SANDY SPRING BANCORP INC
Form 10-Q
August 05, 2016

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.

TABLE OF CONTENTS

SIGNATURES

2

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

`

(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)