SANDY SPRING BANCORP INC
Form 10-Q
August 07, 2014

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, 2014

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, 2014.

Common stock, $1.00 par value – 25,071,756 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 Company 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 the Company’s 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 2013 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 the Company’s liquidity;
- the Company’s liquidity requirements could be adversely affected by changes in our assets and liabilities;
- the Company’s investment securities portfolio is subject to credit risk, market risk, and liquidity risk as well as changes in the estimates the Company uses to value certain of the securities in the 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 the Company’s 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

(Dollars in thousands)	June 30, 2014	December 31, 2013
Assets		
Cash and due from banks	$65,674	$ 46,755
Federal funds sold	474	475
Interest-bearing deposits with banks	44,653	27,197
Cash and cash equivalents	110,801	74,427
Residential mortgage loans held for sale (at fair value)	9,042	8,365
Investments available-for-sale (at fair value)	720,885	751,284
Investments held-to-maturity — fair value of $224,313 and $216,007 at June 30, 2014 and December 31, 2013, respectively	223,518	224,638
Other equity securities	36,127	40,687
Total loans and leases	2,910,944	2,784,266
Less: allowance for loan and lease losses	(37,959)	(38,766)
Net loans and leases	2,872,985	2,745,500
Premises and equipment, net	45,296	45,916
Other real estate owned	1,967	1,338
Accrued interest receivable	12,271	12,532
Goodwill	84,171	84,171
Other intangible assets, net	737	1,330
Other assets	116,542	115,912
Total assets	$4,234,342	$ 4,106,100
Liabilities		
Noninterest-bearing deposits	$984,700	$ 836,198
Interest-bearing deposits	2,053,970	2,041,027
Total deposits	3,038,670	2,877,225
Securities sold under retail repurchase agreements and federal funds purchased	72,917	53,842
Advances from FHLB	537,000	615,000
Subordinated debentures	35,000	35,000
Accrued interest payable and other liabilities	33,486	25,670
Total liabilities	3,717,073	3,606,737
Stockholders' Equity		
Common stock — par value $1.00; shares authorized 50,000,000; shares issued and outstanding 25,069,700 and 24,990,021 at June 30, 2014 and December 31, 2013, respectively	25,070	24,990
Additional paid in capital	194,252	193,445

Retained earnings	292,714	283,898
Accumulated other comprehensive income (loss)	5,233	(2,970)
Total stockholders' equity	517,269	499,363
Total liabilities and stockholders' equity	$4,234,342	$ 4,106,100

The accompanying notes are an integral part of these statements

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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)	2014	2013	2014	2013
Interest Income:				
Interest and fees on loans and leases	$ 30,706	$ 29,212	$ 60,440	$ 58,858
Interest on loans held for sale	71	309	130	662
Interest on deposits with banks	22	24	42	43
Interest and dividends on investment securities:				
Taxable	3,876	3,919	7,992	7,853
Exempt from federal income taxes	2,316	2,315	4,637	4,642
Total interest income	36,991	35,779	73,241	72,058
Interest Expense:				
Interest on deposits	1,193	1,396	2,377	2,851
Interest on retail repurchase agreements and federal funds purchased	37	38	75	87
Interest on advances from FHLB	3,233	3,189	6,451	6,412
Interest on subordinated debt	219	224	437	450
Total interest expense	4,682	4,847	9,340	9,800
Net interest income	32,309	30,932	63,901	62,258
Provision (credit) for loan and lease losses	158	(2,876)	(824)	(2,798)
Net interest income after provision (credit) for loan and lease losses	32,151	33,808	64,725	65,056
Non-interest Income:				
Investment securities gains	-	62	-	118
Service charges on deposit accounts	2,089	2,150	4,061	4,219
Mortgage banking activities	570	1,237	886	2,764
Wealth management income	4,741	4,532	9,207	8,574
Insurance agency commissions	961	1,036	2,601	2,385
Income from bank owned life insurance	608	623	1,206	1,235
Bank card fees	1,169	1,079	2,147	2,036
Other income	1,556	1,496	2,835	3,303
Total non-interest income	11,694	12,215	22,943	24,634
Non-interest Expenses:				
Salaries and employee benefits	16,474	16,163	32,829	32,509
Occupancy expense of premises	3,274	2,996	6,746	6,178
Equipment expenses	1,262	1,227	2,518	2,476
Marketing	802	755	1,344	1,270
Outside data services	1,216	1,114	2,432	2,266
FDIC insurance	573	581	1,093	1,177
Amortization of intangible assets	224	461	594	922
Litigation expenses	6,128	-	6,128	-
Other expenses	4,188	4,211	8,006	8,533
Total non-interest expenses	34,141	27,508	61,690	55,331
Income before income taxes	9,704	18,515	25,978	34,359

Income tax expense	2,722	6,353	8,068	11,639
Net income	$ 6,982	$ 12,162	$ 17,910	$ 22,720
Net Income Per Share Amounts:				
Basic net income per share	$ 0.28	$ 0.49	$ 0.72	$ 0.91
Diluted net income per share	$ 0.28	$ 0.49	$ 0.71	$ 0.91
Dividends declared per share	$ 0.18	$ 0.16	$ 0.36	$ 0.30

The accompanying notes are an integral part of these statements

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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)	2014	2013	2014	2013
Net income	$ 6,982	$ 12,162	$ 17,910	$ 22,720
Other comprehensive income (loss):				
Investments available-for-sale:				
Net change in unrealized gains (losses) on investments available-for-sale	6,361	(20,847)	13,493	(23,893)
Related income tax (expense) benefit	(2,522)	8,313	(5,345)	9,528
Net investment gains reclassified into earnings	-	62	-	118
Related income tax expense	-	(24)	-	(47)
Net effect on other comprehensive income (loss) for the period	3,839	(12,496)	8,148	(14,294)
Defined benefit pension plan:				
Recognition of unrealized gain	68	563	116	927
Related income tax benefit	(24)	(224)	(61)	(370)
Net effect on other comprehensive income (loss) for the period	44	339	55	557
Total other comprehensive income (loss)	3,883	(12,157)	8,203	(13,737)
Comprehensive income	$ 10,865	$ 5	$ 26,113	$ 8,983

The accompanying notes are an integral part of these statements

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Sandy Spring Bancorp, Inc. and Subsidiaries

CONDENSED Consolidated Statements of Cash Flows – UNAUDITED

	Six Months Ended June 30,	
(Dollars in thousands)	2014	2013
Operating activities:		
Net income	$ 17,910	$ 22,720
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,673	4,029
Credit for loan and lease losses	(824)	(2,798)
Share based compensation expense	853	920
Deferred income tax expense	1,029	3,001
Origination of loans held for sale	(59,566)	(170,523)
Proceeds from sales of loans held for sale	59,704	180,688
Gains on sales of loans held for sale	(815)	(3,049)
Loss (gains) on sales of other real estate owned	(2)	1,131
Investment securities gains	-	(118)
Net decrease (increase) in accrued interest receivable	261	(679)
Net (increase) decrease in other assets	(4,580)	4,581
Net increase (decrease) in accrued expenses and other liabilities	4,472	(1,094)
Other – net	2,427	2,352
Net cash provided by operating activities	24,542	41,161
Investing activities:		
Purchases of other equity securities	-	(3,676)
Purchases of investments held-to-maturity	-	(20,666)
Purchases of investments available-for-sale	-	(144,147)
Proceeds from other equity securities	4,560	-
Proceeds from maturities, calls and principal payments of investments held-to-maturity	680	9,714
Proceeds from maturities, calls and principal payments of investments available-for-sale	42,228	105,056
Net increase in loans and leases	(127,333)	(77,103)
Proceeds from the sales of other real estate owned	32	3,094
Expenditures for premises and equipment	(1,795)	(920)
Net cash used in investing activities	(81,628)	(128,648)
Financing activities:		
Net increase in deposits	161,445	13,616
Net increase (decrease) in retail repurchase agreements and federal funds purchased	19,075	(32,198)
Proceeds from advances from FHLB	980,000	435,000
Repayment of advances from FHLB	(1,058,000)	(300,058)
Proceeds from issuance of common stock	34	(219)
Dividends paid	(9,094)	(7,553)
Net cash provided by financing activities	93,460	108,588
Net increase in cash and cash equivalents	36,374	21,101
Cash and cash equivalents at beginning of period	74,427	86,406
Cash and cash equivalents at end of period	$ 110,801	$ 107,507

Supplemental Disclosures:		
Interest payments	$ 9,358	$ 9,968
Income tax payments	10,151	8,721
Transfers from loans to other real estate owned	671	1,629

The accompanying notes are an integral part of these statements.

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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, 2014	$ 24,990	$ 193,445	$ 283,898	$ (2,970)	$ 499,363
Net income			17,910		17,910
Other comprehensive loss, net of tax				8,203	8,203
Common stock dividends - $0.36 per share			(9,094)		(9,094)
Stock compensation expense		853			853
Common stock issued pursuant to:					-
Stock option plan - 13,721 shares	14	174			188
Employee stock purchase plan - 11,423 shares	11	229			240
Restricted stock - 54,535 shares	55	(449)			(394)
Balances at June 30, 2014	$ 25,070	$ 194,252	292,714	$ 5,233	$ 517,269
Balances at January 1, 2013	$ 24,905	$ 191,689	$ 255,606	$ 11,312	$ 483,512
Net income			22,720		22,720
Other comprehensive loss, net of tax				(13,737)	(13,737)
Common stock dividends - $0.30 per share			(7,553)		(7,553)
Stock compensation expense		920			920
Common stock issued pursuant to:					-
Employee stock purchase plan - 13,350 shares	14	214			228
Restricted stock - 48,819 shares	49	(496)			(447)
Balances at June 30, 2013	$ 24,968	$ 192,327	$ 270,773	$ (2,425)	$ 485,643

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”), which conducts a full-service commercial banking, mortgage banking and trust business. Services to individuals and businesses include accepting deposits, extending real estate, consumer and commercial loans and lines of credit, equipment leasing, general insurance, personal trust, and investment and wealth management services. The Company operates in the Maryland counties of Anne Arundel, Carroll, Frederick, Howard, Montgomery, and Prince George's, and in Arlington, Fairfax and Loudoun counties in Virginia. The Company offers investment and wealth management services through the Bank’s subsidiary, West Financial Services. Insurance products are available to clients through Sandy Spring Insurance, and Neff & Associates, which are agencies of Sandy Spring Insurance Corporation.

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, 2014 are not necessarily indicative of the results that may be expected for any future periods or for the year ending December 31, 2014. 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 2013 Annual Report on Form 10-K as filed with the Securities and Exchange Commission (“SEC”) on March 14, 2014. There have been no significant changes to the Company’s accounting policies as disclosed in the 2013 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).

Loans Acquired with Deteriorated Credit Quality

Acquired loans are evaluated for evidence of credit deterioration since their origination as of the date of the acquisition are recorded at their initial fair value. Credit deterioration is determined based on the probability of collection of all contractually required principal and interest payments. The historical allowance for loan and lease losses related to the purchased loans is not carried over to the Company. The determination of credit quality deterioration as of the purchase date may include parameters such as past due and non-accrual status, commercial risk ratings, cash flow projections, type of loan and collateral, collateral value and recent loan-to-value ratios or appraised values. For loans acquired with no evidence of credit deterioration, the fair value discount or premium is amortized over the contractual life of the loan as an adjustment to yield. For loans acquired with evidence of credit deterioration, the Company determines at the acquisition date the excess of the loan's contractually required payments over all cash flows expected to be collected as an amount that should not be accreted into interest income (nonaccretable difference). The remaining amount representing the difference in the expected cash flows of acquired loans and the initial investment in the acquired loans is accreted into interest income over the remaining life of the loan or pool of loans (accretable yield). The present value of any decreases in expected cash flows after the purchase date is recognized as an impairment through a charge to the provision for loan losses. Increases in the present value of expected cash flows after the purchase date are recognized as an adjustment to the accretable yield. Subsequent to the purchase date, the methods utilized to estimate the required allowance for loan and lease losses ("ALLL") are similar to originated loans. Loans carried at fair value, mortgage loans held for sale and loans under revolving credit agreements are excluded from the scope of this guidance on loans acquired with deteriorated credit quality.

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, 2016. 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:

(In thousands)	June 30, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	December 31, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	$ 147,735	$ 2	$ (3,294)	$ 144,443	$ 147,688	$ -	$ (8,222)	$ 139,466
State and municipal	158,102	9,729	-	167,831	159,524	6,060	(156)	165,428
Mortgage-backed	396,890	11,453	(3,598)	404,745	439,054	10,188	(6,992)	442,250
Corporate debt	2,000	1	-	2,001	2,000	4	-	2,004
Trust preferred	1,348	-	(206)	1,142	1,701	-	(288)	1,413
Total debt securities	706,075	21,185	(7,098)	720,162	749,967	16,252	(15,658)	750,561
Marketable equity securities	723	-	-	723	723	-	-	723
Total investments available-for-sale	$ 706,798	$ 21,185	$ (7,098)	$ 720,885	$ 750,690	$ 16,252	$ (15,658)	$ 751,284

Any unrealized losses in the U.S. government agencies, state and municipal, mortgage-backed or corporate debt investment securities at June 30, 2014 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, 2014 is composed entirely of either the most senior tranches of GNMA, FNMA or FHLMC collateralized mortgage obligations ($187.8 million), or GNMA, FNMA or FHLMC mortgage-backed securities ($216.9 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 June 30, 2014, 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 $1.3 million with a fair value of $1.1 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.

The income valuation approach technique (present value) used maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. The methodology and significant assumptions employed by the specialist to determine fair value included:

- Evaluation of the structural terms as established in the indenture;
- Detailed credit and structural evaluation for each piece of issuer collateral in the pool;
- Overall default (.49%), recovery and prepayment (2%)/amortization probabilities by issuers in the pool;
- Identification of adverse conditions specifically related to the security, industry and geographical area;
- Projection of estimated cash flows that incorporate default expectations and loss severities;
- Review of historical and implied volatility of the fair value of the security;
- Evaluation of credit risk concentrations;
- Evaluation of the length of time and the extent to which the fair value has been less than the amortized cost; and
- A discount rate of 12.1% was established using credit adjusted financial institution spreads for comparably rated institutions and a liquidity adjustment that considered the previously noted characteristics.

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, 2014. Non-credit related decline in fair value on this security, which is not expected to be sold and which the Company has the ability to hold until maturity, was $0.2 million at June 30, 2014. This non-credit related decline in fair value was recognized in other comprehensive income ("OCI") at June 30, 2014.

The methodology and significant inputs used to measure the amount related to credit loss consisted of the following:

- Default rates were developed based on the financial condition of the trust preferred issuers in the pool and the payment or deferral status. Conditional default rates were estimated based on the payment characteristics of the security and the financial condition of the issuers in the pool. Near term and future defaults are estimated using third party industry data in addition to a review of key financial ratios and other pertinent data on the financial stability of the underlying issuer;
- Loss severity is forecasted based on the type of impairment using research performed by third parties;
- The security contains one level of subordination below the senior tranche, with the senior tranche receiving the spread from the subordinate bonds;
- Credit ratings of the underlying issuers are reviewed in conjunction with the development of the default rates applied to determine the credit amounts related to the credit loss; and
- Potential prepayments are estimated based on terms and rates of the underlying trust preferred securities to determine the impact of excess spread on the credit enhancement, the removal of the strongest institutions from the underlying pool and any impact that prepayments might have on diversity and concentration.

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, 2013	$ 531
Additions for credit losses not previously recognized	-
Cumulative credit losses on investment securities, through June 30, 2014	$ 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, 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	$ 141,158	$ 69	$ 3,225	$ 3,294
Mortgage-backed	22	128,669	133	3,465	3,598
Trust preferred	1	1,142	-	206	206
Total	37	$ 270,969	$ 202	$ 6,896	$ 7,098

	December 31, 2013				
			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	15	$ 139,466	$ 8,222	$ -	$ 8,222
State and municipal	12	11,680	156	-	156
Mortgage-backed	30	169,377	6,865	127	6,992
Trust preferred	1	1,413	-	288	288
Total	58	$ 321,936	$ 15,243	$ 415	$ 15,658

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, 2014		December 31, 2013	
(In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 2,000	$ 2,001	$ 2,080	$ 2,085
Due after one year through five years	23,456	24,544	12,766	13,285

Due after five years through ten years	370,769	379,471	392,389	392,339
Due after ten years	309,850	314,146	342,732	342,852
Total debt securities available for sale	$706,075	$720,162	$749,967	$750,561

At June 30, 2014 and December 31, 2013, investments available-for-sale with a book value of $199.9 million and $186.6 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, 2014 and December 31, 2013.

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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:

	June 30, 2014				December 31, 2013			
(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	$ 64,508	$ -	$ (1,767)	$ 62,741	$ 64,505	$ -	$ (4,827)	$ 59,678
State and municipal	158,792	3,846	(1,311)	161,327	159,889	1,920	(5,753)	156,056
Mortgage-backed	218	27	-	245	244	29	-	273
Total investments held-to-maturity	$ 223,518	$ 3,873	$ (3,078)	$ 224,313	$ 224,638	$ 1,949	$ (10,580)	$ 216,007

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:

	June 30, 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	$ 62,741	$ -	$ 1,767	$ 1,767
State and municipal	66	63,052	32	1,279	1,311
Total	74	$ 125,793	$ 32	$ 3,046	$ 3,078

	December 31, 2013		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	$ 59,678	$ 4,827	$ -	$ 4,827
State and municipal	113	94,243	5,366	387	5,753
Total	121	$ 153,921	$ 10,193	$ 387	$ 10,580

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, and substantiates that the unrealized losses in the held-to-maturity portfolio are considered temporary in nature.

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.

	June 30, 2014		December 31, 2013	
(In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$1,690	$1,695	$1,720	$1,725
Due after one year through five years	3,654	3,691	3,249	3,269
Due after five years through ten years	154,918	156,047	139,033	135,074
Due after ten years	63,256	62,880	80,636	75,939
Total debt securities held-to-maturity	$223,518	$224,313	$224,638	$216,007

At June 30, 2014 and December 31, 2013, investments held-to-maturity with a book value of $167.9 million and $165.8 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 June 30, 2014 and December 31, 2013.

Equity securities

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

(In thousands)	June 30, 2014	December 31, 2013
Federal Reserve Bank stock	$ 8,269	$ 8,269
Federal Home Loan Bank of Atlanta stock	27,858	32,418
Total equity securities	$ 36,127	$ 40,687

Note 3 – Loans and Leases

Outstanding loan balances at June 30, 2014 and December 31, 2013 are net of unearned income including net deferred loan costs of $0.1 million and $0.7 million, respectively. The loan portfolio segment balances at the dates indicated are presented in the following table:

(In thousands)	June 30, 2014	December 31, 2013
Residential real estate:		
Residential mortgage	$ 668,536	$ 618,381
Residential construction	149,321	129,177
Commercial real estate:		
Commercial owner occupied real estate	581,795	592,823
Commercial investor real estate	577,813	552,178
Commercial acquisition, development and construction	178,972	160,696
Commercial Business	357,472	356,651
Leases	260	703

Consumer	396,775	373,657
Total loans and leases	$ 2,910,944	$ 2,784,266

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)	2014	2013
Balance at beginning of year	$ 38,766	$ 42,957
Provision (credit) for loan and lease losses	(824)	(2,798)
Loan and lease charge-offs	(1,176)	(4,448)
Loan and lease recoveries	1,193	3,304
Net charge-offs	17	(1,144)
Balance at period end	$ 37,959	$ 39,015

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, 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	Tot
Balance at beginning of year	$6,308	$3,754	$9,263	$6,308	$16	$4,142	$7,819	$1,156	$38
Provision (credit)	(1,097)	630	(779)	1,090	(5)	47	(552)	(158)	(8
Charge-offs	(225)	-	-	(265)	-	(416)	(267)	(3)	(1
Recoveries	965	-	28	-	-	74	91	35	1,
Net recoveries (charge-offs)	740	-	28	(265)	-	(342)	(176)	32	17
Balance at end of period	$5,951	$4,384	$8,512	$7,133	$11	$3,847	$7,091	$1,030	$37
Total loans and leases	$357,472	$178,972	$577,813	$581,795	$260	$396,775	$668,536	$149,321	$2,
Allowance for loans and leases to total loans and leases ratio	1.66 %	2.45 %	1.47 %	1.23 %	4.24%	0.97 %	1.06 %	0.69 %	1.
Balance of loans specifically evaluated	$6,056	$3,739	$8,891	$10,868	***na.***	$28	$6,078	$1,693	$37

for impairment									
Allowance for loans specifically evaluated for impairment	$1,354	$1,146	$156	$847	***na.***	***na.***	$582	$-	$4,
Specific allowance to specific loans ratio	22.36 %	30.65 %	1.75 %	7.79 %	***na.***	***na.***	9.58 %	0.00 %	1(
Balance of loans collectively evaluated	$351,416	$175,233	$568,922	$570,927	$260	$396,747	$662,458	$147,628	$2,
Allowance for loans collectively evaluated	$4,597	$3,238	$8,356	$6,286	$11	$3,847	$6,509	$1,030	$3:
Collective allowance to collective loans ratio	1.31 %	1.85 %	1.47 %	1.10 %	4.24%	0.97 %	0.98 %	0.70 %	1.

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For the Year Ended December 31, 2013

(Dollars in thousands)	Commercial Real Estate						Residential Real Estate		
	Commercial Business	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Leasing	Consumer	Residential Mortgage	Residential Construction	To
Balance at beginning of year	$6,495	$4,737	$9,583	$6,997	$332	$3,846	$8,522	$2,445	$4
Provision (credit)	1,910	(3,978)	1,100	(874)	(326)	1,951	329	(1,196)	(1
Charge-offs	(2,915)	(85)	(4,774)	(240)	-	(1,853)	(1,194)	(104)	(1
Recoveries	818	3,080	3,354	425	10	198	162	11	8
Net recoveries (charge-offs)	(2,097)	2,995	(1,420)	185	10	(1,655)	(1,032)	(93)	(3
Balance at end of period	$6,308	$3,754	$9,263	$6,308	$16	$4,142	$7,819	$1,156	$3
Total loans and leases	$356,651	$160,696	$552,178	$592,823	$703	$373,657	$618,381	$129,177	$2
Allowance for loans and leases to total loans and leases ratio	1.77 %	2.34 %	1.68 %	1.06 %	2.28 %	1.11 %	1.26 %	0.89 %	1
Balance of loans specifically evaluated for impairment	$5,608	$4,128	$7,654	$7,111	$ *na.*	$29	$6,141	$1,852	$3
Allowance for loans specifically evaluated for impairment	$849	$1,031	$126	$426	$ *na.*	$ *na.*	$626	$-	$3
Specific allowance to specific loans ratio	15.14 %	24.98 %	1.65 %	5.99 %	*na.*	*na.*	10.19 %	0.00 %	9
Balance of loans collectively evaluated	$351,043	$156,568	$544,524	$585,712	$703	$373,628	$612,240	$127,325	$2
Allowance for loans collectively evaluated	$5,459	$2,723	$9,137	$5,882	$16	$4,142	$7,193	$1,156	$3
Collective allowance to collective loans ratio	1.56 %	1.74 %	1.68 %	1.00 %	2.28 %	1.11 %	1.17 %	0.91 %	1

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

(In thousands)	June 30, 2014		December 31, 2013	
Impaired loans with a specific allowance	$	14,423	$	12,217
Impaired loans without a specific allowance		22,930		20,306
Total impaired loans	$	37,353	$	32,523
Allowance for loan and lease losses related to impaired loans	$	4,085	$	3,058
Allowance for loan and lease losses related to loans collectively evaluated		33,874		35,708
Total allowance for loan and lease losses	$	37,959	$	38,766
Average impaired loans for the period	$	34,551	$	38,379
Contractual interest income due on impaired loans during the period	$	1,661	$	2,612
Interest income on impaired loans recognized on a cash basis	$	471	$	1,374
Interest income on impaired loans recognized on an accrual basis	$	180	$	473

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, 2014					
		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	$1,221	$1,457	$ 404	$ 5,095	$955	$ 9,132
Restructured accruing	635	-	-	-	1,384	2,019
Restructured non-accruing	244	1,071	81	1,255	621	3,272
Balance	$2,100	$2,528	$ 485	$ 6,350	$2,960	$ 14,423
Allowance	$1,354	$1,146	$ 156	$ 847	$582	$ 4,085
Impaired loans *without* a specific allowance						
Non-accruing	$1,822	$-				