SANDY SPRING BANCORP INC
Form 10-Q
November 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2015

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 November 2, 2015

Common stock, $1.00 par value – 24,361,582 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 2014 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)	**September 30, 2015**	December 31, 2014
Assets		
Cash and due from banks	**$ 42,322**	$ 52,804
Federal funds sold	**472**	473
Interest-bearing deposits with banks	**53,637**	42,940
Cash and cash equivalents	**96,431**	96,217
Residential mortgage loans held for sale (at fair value)	**10,418**	10,512
Investments available-for-sale (at fair value)	**607,619**	672,209
Investments held-to-maturity -- fair value of $220,223 and $222,260 at September 30, 2015 and December 31, 2014, respectively	**216,642**	219,973
Other equity securities	**38,148**	41,437
Total loans and leases	**3,412,439**	3,127,392
Less: allowance for loan and lease losses	**(39,661)**	(37,802)
Net loans and leases	**3,372,778**	3,089,590
Premises and equipment, net	**52,573**	49,402
Other real estate owned	**2,619**	3,195
Accrued interest receivable	**13,102**	12,634
Goodwill	**84,171**	84,171
Other intangible assets, net	**190**	510
Other assets	**116,343**	117,282
Total assets	**$ 4,611,034**	$ 4,397,132
Liabilities		
Noninterest-bearing deposits	**$ 1,068,299**	$ 993,737
Interest-bearing deposits	**2,207,369**	2,072,772
Total deposits	**3,275,668**	3,066,509
Securities sold under retail repurchase agreements and federal funds purchased	**121,378**	74,432
Advances from FHLB	**610,000**	655,000
Subordinated debentures	**35,000**	35,000
Accrued interest payable and other liabilities	**45,394**	44,440
Total liabilities	**4,087,440**	3,875,381
Stockholders' Equity		
Common stock -- par value $1.00; shares authorized 50,000,000; shares issued and outstanding 24,424,944 and 25,044,877 at September 30, 2015 and December 31, 2014, respectively	**24,425**	25,045
Additional paid in capital	**178,429**	194,647
Retained earnings	**318,939**	302,882
Accumulated other comprehensive income (loss)	**1,801**	(823)
Total stockholders' equity	**523,594**	521,751

Total liabilities and stockholders' equity	**$ 4,611,034**	$ 4,397,132

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 September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	**2015**	2014	**2015**	2014
Interest Income:				
Interest and fees on loans and leases	**$ 34,484**	$ 31,030	**$ 99,654**	$ 91,470
Interest on loans held for sale	**214**	81	**422**	211
Interest on deposits with banks	**25**	24	**69**	66
Interest and dividends on investment securities:				
Taxable	**3,597**	3,712	**11,024**	11,704
Exempt from federal income taxes	**1,996**	2,303	**6,068**	6,940
Interest on federal funds sold	**1**	-	**1**	-
Total interest income	**40,317**	37,150	**117,238**	110,391
Interest Expense:				
Interest on deposits	**1,632**	1,208	**4,193**	3,585
Interest on retail repurchase agreements and federal funds purchased	**69**	42	**179**	117
Interest on advances from FHLB	**3,272**	3,258	**9,774**	9,709
Interest on subordinated debt	**228**	222	**670**	659
Total interest expense	**5,201**	4,730	**14,816**	14,070
Net interest income	**35,116**	32,420	**102,422**	96,321
Provision (credit) for loan and lease losses	**1,706**	(192)	**3,521**	(1,016)
Net interest income after provision (credit) for loan and lease losses	**33,410**	32,612	**98,901**	97,337
Non-interest Income:				
Investment securities gains	**1**	8	**20**	8
Service charges on deposit accounts	**1,936**	2,226	**5,657**	6,287
Mortgage banking activities	**566**	596	**2,566**	1,482
Wealth management income	**4,963**	4,974	**15,040**	14,181
Insurance agency commissions	**1,648**	1,410	**4,147**	4,011
Income from bank owned life insurance	**618**	611	**1,937**	1,817
Visa check fees	**1,198**	1,148	**3,475**	3,295
Other income	**1,460**	1,617	**4,816**	4,452
Total non-interest income	**12,390**	12,590	**37,658**	35,533
Non-interest Expenses:				
Salaries and employee benefits	**17,733**	16,765	**52,566**	49,594
Occupancy expense of premises	**3,086**	3,032	**9,748**	9,778
Equipment expenses	**1,600**	1,337	**4,463**	3,855
Marketing	**688**	744	**2,161**	2,088
Outside data services	**1,329**	1,231	**3,692**	3,663
FDIC insurance	**565**	594	**1,850**	1,687
Amortization of intangible assets	**107**	115	**320**	709
Litigation expenses	**155**	236	**517**	6,364
Other expenses	**4,367**	4,578	**13,034**	12,584
Total non-interest expenses	**29,630**	28,632	**88,351**	90,322
Income before income taxes	**16,170**	16,570	**48,208**	42,548
Income tax expense	**5,175**	5,428	**15,655**	13,496
Net income	**$ 10,995**	$ 11,142	**$ 32,553**	$ 29,052

Net Income Per Share Amounts:								
Basic net income per share	**$**	**0.45**	$	0.44	**$**	**1.32**	$	1.16
Diluted net income per share	**$**	**0.45**	$	0.44	**$**	**1.31**	$	1.16
Dividends declared per share	**$**	**0.22**	$	0.20	**$**	**0.66**	$	0.56

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 September 30,		Nine Months Ended September 30,	
(In thousands)	**2015**	2014	**2015**	2014
Net income	**$ 10,995**	$ 11,142	**$ 32,553**	$ 29,052
Other comprehensive income:				
Investments available-for-sale:				
Net change in unrealized gains (losses) on investments available-for-sale	**3,727**	(2,714)	**3,542**	10,779
Related income tax (expense) benefit	**(1,472)**	1,061	**(1,398)**	(4,284)
Net investment gains reclassified into earnings	**1**	8	**20**	8
Related income tax expense	**-**	(3)	**(8)**	(3)
Net effect on other comprehensive income (loss) for the period	**2,256**	(1,648)	**2,156**	6,500
Defined benefit pension plan:				
Recognition of unrealized gain	**240**	67	**791**	183
Related income tax expense	**(103)**	(20)	**(323)**	(81)
Net effect on other comprehensive income for the period	**137**	47	**468**	102
Total other comprehensive income (loss)	**2,393**	(1,601)	**2,624**	6,602
Comprehensive income	**$ 13,388**	$ 9,541	**$ 35,177**	$ 35,654

The accompanying notes are an integral part of these statements

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

	Nine Months Ended September 30,	
(Dollars in thousands)	**2015**	2014
Operating activities:		
Net income	**$ 32,553**	$ 29,052
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**5,422**	5,415
Provision (credit) for loan and lease losses	**3,521**	(1,016)
Share based compensation expense	**1,450**	1,101
Deferred income tax expense	**1,412**	1,119
Origination of loans held for sale	**(150,686)**	(90,531)
Proceeds from sales of loans held for sale	**153,020**	93,554
Gains on sales of loans held for sale	**(2,240)**	(1,314)
Loss on sales of other real estate owned	**224**	162
Investment securities gains	**(20)**	(8)
Net (increase) decrease in accrued interest receivable	**(468)**	255
Net increase in other assets	**(2,772)**	(7,319)
Net increase (decrease) in accrued expenses and other liabilities	**(176)**	7,683
Other – net	**3,063**	3,256
Net cash provided by operating activities	**44,303**	41,409
Investing activities:		
Purchases of investments held-to-maturity	**(2,100)**	-
Redemption of other equity securities	**3,289**	3,615
Proceeds from maturities, calls and principal payments of investments held-to-maturity	**4,791**	2,293
Proceeds from maturities, calls and principal payments of investments available-for-sale	**66,727**	67,700
Net increase in loans and leases	**(288,233)**	(192,794)
Proceeds from the sales of other real estate owned	**1,855**	465
Expenditures for premises and equipment	**(6,739)**	(3,547)
Net cash used in investing activities	**(220,410)**	(122,268)
Financing activities:		
Net increase in deposits	**209,159**	151,563
Net increase in retail repurchase agreements and federal funds purchased	**46,946**	17,542
Proceeds from advances from FHLB	**1,649,000**	1,330,000
Repayment of advances from FHLB	**(1,694,000)**	(1,387,000)
Proceeds from issuance of common stock	**581**	440
Repurchase of common stock	**(18,869)**	-
Dividends paid	**(16,496)**	(14,154)
Net cash provided by financing activities	**176,321**	98,391
Net increase (decrease) in cash and cash equivalents	**214**	17,532
Cash and cash equivalents at beginning of period	**96,217**	74,427
Cash and cash equivalents at end of period	**$ 96,431**	$ 91,959

Supplemental Disclosures:

Interest payments	**$ 14,779**	$ 15,031
Income tax payments	**14,825**	12,470
Transfers from loans to other real estate owned	**1,524**	2,353

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, 2015	**$ 25,045**	**$ 194,647**	**$ 302,882**	**$ (823)**	**$ 521,751**
Net income	**-**	**-**	**32,553**	**-**	**32,553**
Other comprehensive income, net of tax	**-**	**-**	**-**	**2,624**	**2,624**
Common stock dividends - $0.66 per share	**-**	**-**	**(16,496)**	**-**	**(16,496)**
Stock compensation expense	**-**	**1,450**	**-**	**-**	**1,450**
Common stock issued pursuant to:					
Stock option plan - 35,039 shares	**35**	**474**	**-**	**-**	**509**
Directors stock purchase plan - 837 shares	**1**	**21**	**-**	**-**	**22**
Employee stock purchase plan - 19,377 shares	**19**	**412**	**-**	**-**	**431**
Restricted stock - 53,746 shares	**54**	**(435)**	**-**	**-**	**(381)**
Purchase of treasury shares - 728,932 shares	**(729)**	**(18,140)**	**-**	**-**	**(18,869)**
Balances at September 30, 2015	**$ 24,425**	**$ 178,429**	**$ 318,939**	**$ 1,801**	**$ 523,594**
Balance at January 1, 2014	$ 24,990	$ 193,445	$ 283,898	$ (2,970)	$ 499,363
Net income	-	-	29,052	-	29,052
Other comprehensive income, net of tax	-	-	-	6,602	6,602
Common stock dividends - $0.56 per share	-	-	(14,154)	-	(14,154)
Stock compensation expense	-	1,318	-	-	1,318
Common stock issued pursuant to:					
Stock option plan - 13,834 shares	14	176	-	-	190
Employee stock purchase plan - 18,404 shares	18	365	-	-	383
Restricted stock - 54,535 shares	55	(405)	-	-	(350)
Balances at September 30, 2014	$ 25,077	$ 194,899	$ 298,796	$ 3,632	$ 522,404

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 44 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 nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for any future periods or for the year ending December 31, 2015. 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 2014 Annual Report on Form 10-K as filed with the Securities and Exchange Commission (“SEC”) on March 6, 2015. There have been no significant changes to the Company’s accounting policies as disclosed in the 2014 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 a standard 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.

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:

	September 30, 2015				December 31, 2014			
(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	**$139,566**	**$ 347**	**$ (106)**	**$139,807**	$144,497	$ -	$(2,818)	$141,679
State and municipal	**152,914**	**9,066**	**-**	**161,980**	157,603	9,453	(4)	167,052
Mortgage-backed	**296,369**	**8,691**	**(946)**	**304,114**	354,631	9,824	(2,936)	361,519
Trust preferred	**1,078**	**-**	**(83)**	**995**	1,348	-	(112)	1,236
Total debt securities	**589,927**	**18,104**	**(1,135)**	**606,896**	658,079	19,277	(5,870)	671,486
Marketable equity securities	**723**	**-**	**-**	**723**	723	-	-	723
Total investments available-for-sale	**$590,650**	**$ 18,104**	**$(1,135)**	**$607,619**	$658,802	$19,277	$(5,870)	$672,209

Any unrealized losses in the U.S. government agencies, state and municipal, mortgage-backed or corporate debt investment securities at September 30, 2015 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 September 30, 2015 is composed entirely of either the most senior tranches of GNMA, FNMA or FHLMC collateralized mortgage obligations ($142.0 million), or GNMA, FNMA or FHLMC mortgage-backed securities ($162.1 million). The Company does not 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.

At September 30, 2015 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 September 30, 2015. Non-credit related OTTI on this security, which is not expected to be sold and which the Company has the ability to hold until maturity, was $0.1 million at September 30, 2015. This non-credit related OTTI was recognized in other comprehensive income (“OCI”) at September 30, 2015.

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, 2014	$ 531
Additions for credit losses not previously recognized	-
Cumulative credit losses on investment securities, through September 30, 2015	$ 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:

			September 30, 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	**3**	**$ 39,871**	**$ 17**	**$ 89**	**$ 106**
Mortgage-backed	**17**	**80,532**	**16**	**930**	**946**
Trust preferred	**1**	**995**	**-**	**83**	**83**
Total	**21**	**$ 121,398**	**$ 33**	**$ 1,102**	**$ 1,135**

			December 31, 2014		
			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	14	$ 141,679	$ 60	$ 2,758	$ 2,818
State and municipal	2	1,409	4	-	4
Mortgage-backed	20	108,902	58	2,878	2,936
Trust preferred	1	1,236	-	112	112
Total	37	$ 253,226	$ 122	$ 5,748	$ 5,870

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.

	September 30, 2015		December 31, 2014	
(In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	**$ 992**	**$ 1,004**	$ 691	$ 714
Due after one year through five years	**127,163**	**130,361**	47,900	49,385
Due after five years through ten years	**229,704**	**238,574**	332,841	340,852
Due after ten years	**232,068**	**236,957**	276,647	280,535
Total debt securities available for sale	**$ 589,927**	**$ 606,896**	$ 658,079	$ 671,486

At September 30, 2015 and December 31, 2014, investments available-for-sale with a book value of $243.1 million and $212.9 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 September 30, 2015 and December 31, 2014.

Investments held-to-maturity

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

	September 30, 2015				December 31, 2014			
(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	**$ 64,517**	**$ 6**	**$ (410)**	**$ 64,113**	$ 64,512	$ -	$ (1,734)	$ 62,778
State and municipal	**149,849**	**4,283**	**(323)**	**153,809**	155,261	4,321	(325)	159,257
Mortgage-backed	**176**	**25**	**-**	**201**	200	25	-	225
Corporate debt	**2,100**	**-**	**-**	**2,100**	-	-	-	-
Total investments held-to-maturity	**$ 216,642**	**$ 4,314**	**$ (733)**	**$ 220,223**	$ 219,973	$ 4,346	$ (2,059)	$ 222,260

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 dates indicated are presented in the following tables:

	September 30, 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	**5**	**$ 51,050**	**$ 208**	**$ 202**	**$ 410**
State and municipal	**29**	**24,960**	**137**	**186**	**323**
Total	**34**	**$ 76,010**	**$ 345**	**$ 388**	**$ 733**

	December 31, 2014				
			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	8	$ 62,778	$ -	$ 1,734	$ 1,734
State and municipal	41	32,027	18	307	325
Total	49	$ 94,805	$ 18	$ 2,041	$ 2,059

The Company intends to hold these securities until they reach maturity.

The amortized cost and estimated fair values of debt securities held-to-maturity by contractual maturity at the dates 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.

	September 30, 2015		December 31, 2014	
(In thousands)	**Amortized Cost**	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Due in one year or less	**$ 846**	**$ 860**	$ 1,690	$ 1,694
Due after one year through five years	**13,098**	**13,656**	6,763	6,938
Due after five years through ten years	**170,411**	**173,352**	163,252	164,787
Due after ten years	**32,287**	**32,355**	48,268	48,841
Total debt securities held-to-maturity	**$ 216,642**	**$ 220,223**	$ 219,973	$ 222,260

At September 30, 2015 and December 31, 2014, investments held-to-maturity with a book value of $193.1 million and $202.4 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 September 30, 2015 and December 31, 2014.

Equity securities

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

(In thousands)	**September 30, 2015**	December 31, 2014
Federal Reserve Bank stock	**$ 8,269**	$ 8,269
Federal Home Loan Bank of Atlanta stock	**29,879**	33,168
Total equity securities	**$ 38,148**	$ 41,437

Note 3 – Loans and Leases

Outstanding loan balances at September 30, 2015 and December 31, 2014 are net of unearned income including net deferred loan costs of $1.0 million and $0.5 million, respectively. The loan portfolio segment balances at the dates indicated are presented in the following table:

(In thousands)	**September 30, 2015**	December 31, 2014
Residential real estate:		
Residential mortgage	**$ 773,889**	$ 717,886
Residential construction	**139,492**	136,741
Commercial real estate:		
Commercial owner occupied real estate	**680,601**	611,061
Commercial investor real estate	**710,694**	640,193
Commercial acquisition, development and construction	**239,160**	205,124
Commercial Business	**423,855**	390,781
Leases	**19**	54
Consumer	**444,729**	425,552
Total loans and leases	**$ 3,412,439**	$ 3,127,392

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:

	Nine Months Ended September 30,	
(In thousands)	**2015**	2014
Balance at beginning of year	**$ 37,802**	$ 38,766
Provision for loan and lease losses	**3,521**	(1,016)
Loan and lease charge-offs	**(2,753)**	(1,541)
Loan and lease recoveries	**1,091**	1,365
Net (charge-offs) recoveries	**(1,662)**	(176)
Balance at period end	**$ 39,661**	$ 37,574

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 Nine Months Ended September 30, 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)	139	293	68	1,218	-	881	919	3	3,521
Charge-offs	(185)	(739)	(90)	(317)	-	(930)	(492)	-	(2,753)
Recoveries	226	580	15	2	-	144	103	21	1,091
Net charge-offs	41	(159)	(75)	(315)	-	(786)	(389)	21	(1,662)
Balance at end of period	$ 6,032	$ 4,401	$ 9,777	$ 8,046	$ 9	$ 3,687	$ 6,762	$ 947	$ 39,661
Total loans and leases	$423,855	$239,160	$710,694	$680,601	$ 19	$444,729	$773,889	$139,492	$3,412,439
Allowance for loans and leases to total loans and leases ratio	1.42%	1.84%	1.38%	1.18%	47.37%	0.83%	0.87%	0.68%	1.16%
Balance of loans specifically evaluated for impairment	$ 5,360	$ 194	$ 10,697	$ 8,172	$ na.	$ na.	$ 6,482	$ na.	$ 30,905
Allowance for loans specifically evaluated for impairment	$ 1,278	$ 57	$ 709	$ 958	$ na.	$ na.	$ -	$ na.	$ 3,002
Specific allowance to specific loans ratio	23.84%	29.38%	6.63%	11.72%	na.	na.	na.	na.	9.71%
Balance of loans collectively evaluated	$418,495	$238,966	$699,997	$672,429	$ 19	$444,729	$767,407	$139,492	$3,381,534
Allowance for loans collectively evaluated	$ 4,754	$ 4,344	$ 9,068	$ 7,088	$ 9	$ 3,687	$ 6,762	$ 947	$ 36,659
Collective allowance to	1.14%	1.82%	1.30%	1.05%	47.37%	0.83%	0.88%	0.68%	1.08%

collective loans ratio

	For the Year Ended December 31, 2014								
		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	$ 6,308	$ 3,754	$ 9,263	$ 6,308	$ 16	$ 4,142	$ 7,819	$ 1,156	$ 38,766
Provision (credit)	(1,204)	1,042	486	1,094	(7)	119	(1,385)	(308)	(163)
Charge-offs	(729)	(529)	(3)	(265)	-	(834)	(323)	(4)	(2,687)
Recoveries	1,477	-	38	6	-	165	121	79	1,886
Net charge-offs	748	(529)	35	(259)	-	(669)	(202)	75	(801)
Balance at end of period	$ 5,852	$ 4,267	$ 9,784	$ 7,143	$ 9	$ 3,592	$ 6,232	$ 923	$ 37,802
Total loans and leases	$390,781	$205,124	$640,193	$611,061	$ 54	$425,552	$717,886	$136,741	$3,127,392
Allowance for loans and leases to total loans and leases ratio	1.50%	2.08%	1.53%	1.17%	16.80%	0.84%	0.87%	0.67%	1.21%
Balance of loans specifically evaluated for impairment	$ 3,894	$ 2,464	$ 10,279	$ 8,941	$ na.	$ na.	$ 3,535	$ 306	$ 29,419
Allowance for loans specifically evaluated for impairment	$ 788	$ 741	$ 541	$ 824	$ na.	$ na.	$ -	$ -	$ 2,894
Specific allowance to specific loans ratio	20.24%	30.07%	5.26%	9.22%	na.	na.	na.	na.	9.84%
Balance of loans collectively evaluated	$386,887	$202,660	$629,914	$602,120	$ 54	$425,552	$714,351	$136,435	$3,097,973
Allowance for loans collectively evaluated	$ 5,064	$ 3,526	$ 9,243	$ 6,319	$ 9	$ 3,592	$ 6,232	$ 923	$ 34,908
Collective allowance to collective loans ratio	1.31%	1.74%	1.47%	1.05%	16.80%	0.84%	0.87%	0.68%	1.13%

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

(In thousands)	**September 30, 2015**	December 31, 2014
Impaired loans with a specific allowance	**$ 9,654**	$ 11,411
Impaired loans without a specific allowance	**21,251**	18,008
Total impaired loans	**$ 30,905**	$ 29,419
Allowance for loan and lease losses related to impaired loans	**$ 3,002**	$ 2,894
Allowance for loan and lease losses related to loans collectively evaluated	**36,659**	34,908
Total allowance for loan and lease losses	**$ 39,661**	$ 37,802
Average impaired loans for the period	**$ 30,055**	$ 34,331
Contractual interest income due on impaired loans during the period	**$ 2,016**	$ 2,339
Interest income on impaired loans recognized on a cash basis	**$ 745**	$ 773
Interest income on impaired loans recognized on an accrual basis	**$ 239**	$ 280

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:

	September 30, 2015					
		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	**$ 1,140**	**$ 57**	**$ 2,589**	**$ 4,139**	**$ -**	**$ 7,925**
Restructured accruing	**863**	**-**	**-**	**-**	**-**	**863**
Restructured non-accruing	**162**	**-**	**65**	**639**	**-**	**866**
Balance	**$ 2,165**	**$ 57**	**$ 2,654**	**$ 4,778**	**$ -**	**$ 9,654**
Allowance	**$ 1,278**	**$ 57**	**$ 709**	**$ 958**	**$ -**	**$ 3,002**
Impaired loans without a specific allowance						
Non-accruing	**$ 999**	**$ -**	**$ 5,955**	**$ 1,741**	**$ 2,750**	**$ 11,445**
Restructured accruing	**616**	**-**	**2,088**	**240**	**2,612**	**5,556**
Restructured non-accruing	**1,580**	**137**	**-**	**1,413**	**1,120**	**4,250**
Balance	**$ 3,195**	**$ 137**	**$ 8,043**	**$ 3,394**	**$ 6,482**	**$ 21,251**
Total impaired loans						

Non-accruing	**$ 2,139**	**$ 57**	**$ 8,544**	**$ 5,880**	**$ 2,750**	**$ 19,370**
Restructured accruing	**1,479**	**-**	**2,088**	**240**	**2,612**	**6,419**
Restructured non-accruing	**1,742**	**137**	**65**	**2,052**	**1,120**	**5,116**
Balance	**$ 5,360**	**$ 194**	**$ 10,697**	**$ 8,172**	**$ 6,482**	**$ 30,905**
Unpaid principal balance in total impaired loans	**$ 7,483**	**$ 4,456**	**$ 15,355**	**$ 10,076**	**$ 7,184**	**$ 44,554**

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	September 30, 2015					
		Commercial Real Estate				
(In thousands)	**Commercial**	**AD&C**	**Commercial Investor R/E**	**Commercial Owner Occupied R/E**	**All Other Loans**	**Total Recorded Investment in Impaired Loans**
Average impaired loans for the period	**$ 4,574**	**$ 1,054**	**$ 11,322**	**$ 8,628**	**$ 4,477**	**$ 30,055**
Contractual interest income due on impaired loans during the period	**$ 353**	**$ 231**	**$ 685**	**$ 543**	**$ 204**	
Interest income on impaired loans recognized on a cash basis	**$ 197**	**$ 11**	**$ 132**	**$ 283**	**$ 122**	
Interest income on impaired loans recognized on an accrual basis	**$ 73**	**$ -**	**$ 81**	**$ 9**	**$ 76**	

	December 31, 2014					
		Commercial Real Estate				
(In thousands)	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	$ 473	$ 1,330	$ 2,288	$ 5,013	$ -	$ 9,104
Restructured accruing	687	-	-	-	-	687
Restructured non-accruing	308	-	76	1,236	-	1,620
Balance	$ 1,468	$ 1,330	$			