATEMENTS
Sandy Spring Bancorp, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION - UNAUDITED

(Dollars in thousands)	**June 30, 2016**	December 31, 2015
Assets		
Cash and due from banks	**$ 53,334**	$ 46,956
Federal funds sold	**832**	472
Interest-bearing deposits with banks	**39,406**	25,454
Cash and cash equivalents	**93,572**	72,882
Residential mortgage loans held for sale (at fair value)	**13,490**	15,457
Investments available-for-sale (at fair value)	**700,486**	592,049
Investments held-to-maturity -- fair value of $211,704 at December 31, 2015	**-**	208,265
Other equity securities	**34,342**	41,336
Total loans and leases	**3,672,624**	3,495,370
Less: allowance for loan and lease losses	**(43,384)**	(40,895)
Net loans and leases	**3,629,240**	3,454,475
Premises and equipment, net	**53,055**	53,214
Other real estate owned	**1,311**	2,742
Accrued interest receivable	**13,399**	13,443
Goodwill	**84,171**	84,171
Other intangible assets, net	**77**	138
Other assets	**116,306**	117,208
Total assets	**$ 4,739,449**	$ 4,655,380
Liabilities		
Noninterest-bearing deposits	**$ 1,176,135**	$ 1,001,841
Interest-bearing deposits	**2,334,006**	2,261,889
Total deposits	**3,510,141**	3,263,730
Securities sold under retail repurchase agreements and federal funds purchased	**117,887**	109,145
Advances from FHLB	**515,000**	685,000
Subordinated debentures	**30,000**	35,000
Accrued interest payable and other liabilities	**36,942**	38,078
Total liabilities	**4,209,970**	4,130,953
Stockholders' Equity		
Common stock -- par value $1.00; shares authorized 50,000,000; shares issued and outstanding 23,874,650 and 24,295,971 at June 30, 2016 and December 31, 2015, respectively	**23,875**	24,296
Additional paid in capital	**164,040**	175,588
Retained earnings	**335,678**	325,840
Accumulated other comprehensive income (loss)	**5,886**	(1,297)
Total stockholders' equity	**529,479**	524,427
Total liabilities and stockholders' equity	**$ 4,739,449**	$ 4,655,380

The accompanying notes are an integral part of these statements

SANDY SPRING BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	**2016**	2015	**2016**	2015
Interest income:				
Interest and fees on loans and leases	**$ 36,928**	$ 33,031	**$ 73,134**	$ 65,170
Interest on loans held for sale	**64**	132	**198**	208
Interest on deposits with banks	**54**	22	**107**	44
Interest and dividends on investment securities:				
Taxable	**2,840**	3,850	**6,126**	7,427
Exempt from federal income taxes	**1,916**	1,814	**3,889**	4,072
Interest on federal funds sold	**1**	-	**2**	-
Total interest income	**41,803**	38,849	**83,456**	76,921
Interest expense:				
Interest on deposits	**2,041**	1,367	**3,878**	2,561
Interest on retail repurchase agreements and federal funds purchased	**72**	60	**138**	110
Interest on advances from FHLB	**2,739**	3,266	**6,113**	6,502
Interest on subordinated debt	**219**	223	**473**	442
Total interest expense	**5,071**	4,916	**10,602**	9,615
Net interest income	**36,732**	33,933	**72,854**	67,306
Provision for loan and lease losses	**2,957**	1,218	**4,193**	1,815
Net interest income after provision for loan and lease losses	**33,775**	32,715	**68,661**	65,491
Non-interest income:				
Investment securities gains	**150**	19	**1,919**	19
Service charges on deposit accounts	**1,956**	1,839	**3,859**	3,721
Mortgage banking activities	**1,106**	822	**1,641**	2,000
Wealth management income	**4,448**	5,161	**8,853**	10,077
Insurance agency commissions	**949**	881	**2,394**	2,499
Income from bank owned life insurance	**615**	606	**1,230**	1,319
Visa check fees	**1,220**	1,220	**2,309**	2,277
Other income	**2,307**	1,561	**3,909**	3,356
Total non-interest income	**12,751**	12,109	**26,114**	25,268
Non-interest expense:				
Salaries and employee benefits	**17,221**	17,534	**35,451**	34,833
Occupancy expense of premises	**3,162**	3,173	**6,635**	6,662
Equipment expense	**1,693**	1,490	**3,357**	2,863
Marketing	**662**	942	**1,343**	1,473
Outside data services	**1,355**	1,102	**2,718**	2,363
FDIC insurance	**649**	654	**1,286**	1,285
Amortization of intangible assets	**28**	106	**60**	213
Litigation expense	**-**	162	**-**	362
Other expense	**6,101**	4,314	**12,338**	8,667
Total non-interest expense	**30,871**	29,477	**63,188**	58,721
Income before income taxes	**15,655**	15,347	**31,587**	32,038
Income tax expense	**5,008**	5,014	**10,127**	10,480
Net income	**$ 10,647**	$ 10,333	**$ 21,460**	$ 21,558

Per share information:								
Basic net income per share	**$**	**0.45**	$	0.42	**$**	**0.90**	$	0.87
Diluted net income per share	**$**	**0.44**	$	0.42	**$**	**0.89**	$	0.87
Dividends declared per common share	**$**	**0.24**	$	0.22	**$**	**0.48**	$	0.44

The accompanying notes are an integral part of these statements

SANDY SPRING BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2016**	2015	**2016**	2015
Net income	**$ 10,647**	$ 10,333	**$ 21,460**	$ 21,558
Other comprehensive income:				
Investments available-for-sale:				
Net change in unrealized gains (losses) on investments available-for-sale	**2,598**	(4,781)	**13,253**	(147)
Related income tax (expense) benefit	**(1,031)**	1,899	**(5,263)**	58
Net investment gains reclassified into earnings	**(150)**	(19)	**(1,919)**	(19)
Related income tax expense	**60**	8	**765**	8
Net effect on other comprehensive income (loss) for the period	**1,477**	(2,893)	**6,836**	(100)
Defined benefit pension plan:				
Recognition of unrealized gain	**291**	259	**575**	551
Related income tax expense	**(115)**	(104)	**(228)**	(220)
Net effect on other comprehensive income for the period	**176**	155	**347**	331
Total other comprehensive income	**1,653**	(2,738)	**7,183**	231
Comprehensive income	**$ 12,300**	$ 7,595	**$ 28,643**	$ 21,789

The accompanying notes are an integral part of these statements

SANDY SPRING BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

	Six Months Ended June 30,	
(Dollars in thousands)	**2016**	2015
Operating activities:		
Net income	**$ 21,460**	$ 21,558
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**3,897**	3,504
Provision for loan and lease losses	**4,193**	1,815
Share based compensation expense	**992**	941
Deferred income tax expense	**60**	116
Origination of loans held for sale	**(72,226)**	(109,045)
Proceeds from sales of loans held for sale	**94,282**	101,688
(Gains) losses on sales of loans held for sale	**(1,517)**	(1,576)
Loss on sales of other real estate owned	**52**	-
Investment securities gains	**(1,919)**	(19)
Net (increase) decrease in accrued interest receivable	**44**	(510)
Net increase in other assets	**(2,526)**	(65)
Net decrease in accrued expenses and other liabilities	**(3,880)**	(162)
Other – net	**650**	2,069
Net cash provided by operating activities	**43,562**	20,314
Investing activities:		
Proceeds of other equity securities	**6,994**	5,838
Purchases of investments held-to-maturity	**-**	(2,100)
Purchases of investments available-for-sale	**(113,273)**	-
Proceeds from sales of investment available-for-sale	**40,863**	-
Proceeds from maturities, calls and principal payments of investments held-to-maturity	**5,004**	4,786
Proceeds from maturities, calls and principal payments of investments available-for-sale	**179,038**	45,249
Net increase in loans and leases	**(195,826)**	(163,717)
Proceeds from the sales of other real estate owned	**1,352**	-
Expenditures for premises and equipment	**(2,594)**	(4,559)
Net cash used in investing activities	**(78,442)**	(114,503)
Financing activities:		
Net increase in deposits	**246,411**	180,837
Net increase in retail repurchase agreements and federal funds purchased	**8,742**	37,385
Proceeds from advances from FHLB	**1,290,000**	1,174,000
Repayment of advances from FHLB	**(1,460,000)**	(1,279,000)
Retirement of subordinated debt	**(5,000)**	-
Proceeds from issuance of common stock	**45**	13
Tax benefits associated with share based compensation	**267**	335
Repurchase of common stock	**(13,273)**	(14,915)
Dividends paid	**(11,622)**	(11,041)
Net cash used by financing activities	**55,570**	87,614
Net increase (decrease) in cash and cash equivalents	**20,690**	(6,575)

Cash and cash equivalents at beginning of period		**72,882**		96,217
Cash and cash equivalents at end of period	**$**	**93,572**	$	89,642
Supplemental disclosures:				
Interest payments	**$**	**11,114**	$	9,619
Income tax payments		**12,984**		9,876
Transfer of investments held-to-maturity to available-for-sale		**203,118**		-
Transfer from loans to residential mortgage loans held for sale		**18,572**		-
Transfer from loans to other real estate owned		**-**		1,340

The accompanying notes are an integral part of these statements

SANDY SPRING BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY - UNAUDITED

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(Dollars in thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at January 1, 2016	**$ 24,296**	**$ 175,588**	**$ 325,840**	**$ (1,297)**	**$ 524,427**
Net income	**-**	**-**	**21,460**	**-**	**21,460**
Other comprehensive income, net of tax	**-**	**-**	**-**	**7,183**	**7,183**
Common stock dividends - $0.48 per share	**-**	**-**	**(11,622)**	**-**	**(11,622)**
Stock compensation expense	**-**	**992**	**-**	**-**	**992**
Common stock issued pursuant to:					
Stock option plan - 28,941 shares	**29**	**393**	**-**	**-**	**422**
Employee stock purchase plan - 12,471 shares	**12**	**279**	**-**	**-**	**291**
Director stock purchase plan - 258 shares	**1**	**15**	**-**	**-**	**16**
Restricted stock - 49,648 shares	**49**	**(466)**	**-**	**-**	**(417)**
Purchase of treasury shares - 512,459 shares	**(512)**	**(12,761)**	**-**	**-**	**(13,273)**
Balances at June 30, 2016	**$ 23,875**	**$ 164,040**	**$ 335,678**	**$ 5,886**	**$ 529,479**
Balance at January 1, 2015	$ 25,045	$ 194,647	$ 302,882	$ (823)	$ 521,751
Net income	-	-	21,558	-	21,558
Other comprehensive income, net of tax	-	-	-	231	231
Common stock dividends - $0.44 per share	-	-	(11,041)	-	(11,041)
Stock compensation expense	-	941	-	-	941
Common stock issued pursuant to:					
Stock option plan - 26,695 shares	26	365	-	-	391
Director stock purchase plan - 837 shares	1	21	-	-	22
Employee stock purchase plan - 12,613 shares	12	264	-	-	276
Restricted stock - 52,921 shares	53	(394)	-	-	(341)
Purchase of treasury shares - 575,472 shares	(575)	(14,340)	-	-	(14,915)
Balances at June 30, 2015	$ 24,562	$ 181,504	$ 313,399	$ (592)	$ 518,873

The accompanying notes are an integral part of these statements

Sandy Spring Bancorp, Inc. and Subsidiaries

Notes to the CONDENSED Consolidated Financial Statements - UNAUDITED

Note 1 – Significant Accounting Policies

Nature of Operations

Sandy Spring Bancorp (the "Company"), a Maryland corporation, is the bank holding company for Sandy Spring Bank (the "Bank"). The Bank offers a broad range of commercial banking, retail banking, mortgage and trust services throughout central Maryland, Northern Virginia and the greater Washington D.C. market through its operation of 45 community offices and six financial centers across the region. The Bank also offers a comprehensive menu of insurance and wealth management services through its subsidiaries, Sandy Spring Insurance Corporation and West Financial Services, Inc.

Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP") and prevailing practices within the financial services industry for interim financial information and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements and prevailing practices within the banking industry. The following summary of significant accounting policies of the Company is presented to assist the reader in understanding the financial and other data presented in this report. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for any future periods or for the year ending December 31, 2016. In the opinion of management, all adjustments (comprising only normal recurring accruals) necessary for a fair presentation of the results of the interim periods have been included. Certain reclassifications have been made to prior period amounts, as necessary, to conform to the current period presentation. The Company has evaluated subsequent events through the date of the issuance of its financial statements.

These statements should be read in conjunction with the financial statements and accompanying notes included in the Company's 2015 Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC") on March 4, 2016. There have been no significant changes to the Company's accounting policies as disclosed in the 2015 Annual Report on Form 10-K.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Sandy Spring Bank and its subsidiaries, Sandy Spring Insurance Corporation and West Financial Services, Inc. Consolidation has resulted in the elimination of all intercompany accounts and transactions.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and affect the reported amounts of revenues earned and expenses incurred during the reporting period. Actual results could differ from those estimates. Estimates that could change significantly relate to the provision for loan and lease losses and the related allowance, determination of impaired loans and the related measurement of impairment, potential impairment of goodwill or other intangible assets, valuation of investment securities and the determination of whether impaired securities are other-than-temporarily impaired, valuation of other real estate owned, prepayment rates, valuation of share-based compensation, the assessment that a liability should be recognized with respect to any matters under litigation, the calculation of current and deferred income taxes and the actuarial projections related to pension expense and the related liability.

Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, federal funds sold and interest-bearing deposits with banks (items with stated original maturity of three months or less).

Pending Accounting Pronouncements

The FASB issued Update No. 2014-09 in May 2014 that provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to customers. The guidance also provides for a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate. This standard may affect an entity's financial statements, business processes and internal control over financial reporting. The guidance is effective for the first interim or annual period beginning after December 15, 2017. The guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. The Company is assessing this guidance to determine its impact on the Company's financial position, results of operations and cash flows.

The FASB issued Update No. 2016-01 in January 2016. This guidance requires entities to measure equity investments at fair value and recognize changes on fair value in net income. The guidance also provides a new measurement alternative for equity investments that don't have readily determinable fair values and don't qualify for the net asset value practical expedient. Entities will have to record changes in instrument –specific credit risk for financial liabilities measured under the fair value option in other comprehensive income, except for certain financial liabilities of consolidated collateralized financing entities. Entities will also have to reassess the realizability of a deferred tax asset related to an available-for-sale debt security in combination with their other deferred tax assets. For public entities, the guidance in this update is effective for the first interim or annual period beginning after December 15, 2017. Early adoption by public entities is permitted as of the beginning of the year of adoption for selected amendments by a cumulative effect adjustment to the balance sheet. The adoption of this standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

The FASB issued Update No. 2016-02 in February 2016. Under this guidance lessees are required to record most leases on their balance sheets but recognize expenses in the income statement. The guidance also eliminates the current real estate-specific provision and changes the guidance on sale-leaseback transactions, initial direct costs and lease executory costs. With respect to lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. All entities will classify leases to determine how to recognize lease-related revenue and expense. In applying this guidance entities will also need to determine whether an arrangement contains a lease or service agreement. Disclosures are required by lessees and lessors to meet the objective of enabling users of financials statements to assess the amount, timing, and uncertainty of cash flows arising from leases. For public entities, this guidance is effective for the first interim or annual period beginning after December 15, 2018. Early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is assessing this guidance to determine its impact on the Company's financial position, results of operations and cash flows.

The FASB issued Update No. 2016-08 in March 2016. This guidance is intended to clarify a potential implementation issue with respect to determining whether an entity is a principal or an agent in an arrangement. The guidance provides indicators to assist in this evaluation when another party is involved in the arrangement to identify which party is the principal and which party is the agent. The effective date for this guidance is the same as the effective date of Update 2014-09, Revenue from Contracts with Customers. The adoption of this standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

The FASB issued Update No. 2016-09 in March 2016. This guidance requires recognition of all income tax effects of stock awards in the income statement when such awards vest or are settled. In addition, it revises the existing guidance to allow employers to withhold more of an employee's shares to satisfy the employer's statutory withholding requirements and still qualify for equity accounting treatment. Finally, an entity will now be allowed to make an entity-wide accounting policy election to either estimate the number or awards that are expected to vest, as required in the current guidance, or account for forfeitures as they occur. For public entities, this guidance is effective for the first interim or annual period beginning after December 15, 2016. Early adoption is permitted. The Company is assessing this guidance to determine its impact on the Company's financial position, results of operations and cash flows.

The FASB issued Update No. 2016-13 in June 2016. This guidance changes the impairment model for most financial assets measured at amortized cost and certain other instruments. Entities will be required to use a model to estimate expected losses on a forward-looking basis that will result in earlier recognition of loss allowances in most instances. Credit losses related to available-for-sale debt securities will be measured in a manner similar to the present, except that such losses will be recorded as allowances rather than as reductions in the amortized cost of the related securities. With respect to trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures, the guidance requires that an entity estimate its lifetime expected credit loss and record an allowance resulting in the net amount expected to be collected to be reflected as the financial asset. Entities are also required to provide significantly more disclosures, including information used to track credit quality by year of origination for most financing receivables. This guidance is effective for public business entities for the first interim or annual period beginning after December 15, 2019. The standard's provisions will be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. Early adoption by public business entities is permitted for the first interim or annual period beginning after December 15, 2018. The Company is assessing this guidance to determine its impact on the Company's financial position, results of operations and cash flows.

Note 2 – Investments

Investments available-for-sale

The amortized cost and estimated fair values of investments available-for-sale at the dates indicated are presented in the following table:

	June 30, 2016				December 31, 2015			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	**$ 79,741**	**$ 50**	**$ -**	**$ 79,791**	$ 109,602	$ 132	$ (1,334)	$ 108,400

State and municipal	**290,152**	**15,043**	**(35)**	**305,160**	156,402	8,305	-	164,707
Mortgage-backed	**303,959**	**7,327**	**(97)**	**311,189**	312,846	6,396	(2,546)	316,696
Corporate debt	**2,100**	**16**	**-**	**2,116**	-	-	-	-
Trust preferred	**1,089**	**-**	**(82)**	**1,007**	1,089	-	(66)	1,023
Total debt securities	**677,041**	**22,436**	**(214)**	**699,263**	579,939	14,833	(3,946)	590,826
Marketable equity securities	**1,223**	**-**	**-**	**1,223**	1,223	-	-	1,223
Total investments available-for-sale	**$678,264**	**$ 22,436**	**$ (214)**	**$700,486**	$581,162	$14,833	$(3,946)	$592,049

Any unrealized losses in the U.S. government agencies, state and municipal, mortgage-backed or corporate debt investment securities at June 30, 2016 are not the result of credit related events but due to changes in interest rates. These declines are considered temporary in nature and are expected to decline over time and recover as these securities approach maturity.

The mortgage-backed securities portfolio at June 30, 2016 is composed entirely of either the most senior tranches of GNMA, FNMA or FHLMC collateralized mortgage obligations ($119.6 million), or GNMA, FNMA or FHLMC mortgage-backed securities ($191.6 million). The Company does not currently intend to sell these securities and has sufficient liquidity to hold these securities for an adequate period of time, which may be maturity, to allow for any anticipated recovery in fair value.

During the first quarter of 2016, the Company transferred its investments held-to-maturity portfolio, which totaled $203.1 million, to the available-for-sale portfolio. At the time of the transfer, these investments had an unrealized gain of $4.6 million. The Company made this transfer to provide additional liquidity to fund future loan growth and other corporate activities.

At June 30, 2016 the trust preferred portfolio consisted of one pooled trust preferred security. The pooled trust preferred security, which is backed by debt issued by banks and thrifts, totals $1.1 million with a fair value of $1.0 million. The fair value of this security was determined by management through the use of a third party valuation specialist due to the limited trading activity for this security.

As a result of this evaluation, it was determined that the pooled trust preferred security had not incurred any credit-related other-than-temporary impairment ("OTTI") for the quarter ended June 30, 2016. The unrealized loss on this security that is recognized in other comprehensive income ("OCI") and is not expected to be sold and which the Company has the ability to hold until maturity, was $0.1 million at June 30, 2016.

The following table provides the activity of OTTI on investment securities due to credit losses recognized in earnings for the period indicated:

(In thousands)	OTTI Losses	
Cumulative credit losses on investment securities, through December 31, 2015	$	531
Additions for credit losses not previously recognized		-
Cumulative credit losses on investment securities, through June 30, 2016	$	531

Gross unrealized losses and fair value by length of time that the individual available-for-sale securities have been in an unrealized loss position at the dates indicated are presented in the following table:

			June 30, 2016		
			Continuous Unrealized Losses Existing for:		
(Dollars in thousands)	**Number of Securities**	**Fair Value**	**Less than 12 months**	**More than 12 months**	**Total Unrealized Losses**
State and municipal	**3**	**$ 15,994**	**$ 2**	**$ 33**	**$ 35**
Mortgage-backed	**5**	**12,570**	**73**	**24**	**97**
Trust preferred	**1**	**1,006**	**-**	**82**	**82**
Total	**9**	**$ 29,570**	**$ 75**	**$ 139**	**$ 214**

			December 31, 2015		
			Continuous Unrealized Losses Existing for:		
(Dollars in thousands)	Number of Securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
U.S. government agencies	7	$ 78,555	$ 1,020	$ 314	$ 1,334
Mortgage-backed	26	140,556	716	1,830	2,546
Trust preferred	1	1,023	-	66	66
Total	34	$ 220,134	$ 1,736	$ 2,210	$ 3,946

The amortized cost and estimated fair values of debt securities available-for-sale by contractual maturity at the dates indicated are provided in the following table. The Company has allocated mortgage-backed securities into the four maturity groupings reflected in the following table using the expected average life of the individual securities based on statistics provided by independent third party industry sources. Expected maturities will differ from contractual maturities as borrowers may have the right to prepay obligations with or without prepayment penalties.

	June 30, 2016		December 31, 2015	
(In thousands)	**Amortized Cost**	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Due in one year or less	**$ 3,179**	**$ 3,234**	$ 301	$ 306
Due after one year through five years	**152,318**	**159,496**	157,710	160,257
Due after five years through ten years	**247,172**	**256,946**	168,136	174,677
Due after ten years	**274,372**	**279,587**	253,792	255,586
Total debt securities available for sale	**$ 677,041**	**$ 699,263**	$ 579,939	$ 590,826

At June 30, 2016 and December 31, 2015, investments available-for-sale with a book value of $476.5 million and $233.2 million, respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law. The outstanding balance of no single issuer, except for U.S. Agencies securities, exceeded ten percent of stockholders' equity at June 30, 2016 and December 31, 2015.

Investments held-to-maturity

The amortized cost and estimated fair values of investments held-to-maturity at the date indicated are presented in the following table:

	December 31, 2015			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	$ 56,460	$ -	$ (733)	$ 55,727
State and municipal	149,537	4,297	(148)	153,686
Mortgage-backed	168	23	-	191
Corporate debt	2,100	-	-	2,100
Total investments held-to-maturity	$ 208,265	$ 4,320	$ (881)	$ 211,704

Gross unrealized losses and fair value by length of time that the individual held-to-maturity securities have been in a continuous unrealized loss position at the date indicated are presented in the following tables:

	December 31, 2015				
			Continuous Unrealized Losses Existing for:		
(Dollars in thousands)	Number of Securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
U.S. government agencies	6	$ 55,727	$ 456	$ 277	$ 733
State and municipal	11	12,369	23	125	148
Total	17	$ 68,096	$ 479	$ 402	$ 881

The amortized cost and estimated fair values of debt securities held-to-maturity by contractual maturity at the date indicated are reflected in the following table. Expected maturities will differ from contractual maturities as borrowers may have the right to prepay obligations with or without prepayment penalties.

	December 31, 2015	
(In thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 845	$ 853
Due after one year through five years	19,217	20,041
Due after five years through ten years	163,125	165,620
Due after ten years	25,078	25,190
Total debt securities held-to-maturity	$ 208,265	$ 211,704

At December 31, 2015, investments held-to-maturity with a book value of $194.3 million, respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law. The outstanding balance of no single issuer, except for U.S. Agency securities, exceeded ten percent of stockholders' equity at December 31, 2015.

Equity securities

Other equity securities at the dates indicated are presented in the following table:

(In thousands)	**June 30, 2016**	December 31, 2015
Federal Reserve Bank stock	**$ 8,269**	$ 8,269
Federal Home Loan Bank of Atlanta stock	**26,073**	33,067
Total equity securities	**$ 34,342**	$ 41,336

Note 3 – Loans and Leases

Outstanding loan balances at June 30, 2016 and December 31, 2015 are net of unearned income including net deferred loan costs of $1.0 million and $1.1 million, respectively. The loan portfolio segment balances at the dates indicated are presented in the following table:

(In thousands)	**June 30, 2016**	December 31, 2015
Residential real estate:		
Residential mortgage	**$ 820,618**	$ 796,358
Residential construction	**142,710**	129,281
Commercial real estate:		
Commercial owner occupied real estate	**700,599**	678,027
Commercial investor real estate	**824,252**	719,084
Commercial acquisition, development and construction	**285,585**	255,980
Commercial business	**451,711**	465,765
Consumer	**447,149**	450,875
Total loans and leases	**$ 3,672,624**	$ 3,495,370

Note 4 – CREDIT QUALITY ASSESSMENT

Allowance for Loan and Lease Losses

Summary information on the allowance for loan and lease loss activity for the period indicated is provided in the following table:

	Six Months Ended June 30,	
(In thousands)	**2016**	2015
Balance at beginning of year	**$ 40,895**	$ 37,802
Provision for loan and lease losses	**4,193**	1,815
Loan and lease charge-offs	**(2,272)**	(1,837)
Loan and lease recoveries	**568**	933
Net charge-offs	**(1,704)**	(904)
Balance at period end	**$ 43,384**	$ 38,713

The following tables provide information on the activity in the allowance for loan and lease losses by the respective loan portfolio segment for the period indicated:

	For the Six Months Ended June 30, 2016								
		Commercial Real Estate					Residential Real Estate		
(Dollars in thousands)	Commercial Business	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Leasing	Consumer	Residential Mortgage	Residential Construction	Total
Balance at beginning of year	$ 6,529	$ 4,691	$ 10,440	$ 7,984	$ -	$ 3,456	$ 6,901	$ 894	$ 40,895
Provision (credit)	767	354	1,478	91	-	(145)	1,660	(12)	4,193
Charge-offs	(185)	(48)	(197)	-	-	(508)	(1,334)	-	(2,272)
Recoveries	12	-	112	4	-	90	330	20	568
Net charge-offs	(173)	(48)	(85)	4	-	(418)	(1,004)	20	(1,704)
Balance at end of period	$ 7,123	$ 4,997	$ 11,833	$ 8,079	$ -	$ 2,893	$ 7,557	$ 902	$ 43,384
Total loans and leases	$451,711	$285,585	$824,252	$700,599	$ -	$447,149	$820,618	$142,710	$3,672,624
Allowance for loans and leases to total loans and leases ratio	1.58%	1.75%	1.44%	1.15%	na.	0.65%	0.92%	0.63%	1.18%
Balance of loans specifically evaluated for impairment	$ 5,517	$ 137	$ 9,720	$ 6,424	$ na.	$ na.	$ 3,322	$ -	$ 25,120
Allowance for loans specifically evaluated for impairment	$ 1,951	$ -	$ 1,274	$ 553	$ na.	$ na.	$ -	$ -	$ 3,778
Specific allowance to specific loans ratio	35.36%	0.00%	13.11%	8.61%	na.	na.	na.	na.	15.04%
Balance of loans collectively evaluated	$446,194	$285,448	$814,532	$694,175	$ na.	$447,149	$817,296	$142,710	$3,647,504
Allowance for loans collectively evaluated	$ 5,172	$ 4,997	$ 10,559	$ 7,526	$ na.	$ 2,893	$ 7,557	$ 902	$ 39,606
Collective allowance to collective loans	1.16%	1.75%	1.30%	1.08%	na.	0.65%	0.92%	0.63%	1.09%

ratio

For the Year Ended December 31,2015									
		Commercial Real Estate					Residential Real Estate		
(Dollars in thousands)	Commercial Business	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Leasing	Consumer	Residential Mortgage	Residential Construction	Total
Balance at beginning of year	$ 5,852	$ 4,267	$ 9,784	$ 7,143	$ 9	$ 3,592	$ 6,232	$ 923	$ 37,802
Provision (credit)	508	583	727	1,881	(5)	619	1,138	(80)	5,371
Charge-offs	(306)	(739)	(91)	(1,043)	(4)	(998)	(614)	-	(3,795)
Recoveries	475	580	20	3	-	243	145	51	1,517
Net charge-offs	169	(159)	(71)	(1,040)	(4)	(755)	(469)	51	(2,278)
Balance at end of period	$ 6,529	$ 4,691	$ 10,440	$ 7,984	$ -	$ 3,456	$ 6,901	$ 894	$ 40,895
Total loans and leases	$465,765	$255,980	$719,084	$678,027	$ -	$450,875	$796,358	$129,281	$3,495,370
Allowance for loans and leases to total loans and leases ratio	1.40%	1.83%	1.45%	1.18%	na.	0.77%	0.87%	0.69%	1.17%
Balance of loans specifically evaluated for impairment	$ 5,273	$ 194	$ 10,441	$ 6,580	$ na.	$ na.	$ 6,439	$ -	$ 28,927
Allowance for loans specifically evaluated for impairment	$ 1,318	$ 58	$ 1,489	$ 510	$ na.	$ na.	$ -	$ -	$ 3,375
Specific allowance to specific loans ratio	25.00%	29.90%	14.26%	7.75%	na.	na.	na.	na.	11.67%
Balance of loans collectively evaluated	$460,492	$255,786	$708,643	$671,447	$ na.	$450,875	$789,919	$129,281	$3,466,443
Allowance for loans collectively evaluated	$ 5,211	$ 4,633	$ 8,951	$ 7,474	$ na.	$ 3,456	$ 6,901	$ 894	$ 37,520
Collective allowance to collective loans ratio	1.13%	1.81%	1.26%	1.11%	na.	0.77%	0.87%	0.69%	1.08%

The following table provides summary information regarding impaired loans at the dates indicated and for the periods then ended:

(In thousands)	**June 30, 2016**	December 31, 2015
Impaired loans with a specific allowance	**$ 12,018**	$ 14,208
Impaired loans without a specific allowance	**13,102**	14,719
Total impaired loans	**$ 25,120**	$ 28,927
Allowance for loan and lease losses related to impaired loans	**$ 3,778**	$ 3,375
Allowance for loan and lease losses related to loans collectively evaluated	**39,606**	37,520
Total allowance for loan and lease losses	**$ 43,384**	$ 40,895
Average impaired loans for the period	**$ 27,840**	$ 29,828
Contractual interest income due on impaired loans during the period	**$ 1,099**	$ 2,527
Interest income on impaired loans recognized on a cash basis	**$ 507**	$ 961
Interest income on impaired loans recognized on an accrual basis	**$ 119**	$ 274

The following tables present the recorded investment with respect to impaired loans, the associated allowance by the applicable portfolio segment and the principal balance of the impaired loans prior to amounts charged-off at the dates indicated:

	June 30, 2016					
		Commercial Real Estate				
(In thousands)	**Commercial**	**Commercial AD&C**	**Commercial Investor R/E**	**Commercial Owner Occupied R/E**	**All Other Loans**	**Total Recorded Investment in Impaired Loans**
Impaired loans with a specific allowance						
Non-accruing	**$ 1,559**	**$ -**	**$ 7,161**	**$ 1,733**	**$ -**	**$ 10,453**
Restructured accruing	**841**	**-**	**-**	**-**	**-**	**841**
Restructured non-accruing	**85**	**-**	**-**	**639**	**-**	**724**
Balance	**$ 2,485**	**$ -**	**$ 7,161**	**$ 2,372**	**$ -**	**$ 12,018**
Allowance	**$ 1,951**	**$ -**	**$ 1,274**	**$ 553**	**$ -**	**$ 3,778**
Impaired loans without a specific allowance						
Non-accruing	**$ 1,189**	**$ -**	**$ 658**	**$ 1,985**	**$ -**	**$ 3,832**
Restructured accruing	**413**	**-**	**852**	**746**	**568**	**2,579**
Restructured non-accruing	**1,430**	**137**	**1,049**	**1,321**	**2,754**	**6,691**
Balance	**$ 3,032**	**$ 137**	**$ 2,559**	**$ 4,052**	**$ 3,322**	**$ 13,102**
Total impaired loans						

Non-accruing	**$ 2,748**	**$ -**	**$ 7,819**	**$ 3,718**	**$ -**	**$ 14,285**
Restructured accruing	**1,254**	**-**	**852**	**746**	**568**	**3,420**
Restructured non-accruing	**1,515**	**137**	**1,049**	**1,960**	**2,754**	**7,415**
Balance	**$ 5,517**	**$ 137**	**$ 9,720**	**$ 6,424**	**$ 3,322**	**$ 25,120**
Unpaid principal balance in total impaired loans	**$ 7,791**	**$ 4,398**	**$ 14,387**	**$ 8,785**	**$ 4,001**	**$ 39,362**

June 30, 2016

(In thousands)	**Commercial**	**AD&C**	**Commercial Real Estate: Commercial Investor R/E**	**Commercial Real Estate: Commercial Owner Occupied R/E**	**All Other Loans**	**Total Recorded Investment in Impaired Loans**
Average impaired loans for the period	**$ 5,289**	**$ 159**	**$ 10,035**	**$ 6,967**	**$ 5,390**	**$ 27,840**
Contractual interest income due on impaired loans during the period	**$ 278**	**$ 144**	**$ 384**	**$ 207**	**$ 86**	
Interest income on impaired loans recognized on a cash basis	**$ 72**	**$ -**	**$ 10**	**$ 404**	**$ 21**	
Interest income on impaired loans recognized on an accrual basis	**$ 65**	**$ -**	**$ 15**	**$ 18**	**$ 21**	

December 31, 2015

(In thousands)	Commercial	Commercial AD&C	Commercial Real Estate: Commercial Investor R/E	Commercial Real Estate: Commercial Owner Occupied R/E	All Other Loans	Total Recorded Investment in Impaired Loans
Impaired loans with a specific allowance						
Non-accruing	$ 1,168	$ 58	$ 7,791	$ 3,519	$ -	$ 12,536
Restructured accruing	876	-	-	-	-	876
Restructured non-accruing	156	-	-	640	-	796
Balance	$ 2,200	$ 58	$ 7,791	$ 4,159	$ -	$ 14,208
Allowance	$ 1,318	$ 58	$ 1,489	$ 510	$ -	$ 3,375
Impaired loans without a specific allowance						
Non-accruing	$ 974	$ -	$ 518	$ 793	$ 2,750	$ 5,035
Restructured accruing	701	-	2,073	240	577	3,591
Restructured non-accruing	1,398	136	59	1,388	3,112	6,093
Balance	$ 3,073	$ 136	$ 2,650	$ 2,421	$ 6,439	$ 14,719
Total impaired loans						
Non-accruing	$ 2,142	$ 58	$ 8,309	$ 4,312	$ 2,750	$ 17,571
Restructured accruing	1,577	-	2,073	240	577	4,467
Restructured non-accruing	1,554	136	59	2,028	3,112	6,889
Balance	$ 5,273	$ 194	$ 10,441	$ 6,580	$ 6,439	$ 28,927
Unpaid principal balance in total impaired loans	$ 7,158	$ 4,456	$ 15,138	$ 8,555	$ 7,154	$ 42,461

December 31, 2015

(In thousands)	Commercial	Commercial AD&C	Commercial Real Estate: Commercial Investor R/E	Commercial Real Estate: Commercial Owner Occupied R/E	All Other Loans	Total Recorded Investment in Impaired Loans
Average impaired loans for the period	$ 4,714	$ 882	$ 11,145	$ 8,218	$ 4,869	$ 29,828
Contractual interest income due on impaired loans during the period	$ 450	$ 304	$ 918	$ 647	$ 208	
Interest income on impaired loans recognized on a cash basis	$ 273	$ 11	$ 226	$ 347	$ 104	
Interest income on impaired loans recognized on an accrual basis	$ 113	$ -	$ 107	$ 11	$ 43	

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Credit Quality

The following tables provide information on the credit quality of the loan portfolio by segment at the dates indicated:

	June 30, 2016								
		Commercial Real Estate					**Residential Real Estate**		
(In thousands)	**Commercial**	**Commercial AD&C**	**Commercial Investor R/E**	**Commercial Owner Occupied R/E**	**Leasing**	**Consumer**	**Residential Mortgage**	**Residential Construction**	**Total**
Non-performing loans and assets:									
Non-accrual loans and leases	**$ 4,263**	**$ 137**	**$ 8,868**	**$ 5,678**	**$ -**	**$ 2,600**	**$ 6,186**	**$ 202**	**$ 27,934**
Loans and leases 90 days past due	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**-**	**2**
Restructured loans and leases	**1,254**	**-**	**852**	**746**	**-**	**-**	**568**	**-**	**3,420**
Total non-performing loans and leases	**5,517**	**137**	**9,720**	**6,424**	**-**	**2,602**	**6,754**	**202**	**31,356**
Other real estate owned	**39**	**365**	**433**	**-**	**-**	**-**	**474**	**-**	**1,311**
Total non-performing assets	**$ 5,556**	**$ 502**	**$ 10,153**	**$ 6,424**	**$ -**	**$ 2,602**	**$ 7,228**	**$ 202**	**$ 32,667**

	December 31, 2015								
		Commercial Real Estate					Residential Real Estate		
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Leasing	Consumer	Residential Mortgage	Residential Construction	Total
Non-performing loans and assets:									
Non-accrual loans and leases	$ 3,696	$ 194	$ 8,368	$ 6,340	$ -	$ 2,193	$ 8,822	$ 418	$ 30,031
Loans and leases 90 days past due	-	-	-	-	-	-	-	-	-
Restructured loans and leases	1,577	-	2,073	240	-	-	577	-	4,467
Total non-performing loans and leases	5,273	194	10,441	6,580	-	2,193	9,399	418	34,498
Other real estate owned	39	365	433	-	-	690	1,215	-	2,742
Total non-performing assets	$ 5,312	$ 559	$ 10,874	$ 6,580	$ -	$ 2,883	$ 10,614	$ 418	$ 37,240

	June 30, 2016								
		Commercial Real Estate					**Residential Real Estate**		
(In thousands)	**Commercial**	**Commercial AD&C**	**Commercial Investor R/E**	**Commercial Owner Occupied R/E**	**Leasing**	**Consumer**	**Residential Mortgage**	**Residential Construction**	**Total**
<u>Past due loans and leases</u>									
31-60 days	**$ 569**	**$ -**	**$ 226**	**$ 573**	**$ -**	**$ 1,010**	**$ 4,899**	**$ -**	**$ 7,277**
61-90 days	**858**	**-**	**-**	**1,407**	**-**	**931**	**2,787**	**-**	**5,983**

> 90 days	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**-**	**2**
Total past due	**1,427**	**-**	**226**	**1,980**	**-**	**1,943**	**7,686**	**-**	**13,262**
Non-accrual loans and leases	**4,263**	**137**	**8,868**	**5,678**	**-**	**2,600**	**6,186**	**202**	**27,934**
Loans acquired with deteriorated credit quality	**542**	**-**	**-**	**265**	**-**	**-**	**-**	**-**	**807**
Current loans	**445,479**	**285,448**	**815,158**	**692,676**	**-**	**442,606**	**806,746**	**142,508**	**3,630,621**
Total loans and leases	**$451,711**	**$285,585**	**$824,252**	**$700,599**	**$-**	**$447,149**	**$820,618**	**$142,710**	**$3,672,624**

December 31, 2015

		Commercial Real Estate					Residential Real Estate		
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Leasing	Consumer	Residential Mortgage	Residential Construction	Total
Past due loans and leases									
31-60 days	$ 119	$ -	$ 616	$ 1,819	$-	$ 1,642	$ 2,602	$ -	$ 6,798
61-90 days	404	-	2,200	849	-	550	986	-	4,989
> 90 days	-	-	-	-	-	-	-	-	-
Total past due	523	-	2,816	2,668	-	2,192	3,588	-	11,787
Non-accrual loans and leases	3,696	194	8,368	6,340	-	2,193	8,822	418	30,031
Loans acquired with deteriorated credit quality	544	-	-	307	-	-	-	-	851
Current loans	461,002	255,786	707,900	668,712	-	446,490	783,948	128,863	3,452,701
Total loans and leases	$465,765	$255,980	$719,084	$678,027	$-	$450,875	$796,358	$129,281	$3,495,370

The following tables provide information by credit risk rating indicators for each segment of the commercial loan portfolio at the dates indicated:

		June 30, 2016			
		Commercial Real Estate			
(In thousands)	**Commercial**	**Commercial AD&C**	**Commercial Investor R/E**	**Commercial Owner Occupied R/E**	**Total**
Pass	**$ 428,399**	**$ 285,448**	**$ 813,148**	**$ 684,548**	**$ 2,211,543**
Special Mention	**7,665**	**-**	**913**	**3,676**	**12,254**
Substandard	**15,647**	**137**	**10,191**	**12,375**	**38,350**
Doubtful	**-**	**-**	**-**	**-**	**-**
Total	**$ 451,711**	**$ 285,585**	**$ 824,252**	**$ 700,599**	**$ 2,262,147**

		December 31, 2015			
		Commercial Real Estate			
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Total
Pass	$ 447,439	$ 255,786	$ 706,623	$ 659,281	$ 2,069,129
Special Mention	797	-	1,509	3,356	5,662
Substandard	17,529	194	10,952	15,390	44,065
Doubtful	-	-	-	-	-
Total	$ 465,765	$ 255,980	$ 719,084	$ 678,027	$ 2,118,856

Homogeneous loan pools do not have individual loans subjected to internal risk ratings therefore, the credit indicator applied to these pools is based on their delinquency status. The following tables provide information by credit risk rating indicators for those remaining segments of the loan portfolio at the dates indicated:

			June 30, 2016		
			Residential Real Estate		
(In thousands)	**Leasing**	**Consumer**	**Residential Mortgage**	**Residential Construction**	**Total**
Performing	**$ -**	**$ 444,547**	**$ 813,864**	**$ 142,508**	**$ 1,400,919**
Non-performing:					
90 days past due	**-**	**2**	**-**	**-**	**2**
Non-accruing	**-**	**2,600**	**6,186**	**202**	**8,988**
Restructured loans and leases	**-**	**-**	**568**	**-**	**568**
Total	**$ -**	**$ 447,149**	**$ 820,618**	**$ 142,710**	**$ 1,410,477**

December 31, 2015

			Residential Real Estate		
(In thousands)	Leasing	Consumer	Residential Mortgage	Residential Construction	Total
Performing	$ -	$ 448,682	$ 786,959	$ 128,863	$ 1,364,504
Non-performing:					
90 days past due	-	-	-	-	-
Non-accruing	-	2,193	8,822	418	11,433
Restructured loans and leases	-	-	577	-	577
Total	$ -	$ 450,875	$ 796,358	$ 129,281	$ 1,376,514

During the six months ended June 30, 2016, the Company restructured $0.6 million in loans. No modifications resulted in the reduction of the principal in the associated loan balances. Restructured loans are subject to periodic credit reviews to determine the necessity and adequacy of a specific loan loss allowance based on the collectability of the recorded investment in the restructured loan. Loans restructured during 2016 have specific reserves that were insignificant at June 30, 2016. For the year ended December 31, 2015, the Company restructured $1.9 million in loans. Modifications consisted principally of interest rate concessions and no modifications resulted in the reduction of the recorded investment in the associated loan balances. Loans restructured during 2015 had specific reserves of $0.5 million at December 31, 2015. Commitments to lend additional funds on loans that have been restructured at June 30, 2016 and December 31, 2015 amounted to $0.2 million and $0.1 million, respectively.

The following table provides the amounts of the restructured loans at the date of restructuring for specific segments of the loan portfolio during the period indicated:

	For the Six Months Ended June 30, 2016					
		Commercial Real Estate				
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	Total
Troubled debt restructurings						
Restructured accruing	**$ 42**	**$ -**	**$ -**	**$ 507**	**$ -**	**$ 549**
Restructured non-accruing	**21**	**-**	**-**	**-**	**-**	**21**
Balance	**$ 63**	**$ -**	**$ -**	**$ 507**	**$ -**	**$ 570**
Specific allowance	**$ 60**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 60**
Restructured and subsequently defaulted	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

	For the Year Ended December 31, 2015					
		Commercial Real Estate				
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	Total
Troubled debt restructurings						
Restructured accruing	$ 1,003	$ -	$ -	$ 240	$ -	$ 1,243
Restructured non-accruing	-	-	-	639	-	639
Balance	$ 1,003	$ -	$ -	$ 879	$ -	$ 1,882
Specific allowance	$ 303	$ -	$ -	$ 149	$ -	$ 452
Restructured and subsequently defaulted	$ -	$ -	$ -	$ -	$ -	$ -

Other Real Estate Owned

Other real estate owned totaled $1.3 million and $2.7 million at June 30, 2016 and December 31, 2015, respectively.

Note 5 – Goodwill and Other Intangible Assets

The gross carrying amounts and accumulated amortization of intangible assets and goodwill are presented at the dates indicated in the following table:

(Dollars in thousands)	**June 30, 2016** Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	**Weighted Average Remaining Life**	December 31, 2015 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
Amortizing intangible assets:								
Other identifiable intangibles	**$ 8,623**	**$ (8,546)**	**$ 77**	**2.3 years**	$ 8,623	$ (8,485)	$ 138	2.0 years
Total amortizing intangible assets	**$ 8,623**	**$ (8,546)**	**$ 77**		$ 8,623	$ (8,485)	$ 138	
Goodwill	**$ 84,171**		**$ 84,171**		$ 84,171		$ 84,171	

The following table presents the estimated future amortization expense for amortizing intangible assets within the years ending December 31:

(In thousands)	Amount
2016	$ 34
2017	16
2018	16
2019	11
Total amortizing intangible assets	$ 77

Note 6 – Deposits

The following table presents the composition of deposits at the dates indicated:

(In thousands)	**June 30, 2016**	December 31, 2015
Noninterest-bearing deposits	**$ 1,176,135**	$ 1,001,841
Interest-bearing deposits:		
Demand	**574,894**	570,333
Money market savings	**886,038**	898,655
Regular savings	**302,677**	284,457
Time deposits of less than $100,000	**259,962**	248,172
Time deposits of $100,000 or more	**310,435**	260,272
Total interest-bearing deposits	**2,334,006**	2,261,889
Total deposits	**$ 3,510,141**	$ 3,263,730

Note 7 – Stockholders' Equity

The Company re-approved a stock repurchase program in August 2015 that permits the repurchase of up to 5% of the Company's outstanding shares of common stock or approximately 1.2 million shares. Repurchases, which will be conducted through open market purchases or privately negotiated transactions, will be made depending on market conditions and other factors. During the first six months of 2016, the Company repurchased 512,459 shares at an average cost of $25.90 per share or a total of $13.3 million.

Note 8 – Share Based Compensation

At June 30, 2016, the Company had two share based compensation plans in existence, the 2005 Omnibus Stock Plan ("Omnibus Stock Plan") and the 2015 Omnibus Incentive Plan ("Omnibus Incentive Plan"). The Omnibus Stock Plan expired during the second quarter of 2015 but has outstanding options that may still be exercised. The Omnibus Incentive Plan is described in the following paragraph.

The Company's Omnibus Incentive Plan was approved on May 6, 2015 and provides for the granting of incentive stock options, non-qualifying stock options, stock appreciation rights, restricted stock grants, restricted stock units and performance awards to selected employees on a periodic basis at the discretion of the board. The Omnibus Incentive Plan authorizes the issuance of up to 1,500,000 shares of common stock, of which 1,401,306 are available for issuance at June 30, 2016, has a term of ten years, and is administered by a committee of at least three directors appointed by the board of directors. Options granted under the plan have an exercise price which may not be less than 100% of the fair market value of the common stock on the date of the grant and must be exercised within seven to ten years from the date of grant. The exercise price of stock options must be paid for in full in cash or shares of common stock, or a combination of both. The board committee has the discretion when making a grant of stock options to impose restrictions on the shares to be purchased upon the exercise of such options. The Company generally issues authorized but previously unissued shares to satisfy option exercises.

The fair values of all of the options granted for the periods indicated have been estimated using a binomial option-pricing model with the weighted-average assumptions for the periods shown are presented in the following table:

	Six Months Ended June 30,	
	2016	2015
Dividend yield	**3.48%**	3.40%
Weighted average expected volatility	**41.54%**	42.98%
Weighted average risk-free interest rate	**1.42%**	1.42%
Weighted average expected lives (in years)	**5.71**	5.42
Weighted average grant-date fair value	**$7.75**	$7.63

The dividend yield is based on estimated future dividend yields. The risk-free rate for periods within the contractual term of the share option is based on the U.S. Treasury yield curve in effect at the time of the grant. Expected volatilities are generally based on historical volatilities. The expected term of share options granted is generally derived from historical experience.

Compensation expense is recognized on a straight-line basis over the vesting period of the respective stock option or restricted stock grant. The Company recognized compensation expense of $0.5 million and $0.4 million for the three months ended June 30, 2016 and 2015, respectively, related to the awards of stock options and restricted stock grants. Compensation expense of $0.9 million and $0.9 million was recognized for the six months ended June 30, 2016 and 2015, respectively. The intrinsic value of stock options exercised in the six months ended June 30, 2016 and 2015 was $0.4 million and $0.3 million, respectively. The total of unrecognized compensation cost related to stock options was approximately $0.3 million as of June 30, 2016. That cost is expected to be recognized over a weighted average period of approximately 2.2 years. The total of unrecognized compensation cost related to restricted stock was approximately $5.0 million as of June 30, 2016. That cost is expected to be recognized over a weighted average period of approximately 3.4 years. The fair value of the options vested during the six months ended June 30, 2016 and 2015, was not significant.

In the first quarter of 2016, 21,238 stock options were granted, subject to a three year vesting schedule with one third of the options vesting on April 1st of each year. The Company granted 78,081 shares of restricted stock in the first quarter of 2016, 10,010 shares are subject to a three year vesting schedule with one third of the shares vesting each year and 59,298 shares are subject to a five year vesting schedule with one fifth of the shares vesting each year. All of these restricted shares will vest on April 1st of each year. An additional 8,773 shares of performance based restricted stock grants were also approved as part of the restricted shares granted in the first quarter. The performance shares are subject to cliff vesting after three years based on the relative performance of the Company's stock price in comparison to a selected peer group. Vesting can vary from 0-150% of the initial grant based on the results of the Company's stock performance.

A summary of share option activity for the period indicated is reflected in the following table:

	Number of Common Shares	Weighted Average Exercise Share Price	Weighted Average Contractual Remaining Life (Years)	Aggregate Intrinsic Value (in thousands)
Balance at January 1, 2016	134,131	$ 19.70		$ 974
Granted	21,238	$ 27.46		
Exercised	(28,941)	$ 14.58		$ 371
Forfeited or expired	(1,060)	$ 25.06		
Balance at June 30, 2016	125,368	$ 22.15	3.9	$ 853
Exercisable at June 30, 2016	83,798	$ 19.93	2.8	$ 765
Weighted average fair value of options granted during the year		$ 7.75		

A summary of the activity for the Company's restricted stock for the period indicated is presented in the following table:

(In dollars, except share data):	Number of Common Shares	Weighted Average Grant-Date Fair Value
Restricted stock at January 1, 2016	218,571	$ 23.30
Granted	78,081	$ 27.42
Vested	(73,975)	$ 22.04
Forfeited	(5,847)	$ 24.26
Restricted stock at June 30, 2016	216,830	$ 25.19

Note 9 – Pension, Profit Sharing, and Other Employee Benefit Plans

Defined Benefit Pension Plan

The Company has a qualified, noncontributory, defined benefit pension plan (the "Plan") covering substantially all employees. Benefits after January 1, 2005, are based on the benefit earned as of December 31, 2004, plus benefits earned in future years of service based on the employee's compensation during each such year. All benefit accruals for employees were frozen as of December 31, 2007 based on past service and thus salary increases and additional years of service after such date no longer affect the defined benefit provided by the plan although additional vesting may continue to occur.

The Company's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. In addition, the Company contributes additional amounts as it deems appropriate based on benefits attributed to service prior to the date of the plan freeze. The Plan invests primarily in a diversified portfolio of managed fixed income and equity funds.

The components of net periodic benefit cost for the periods indicated are presented in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2016**	2015	**2016**	2015
Interest cost on projected benefit obligation	**$ 415**	$ 407	**$ 826**	$ 817
Expected return on plan assets	**(375)**	(406)	**(747)**	(812)
Recognized net actuarial loss	**291**	259	**575**	551
Net periodic benefit cost	**$ 331**	$ 260	**$ 654**	$ 556

Contributions

The decision as to whether or not to make a plan contribution and the amount of any such contribution is dependent on a number of factors. Such factors include the investment performance of the plan assets in the current economy and, since the plan is currently frozen, the remaining investment horizon of the plan. Given these uncertainties, management continues to monitor the funding level of the pension plan and may make contributions as necessary during 2016.

Note 10 – Net Income per Common Share

The calculation of net income per common share for the periods indicated is presented in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars and amounts in thousands, except per share data)	**2016**	2015	**2016**	2015
Net income	**$ 10,647**	$ 10,333	**$ 21,460**	$ 21,558
<u>Basic:</u>				
Basic weighted average EPS shares	**23,865**	24,626	**23,920**	24,776
Basic net income per share	**$ 0.45**	$ 0.42	**$ 0.90**	$ 0.87
<u>Diluted:</u>				
Basic weighted average EPS shares	**23,865**	24,626	**23,920**	24,776
Dilutive common stock equivalents	**244**	64	**246**	92
Dilutive EPS shares	**24,109**	24,690	**24,166**	24,868
Diluted net income per share	**$ 0.44**	$ 0.42	**$ 0.89**	$ 0.87
Anti-dilutive shares	**7**	8	**6**	8

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income is defined as net income plus transactions and other occurrences that are the result of non-owner changes in equity. For condensed financial statements presented for the Company, non-owner changes in equity are comprised of unrealized gains or losses on available-for-sale debt securities and any minimum pension liability adjustments. These do not have an impact on the Company's net income. The following table presents the activity in net accumulated other comprehensive income (loss) and the components of the activity for the periods indicated:

	Unrealized Gains

(In thousands)	(Losses) on Investments Available-for-Sale	Defined Benefit Pension Plan	Total
Balance at January 1, 2016	$ 6,566	$ (7,863)	$ (1,297)
Other comprehensive income before reclassification, net of tax	7,990	-	7,990
Reclassifications from accumulated other comprehensive income, net of tax	(1,154)	347	(807)
Current period change in other comprehensive income, net of tax	6,836	347	7,183
Balance at June 30, 2016	$ 13,402	$ (7,516)	$ 5,886

(In thousands)	Unrealized Gains (Losses) on Investments Available-for-Sale	Defined Benefit Pension Plan	Total
Balance at January 1, 2015	$ 8,078	$ (8,901)	$ (823)
Other comprehensive income before reclassification, net of tax	(100)	-	(100)
Reclassifications from accumulated other comprehensive income, net of tax	-	331	331
Current period change in other comprehensive income, net of tax	(100)	331	231
Balance at June 30, 2015	$ 7,978	$ (8,570)	$ (592)

The following table provides the information on the reclassification adjustments out of accumulated other comprehensive income for the periods indicated:

(In thousands)	For the Six Months Ended June 30, **2016**	2015
Unrealized gains/(losses) on investments available-for-sale		
Affected line item in the Statements of Income:		
Investment securities gains	**$ 1,919**	$ 19
Income before taxes	**1,919**	19
Tax expense	**765**	8
Net income	**$ 1,154**	$ 11
Amortization of defined benefit pension plan items		
Affected line item in the Statements of Income:		
Recognized actuarial loss (1)	**$ 575**	$ 551
Income before taxes	**575**	551
Tax expense	**228**	220
Net income	**$ 347**	$ 331

(1) This amount is included in the computation of net periodic benefit cost, see Note 9

Note 12 – Financial Instruments with Off-balance Sheet Risk and Derivatives

The Company has entered into interest rate swaps ("swaps") to facilitate customer transactions and meet their financing needs. These swaps qualify as derivatives, but are not designated as hedging instruments. Interest rate swap contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. When the fair value of a derivative instrument contract is positive, this generally indicates that the counterparty or customer owes the Company, and results in credit risk to the Company. When the fair value of a derivative instrument contract is negative, the Company owes the customer or counterparty and therefore, has no credit risk. The notional value of commercial loan swaps outstanding was $19.4 million with a fair value of $1.4 million as of June 30, 2016 compared to $19.9 million with a fair value of $1.3 million as of December 31, 2015. The offsetting nature of the swaps results in a neutral effect on the Company’s operations. Fair values of the swaps are carried as both gross assets and gross liabilities in the condensed consolidated statements of condition. The associated net gains and losses on the swaps are recorded in other non-interest income.

Note 13 – Litigation

The Company and its subsidiaries are subject in the ordinary course of business to various pending or threatened legal proceedings in which claims for monetary damages are asserted. After consultation with legal counsel, management does not anticipate that the ultimate liability, if any, arising out of these legal matters will have a material adverse effect on the Company's financial condition, operating results or liquidity.

Litigation expenses accrued in the first six months of 2015 were related to an adverse jury verdict rendered in 2014 associated with the actions of an employee from an institution that was acquired in 2012. A settlement was reached in the fourth quarter of 2015 and $4.5 million of previously accrued litigation expenses was reversed.

Note 14 – Fair Value

Generally accepted accounting principles provide entities the option to measure eligible financial assets, financial liabilities and commitments at fair value (i.e. the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a commitment. Subsequent changes in fair value must be recorded in earnings. The Company applies the fair value option on residential mortgage loans held for sale. The fair value option on residential mortgage loans allows the recognition of gains on sale of mortgage loans to more accurately reflect the timing and economics of the transaction.

The standard for fair value measurement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below.

Basis of Fair Value Measurement:

Level 1- Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2- Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3- Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

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.

Changes to interest rates may result in changes in the cash flows due to prepayments or extinguishments. Accordingly, this could result in higher or lower measurements of the fair values.

Assets and Liabilities

Mortgage loans held for sale

Mortgage loans held for sale are valued based on quotations from the secondary market for similar instruments and are classified as Level 2 of the fair value hierarchy.

Investments available-for-sale

U.S. government agencies, mortgage-backed securities and corporate debt

Valuations are based on active market data and use of evaluated broker pricing models that vary based by asset class and includes available trade, bid, and other market information. Generally, the methodology includes broker quotes, proprietary models, descriptive terms and conditions databases coupled with extensive quality control programs. Multiple quality control evaluation processes review available market, credit and deal level information to support the evaluation of the security. If there is a lack of objectively verifiable information available to support the valuation, the evaluation of the security is discontinued. Additionally, proprietary models and pricing systems, mathematical tools, actual transacted prices, integration of market developments and experienced evaluators are used to determine the value of a security based on a hierarchy of market information regarding a security or securities with similar characteristics. The Company does not adjust the quoted price for such securities. Such instruments are generally classified within Level 2 of the fair value hierarchy.

State and municipal securities

Proprietary valuation matrices are used for valuing all tax-exempt municipals that can incorporate changes in the municipal market as they occur. Market evaluation models include the ability to value bank qualified municipals and general market municipals that can be broken down further according to insurer, credit support, state of issuance and rating to incorporate additional spreads and municipal curves. Taxable municipals are valued using a third party model that incorporates a methodology that captures the trading nuances associated with these bonds. Such instruments are generally classified within Level 2 of the fair value hierarchy.

Trust preferred securities

In active markets, these types of instruments are valued based on quoted market prices that are readily accessible at the measurement date and are classified within Level 1 of the fair value hierarchy. Positions that are not traded in active markets or are subject to transfer restrictions are valued or 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 uses a process that employs certain assumptions to determine the present value. For further information, refer to Note 2 – Investments. Positions that are not traded in active markets or are subject to transfer restrictions are classified within Level 3 of the fair value hierarchy.

Interest rate swap agreements

Interest rate swap agreements are measured by alternative pricing sources with reasonable levels of price transparency in markets that are not active. Based on the complex nature of interest rate swap agreements, the markets these instruments trade in are not as efficient and are less liquid than that of the more mature Level 1 markets. These markets do however have comparable, observable inputs in which an alternative pricing source values these assets in order to arrive at a fair market value. These characteristics classify interest rate swap agreements as Level 2.

Assets Measured at Fair Value on a Recurring Basis

The following tables set forth the Company's financial assets and liabilities at the dates indicated that were accounted for or disclosed at fair value. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	June 30, 2016			
(In thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets				
Residential mortgage loans held for sale	**$ -**	**$ 13,490**	**$ -**	**$ 13,490**
Investments available-for-sale:				
U.S. government agencies	**-**	**79,791**	**-**	**79,791**
State and municipal	**-**	**305,160**	**-**	**305,160**
Mortgage-backed	**-**	**311,189**	**-**	**311,189**
Corporate debt	**-**	**-**	**2,116**	**2,116**
Trust preferred	**-**	**-**	**1,007**	**1,007**
Marketable equity securities	**-**	**1,223**	**-**	**1,223**
Interest rate swap agreements	**-**	**1,428**	**-**	**1,428**
Liabilities				
Interest rate swap agreements	**$ -**	**$ (1,428)**	**$ -**	**$ (1,428)**

	December 31, 2015			
(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Residential mortgage loans held for sale	$ -	$ 15,457	$ -	$ 15,457
Investments available-for-sale:				
U.S. government agencies	-	108,400	-	108,400
State and municipal	-	164,707	-	164,707
Mortgage-backed	-	316,696	-	316,696
Trust preferred	-	-	1,023	1,023
Marketable equity securities	-	1,223	-	1,223
Interest rate swap agreements	-	1,312	-	1,312

Liabilities								
Interest rate swap agreements	$	-	$	(1,312)	$	-	$	(1,312)

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The following table provides unrealized losses included in assets measured in the Condensed Consolidated Statements of Condition at fair value on a recurring basis for the period indicated:

(In thousands)	Significant Unobservable Inputs (Level 3)
Investments available-for-sale:	
Balance at January 1, 2016	$ 1,023
Transfer into Level 3	2,116
Total unrealized losses included in other comprehensive income (loss)	(16)
Balance at June 30, 2016	$ 3,123

The transfer was the result of the reclassification of the entire the held-to-maturity securities portfolio to the available-for-sale portfolio in the first quarter of 2016. The transfer into Level 3 was recognized as of the date of the reclassification of the securities portfolio.

Assets Measured at Fair Value on a Nonrecurring Basis

The following table sets forth the Company's financial assets subject to fair value adjustments (impairment) on a nonrecurring basis at the date indicated that are valued at the lower of cost or market. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	June 30, 2016				
(In thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**	**Total Losses**
Impaired loans	**$ -**	**$ -**	**$ 8,219**	**$ 8,219**	**$ 10,291**
Other real estate owned	**-**	**-**	**1,311**	**1,311**	**(107)**
Total	**$ -**	**$ -**	**$ 9,530**	**$ 9,530**	**$ 10,184**

	December 31, 2015				
(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Total Losses
Impaired loans	$ -	$ -	$ 9,349	$ 9,349	$ 10,348
Other real estate owned	-	-	2,742	2,742	(80)
Total	$ -	$ -	$ 12,091	$ 12,091	$ 10,268

At June 30, 2016, impaired loans totaling $25.1 million were written down to fair value of $21.3 million as a result of specific loan loss allowances of $3.8 million associated with the impaired loans which was included in the allowance for loan losses. Impaired loans totaling $28.9 million were written down to fair value of $25.5 million at December 31, 2015 as a result of specific loan loss allowances of $3.4 million associated with the impaired loans.

Loan impairment is measured using the present value of expected cash flows, the loan's observable market price or the fair value of the collateral (less selling costs) if the loans are collateral dependent. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of business equipment, inventory and accounts receivable collateral is based on 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 factors identified above. Valuation techniques are consistent with those techniques applied in prior periods.

Other real estate owned ("OREO") is adjusted to fair value upon transfer of the loans to OREO. Subsequently, OREO is carried at the lower of carrying value or fair value. The estimated fair value for other real estate owned included in Level 3 is determined by independent market based appraisals and other available market information, less cost to sell, that may be reduced further based on market expectations or an executed sales agreement. If the fair value of the collateral deteriorates subsequent to initial recognition, the Company records the OREO as a non-recurring Level 3 adjustment. Valuation techniques are consistent with those techniques applied in prior periods.

Fair Value of Financial Instruments

The Company discloses fair value information about financial instruments for which it is practicable to estimate the value, whether or not such financial instruments are recognized on the balance sheet. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

Quoted market prices, where available, are shown as estimates of fair market values. Because no quoted market prices are available for a significant portion of the Company's financial instruments, the fair value of such instruments has been derived based on the amount and timing of future cash flows and estimated discount rates.

Present value techniques used in estimating the fair value of many of the Company's financial instruments are significantly affected by the assumptions used. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate cash settlement of the instrument. Additionally, the accompanying estimates of fair values are only representative of the fair values of the individual financial assets and liabilities, and should not be considered an indication of the fair value of the Company.

The carrying amounts and fair values of the Company's financial instruments at the dates indicated are presented in the following table:

	June 30, 2016		Fair Value Measurements		
(In thousands)	**Carrying Amount**	**Estimated Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial Assets					
Other equity securities	**$ 34,342**	**$ 34,342**	**$ -**	**$ 34,342**	**$ -**
Loans, net of allowance	**3,629,240**	**3,662,341**	**-**	**-**	**3,662,341**
Other assets	**92,095**	**92,095**	**-**	**92,095**	**-**
Financial Liabilities					
Time deposits	**$ 570,397**	**$ 573,670**	**$ -**	**$ 573,670**	**$ -**
Securities sold under retail repurchase agreements and federal funds purchased	**117,887**	**117,887**	**-**	**117,887**	**-**
Advances from FHLB	**515,000**	**534,818**	**-**	**534,818**	**-**
Subordinated debentures	**30,000**	**13,994**	**-**	**-**	**13,994**

	December 31, 2015		Fair Value Measurements		
(In thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Investments held-to-maturity and other equity securities	$ 249,601	$ 253,040	$ -	$ 253,040	$ -
Loans, net of allowance	3,454,475	3,526,807	-	-	3,526,807
Other assets	90,866	90,866	-	90,866	-
Financial Liabilities					
Time deposits	$ 508,444	$ 508,000	$ -	$ 508,000	$ -
Securities sold under retail repurchase agreements and federal funds purchased	109,145	109,145	-	109,145	-

Advances from FHLB	685,000	704,410	-	704,410	-
Subordinated debentures	35,000	14,694	-	-	14,694

The following methods and assumptions were used to estimate the fair value of each category of financial instruments for which it is practicable to estimate that value:

Cash and Temporary Investments: The carrying amounts of cash and cash equivalents approximate their fair value and have been excluded from the table above.

Investments: The fair value of marketable securities is based on quoted market prices, prices quoted for similar instruments, and prices obtained from independent pricing services.

Loans: For certain categories of loans, such as mortgage, installment and commercial loans, the fair value is estimated by discounting the expected future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and similar remaining maturities. Expected cash flows were projected based on contractual cash flows, adjusted for estimated prepayments.

Accrued interest receivable: The carrying value of accrued interest receivable approximates fair value due to the short-term duration and has been excluded from the table above.

Other assets: The investment in bank-owned life insurance represents the cash surrender value of the policies at June 30, 2016 and December 31, 2015 as determined by the each insurance carrier. The carrying value of accrued interest receivable approximates fair values due to the short-term duration.

Deposits: The fair value of demand, money market savings and regular savings deposits, which have no stated maturity, were considered equal to their carrying amount, representing the amount payable on demand. While management believes that the Bank’s core deposit relationships provide a relatively stable, low-cost funding source that has a substantial intangible value separate from the value of the deposit balances, these estimated fair values do not include the intangible value of core deposit relationships, which comprise a significant portion of the Bank’s deposit base.

Short-term borrowings: The carrying values of short-term borrowings, including overnight, securities sold under agreements to repurchase and federal funds purchased approximates the fair values due to the short maturities of those instruments.

Long-term borrowings: The fair value of the Federal Home Loan Bank of Atlanta (“FHLB”) advances and subordinated debentures was estimated by computing the discounted value of contractual cash flows payable at current interest rates for obligations with similar remaining terms. The Company's credit risk is not material to calculation of fair value because the FHLB borrowings are collateralized. The Company classifies advances from the Federal Home Loan Bank of Atlanta within Level 2 of the fair value hierarchy since the fair value of such borrowings is based on rates currently available for borrowings with similar terms and remaining maturities. Subordinated debentures are classified as Level 3 in the fair value hierarchy due to the lack of market activity of such instruments.

Accrued interest payable: The carrying value of accrued interest payable approximates fair value due to the short-term duration and has been excluded from the previous table.

Note 15 - Segment Reporting

Currently, the Company conducts business in three operating segments—Community Banking, Insurance and Investment Management. Each of the operating segments is a strategic business unit that offers different products and services. The Insurance and Investment Management segments were businesses that were acquired in separate transactions where management of acquisition was retained. The accounting policies of the segments are the same as those of the Company. However, the segment data reflect inter-segment transactions and balances.

The Community Banking segment is conducted through Sandy Spring Bank and involves delivering a broad range of financial products and services, including various loan and deposit products to both individuals and businesses. Parent company income is included in the Community Banking segment, as the majority of effort of these functions is related to this segment. Major revenue sources include net interest income, gains on sales of mortgage loans, trust income fees and service charges on deposit accounts. Expenses include personnel, occupancy, marketing, equipment and other expenses. Non-cash charges associated with amortization of intangibles related to the acquired entities was not significant for the three and six months ended June 30, 2016 and 2015, respectively.

The Insurance segment is conducted through Sandy Spring Insurance Corporation, a subsidiary of the Bank, and offers annuities as an alternative to traditional deposit accounts. Sandy Spring Insurance Corporation operates Sandy Spring Insurance, a general insurance agency located in Annapolis, Maryland, and Neff and Associates, located in Ocean City, Maryland. Major sources of revenue are insurance commissions from commercial lines, personal lines, and medical liability lines. Expenses include personnel and support charges. Non-cash charges associated with amortization of intangibles related to the acquired entities were not significant for the three and six months ended June 30, 2016 and 2015, respectively.

The Investment Management segment is conducted through West Financial Services, Inc., a subsidiary of the Bank. This asset management and financial planning firm, located in McLean, Virginia, provides comprehensive investment management and financial planning to individuals, families, small businesses and associations including cash flow analysis, investment review, tax planning, retirement planning, insurance analysis and estate planning. West Financial currently has approximately $1.1 billion in assets under management. Major revenue sources include non-interest income earned on the above services. Expenses include personnel and support charges. Non-cash charges associated with amortization of intangibles related to the acquired entities were not significant for the three and six months ended June 30, 2016 and 2015, respectively.

Information for the operating segments and reconciliation of the information to the condensed consolidated financial statements for the periods indicated is presented in the following tables:

	Three Months Ended June 30, 2016				
(In thousands)	**Community Banking**	**Insurance**	**Investment Mgmt.**	**Inter-Segment Elimination**	**Total**
Interest income	**$ 41,804**	**$ -**	**$ 1**	**$ (2)**	**$ 41,803**
Interest expense	**5,073**	**-**	**-**	**(2)**	**5,071**
Provision for loan and lease losses	**2,957**	**-**	**-**	**-**	**2,957**
Noninterest income	**10,136**	**950**	**1,843**	**(178)**	**12,751**
Noninterest expense	**28,999**	**1,030**	**1,020**	**(178)**	**30,871**
Income before income taxes	**14,911**	**(80)**	**824**	**-**	**15,655**
Income tax expense	**4,718**	**(31)**	**321**	**-**	**5,008**
Net income	**$ 10,193**	**$ (49)**	**$ 503**	**$ -**	**$ 10,647**
Assets	**$ 4,742,368**	**$ 5,754**	**$ 11,601**	**$ (20,274)**	**$ 4,739,449**

	Three Months Ended June 30, 2015				
(In thousands)	Community Banking	Insurance	Investment Mgmt.	Inter-Segment Elimination	Total
Interest income	$ 38,849	$ -	$ 2	$ (2)	$ 38,849
Interest expense	4,918	-	-	(2)	4,916
Provision for loan and lease losses	1,218	-	-	-	1,218
Non-interest income	24,945	984	1,754	(15,574)	12,109
Non-interest expense	42,958	1,169	924	(15,574)	29,477
Income before income taxes	14,700	(185)	832	-	15,347
Income tax expense	4,763	(74)	325	-	5,014
Net income	$ 9,937	$ (111)	$ 507	$ -	$ 10,333
Assets	$ 4,508,858	$ 5,647	$ 10,672	$ (17,810)	$ 4,507,367

	Six Months Ended June 30, 2016				
(In thousands)	**Community Banking**	**Insurance**	**Investment Mgmt.**	**Inter-Segment Elimination**	**Total**
Interest income	**$ 83,457**	**$ 1**	**$ 2**	**$ (4)**	**$ 83,456**
Interest expense	**10,606**	**-**	**-**	**(4)**	**10,602**
Provision for loan and lease losses	**4,193**	**-**	**-**	**-**	**4,193**
Noninterest income	**20,355**	**2,403**	**3,712**	**(356)**	**26,114**
Noninterest expense	**59,379**	**2,201**	**1,964**	**(356)**	**63,188**
Income before income taxes	**29,634**	**203**	**1,750**	**-**	**31,587**
Income tax expense	**9,362**	**83**	**682**	**-**	**10,127**

Net income	**$ 20,272**	**$ 120**	**$ 1,068**	**$ -**	**$ 21,460**
Assets	**$ 4,742,368**	**$ 5,754**	**$ 11,601**	**$ (20,274)**	**$ 4,739,449**

	Six Months Ended June 30, 2015				
(In thousands)	Community Banking	Insurance	Investment Mgmt.	Inter-Segment Elimination	Total
Interest income	$ 76,920	$ 1	$ 3	$ (3)	$ 76,921
Interest expense	9,618	-	-	(3)	9,615
Provision for loan and lease losses	1,815	-	-	-	1,815
Non-interest income	34,781	2,678	3,564	(15,755)	25,268
Non-interest expense	69,975	2,552	1,949	(15,755)	58,721
Income before income taxes	30,293	127	1,618	-	32,038
Income tax expense	9,797	52	631	-	10,480
Net income	$ 20,496	$ 75	$ 987	$ -	$ 21,558
Assets	$ 4,508,858	$ 5,647	$ 10,672	$ (17,810)	$ 4,507,367

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

The Company

Sandy Spring Bancorp, Inc. (the "Company") is the bank holding company for Sandy Spring Bank (the "Bank"). The Company is registered as a bank holding company pursuant to the Bank Holding Company Act of 1956, as amended (the "Holding Company Act"). As such, the Company is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Company began operating in 1988. The Bank traces its origin to 1868, making it among the oldest institutions in the region. The Bank is independent, community oriented, and conducts a full-service commercial banking business through 45 community offices located in Central Maryland, Northern Virginia and Washington D.C. The Bank is a state chartered bank subject to supervision and regulation by the Federal Reserve and the State of Maryland. The Bank's deposit accounts are insured by the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation (the "FDIC") to the maximum permitted by law. The Bank is a member of the Federal Reserve System and is an Equal Housing Lender. The Company, the Bank, and its other subsidiaries are Affirmative Action/Equal Opportunity Employers.

With $4.7 billion in assets, the Company is a community banking organization that focuses its lending and other services on businesses and consumers in the local market area. Through its subsidiaries, Sandy Spring Insurance Corporation and West Financial Services, Inc., Sandy Spring Bank offers a comprehensive menu of insurance and investment management services.

Overview

Net income for the Company for the second quarter of 2016 totaled $10.6 million ($0.44 per diluted share) as compared to net income of $10.3 million ($0.42 per diluted share) for the second quarter of 2015.

These results reflect the following events:

- Average total loans for the second quarter of 2016 increased 12% compared to the second quarter of 2015 due primarily to organic growth in the commercial and residential mortgage portfolio segments. Overall, the entire portfolio grew $388 million over the prior year period.

- Total deposits grew 8% to $3.5 billion at June 30, 2016 as compared to $3.2 billion at June 30, 2015.

- The net interest margin was 3.51% for the second quarter of 2016, compared to 3.42% for the second quarter of 2015 and 3.44% for the first quarter of 2016.

- During the second quarter the Company repurchased $35 million in FHLB advances, incurring a prepayment penalty of $1.4 million. Concurrent with that transaction, the Company repurchased subordinated debentures totaling $5 million, realizing a gain of $1.2 million. The Company expects these transactions, together with a $40 million prepayment of FHLB advances in the first quarter, to have a positive effect on its net interest margin in future periods.

In the first six months of 2016, the Mid-Atlantic region in which the Company operates showed moderate economic performance. International economic concerns, highlighted by Great Britain's exit from the European Union, including slowing economic growth in China have added to global uncertainty and impeded both the regional and national economic outlook. Positive trends in housing, unemployment and particularly consumer spending in the United States have potentially offset such concerns. These international economic factors, together with low oil prices and a lack of consistent high-paying jobs growth, have caused uncertainty on the part of both large and small businesses, limiting business development and capital expenditures, effectively restricting economic expansion. Together with recent events in Europe, these concerns have caused enough economic uncertainty and market volatility, to suppress confidence and thus constrain the pace of domestic economic expansion and lending. The Company has emphasized the fundamentals of community banking in this challenging business environment and has maintained its overall credit quality and strong levels of liquidity and capital.

Liquidity remained strong due to the borrowing lines with the Federal Home Loan Bank of Atlanta and the Federal Reserve and the size and composition of the investment portfolio.

The Company's non-performing assets decreased to $32.7 million at June 30, 2016 from $41.8 million at June 30, 2015. This decrease was due primarily to loan pay-offs. Non-performing assets represented 0.69% of total assets at June 30, 2016 compared to 0.93% at June 30, 2015. The ratio of net charge-offs to average loans and leases was 0.15% for the second quarter of 2016, compared to an insignificant ratio for the prior year quarter.

Non-interest income increased 5% in the second quarter of 2016 compared to the second quarter of 2015. During the quarter the Company recognized a $1.2 million gain on the extinguishment of subordinated debentures. Excluding this gain, non-interest income decreased 5% driven by a decrease in wealth management income due primarily to a reduced level of assets under management as a result of the sale of a portion of the portfolio in the first quarter of 2016. Income from mortgage banking activities increased due to a higher level of loan sales during the quarter.

Non-interest expenses increased 5% in the second quarter of 2016 compared to the second quarter of 2015 due mainly to $1.4 million in penalties due to the prepayment of FHLB advances. Excluding such penalties, non-interest expenses remained level compared to the prior year quarter.

Total assets at June 30, 2016 increased 2% compared to December 31, 2015. Loan balances increased 5% compared to the prior year end due to growth in commercial loans and residential mortgage loans while consumer loans remained even with the prior year end. Customer funding sources, which include deposits plus other short-term borrowings from core customers, increased 8% compared to balances at December 31, 2015. The increase in customer funding sources was driven primarily by increases of 11% in noninterest-bearing and interest-bearing transaction accounts and 6% in regular savings accounts. Retail repurchase agreements increased 8% as the Company increased its emphasis on the sale of such cash management services. Certificates of deposit increased 12% compared to the balances at December 31, 2015 as the Company increased rates to fund loan growth. The Company continued to manage its net interest margin by the prepayment of FHLB advances in both the first and second quarters, coupled with the sale of relatively low yielding investment securities in the first quarter and the extinguishment of subordinated debentures in the second quarter. During the first six months of 2016, stockholders’ equity increased $5 million to $529 million due to the increase in accumulated other comprehensive income during the period.

Sandy Spring Bancorp, Inc. and Subsidiaries
CONSOLIDATED AVERAGE BALANCES, YIELDS AND RATES

	Six Months Ended June 30,					
	2016			2015		
(Dollars in thousands and tax-equivalent)	**Average Balances**	**(1) Interest**	**Annualized Average Yield/Rate**	Average Balances	(1) Interest	Annualized Average Yield/Rate
Assets						
Residential mortgage loans	**$ 809,574**	**$13,802**	**3.41%**	$ 729,343	$12,279	3.37%
Residential construction loans	**138,781**	**2,463**	**3.57**	134,849	2,489	3.72
Total mortgage loans	**948,355**	**16,265**	**3.43**	864,192	14,768	3.42
Commercial ADC loans	**266,888**	**6,113**	**4.61**	212,257	4,862	4.62
Commercial investor real estate loans	**769,803**	**17,600**	**4.60**	657,088	15,350	4.71
Commercial owner occupied real estate loans	**681,347**	**16,365**	**4.83**	618,100	15,200	4.96
Commercial business loans	**457,181**	**9,956**	**4.38**	390,853	8,507	4.39
Leasing	**-**	**-**	**-**	36	1	3.76
Total commercial loans and leases	**2,175,219**	**50,034**	**4.63**	1,878,334	43,920	4.72
Consumer loans	**450,335**	**7,774**	**3.49**	429,746	7,106	3.35
Total loans and leases (2)	**3,573,909**	**74,073**	**4.16**	3,172,272	65,794	4.18
Loans held for sale	**11,181**	**198**	**3.54**	10,583	208	3.94
Taxable securities	**490,338**	**6,356**	**2.59**	617,861	7,722	2.50
Tax-exempt securities (3)	**284,524**	**6,024**	**4.23**	294,024	6,305	4.29
Total investment securities	**774,862**	**12,380**	**3.20**	911,885	14,027	3.08
Interest-bearing deposits with banks	**42,777**	**107**	**0.50**	35,273	44	0.25
Federal funds sold	**608**	**2**	**0.48**	473	1	0.22
Total interest-earning assets	**4,403,337**	**86,760**	**3.96**	4,130,486	80,074	3.90
Less: allowance for loan and lease losses	**(41,567)**			(37,833)		
Cash and due from banks	**46,783**			46,663		
Premises and equipment, net	**53,396**			51,127		
Other assets	**212,915**			215,567		
Total assets	**$4,674,864**			$4,406,010		
Liabilities and Stockholders' Equity						
Interest-bearing demand deposits	**$ 577,771**	**223**	**0.08%**	$ 525,692	207	0.08%
Regular savings deposits	**294,339**	**89**	**0.06**	274,220	71	0.05
Money market savings deposits	**902,352**	**932**	**0.21**	832,549	590	0.14
Time deposits	**538,435**	**2,634**	**0.98**	455,147	1,693	0.75
Total interest-bearing deposits	**2,312,897**	**3,878**	**0.34**	2,087,608	2,561	0.25
Other borrowings	**116,792**	**138**	**0.24**	98,228	110	0.23
Advances from FHLB	**599,423**	**6,113**	**2.05**	614,254	6,502	2.13
Subordinated debentures	**32,995**	**473**	**2.87**	35,000	442	2.53
Total interest-bearing liabilities	**3,062,107**	**10,602**	**0.70**	2,835,090	9,615	0.68
Noninterest-bearing demand deposits	**1,052,116**			1,004,965		
Other liabilities	**37,793**			46,824		
Stockholders' equity	**522,848**			519,131		
Total liabilities and stockholders' equity	**$4,674,864**			$4,406,010		

Net interest income and spread	**76,158**	**3.26%**	70,459	3.22%
Less: tax-equivalent adjustment	**3,304**		3,153	
Net interest income	**$72,854**		$67,306	