

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 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 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 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 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

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

Common stock, \$1.00 par value – 23,864,132 shares

SANDY SPRING BANCORP, INC.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Condensed Consolidated Statements of Condition
March 31, 2016 and December 31, 2015

Condensed Consolidated Statements of Income -
Ended March 31, 2016 and 2015

Condensed Consolidated Statements of Comprehensive
Income for the Three Months Ended March 31, 2016 and 2015

Condensed Consolidated Statements of Cash Flow
for the Three Months Ended March 31, 2016 and 2015

Condensed Consolidated Statements of Changes in
Equity for the Three Months Ended March 31, 2016 and 2015

Notes to Condensed Consolidated Financial Statements

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

Item 4. CONTROLS AND PROCEDURES

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Item 1A. RISK FACTORS

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Item 3. DEFAULTS UPON SENIOR SECURITIES

Item 4. MINE SAFETY DISCLOSURES

Item 5. OTHER INFORMATION

Item 6. EXHIBITS

SIGNATURES

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**

<i>(Dollars in thousands)</i>	March 31, 2016	December 31, 2015
Assets		
Cash and due from banks	\$ 43,228	\$ 46,956
Federal funds sold	559	472
Interest-bearing deposits with banks	115,609	25,454
Cash and cash equivalents	159,396	72,882
Residential mortgage loans held for sale (at fair value)	27,806	15,457
Investments available-for-sale (at fair value)	704,872	592,049
Investments held-to-maturity -- fair value of \$211,704 at December 31, 2015	-	208,265
Other equity securities	37,529	41,336
Total loans and leases	3,560,688	3,495,370
Less: allowance for loan and lease losses	(41,766)	(40,895)
Net loans and leases	3,518,922	3,454,475
Premises and equipment, net	53,307	53,214
Other real estate owned	2,414	2,742
Accrued interest receivable	13,660	13,443
Goodwill	84,171	84,171
Other intangible assets, net	105	138
Other assets	114,426	117,208
Total assets	\$ 4,716,608	\$ 4,655,380
Liabilities		
Noninterest-bearing deposits	\$ 1,084,746	\$ 1,001,841
Interest-bearing deposits	2,327,562	2,261,889
Total deposits	3,412,308	3,263,730
Securities sold under retail repurchase agreements and federal funds purchased	121,043	109,145
Advances from FHLB	590,000	685,000
Subordinated debentures	35,000	35,000
Accrued interest payable and other liabilities	35,865	38,078
Total liabilities	4,194,216	4,130,953
Stockholders' Equity		
Common stock -- par value \$1.00; shares authorized 50,000,000; shares issued and outstanding 23,827,305 and 24,295,971 at March 31, 2016 and December 31, 2015, respectively	23,827	24,296
Additional paid in capital	163,522	175,588
Retained earnings	330,810	325,840
Accumulated other comprehensive income (loss)	4,233	(1,297)
Total stockholders' equity	522,392	524,427
Total liabilities and stockholders' equity	\$ 4,716,608	\$ 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 March 31,	
<i>(Dollars in thousands, except per share data)</i>	2016	2015
Interest Income:		
Interest and fees on loans and leases	\$ 36,206	\$ 32,139
Interest on loans held for sale	134	76
Interest on deposits with banks	53	22
Interest and dividends on investment securities:		
Taxable	3,286	3,577
Exempt from federal income taxes	1,973	2,258
Interest on federal funds sold	1	-
Total interest income	41,653	38,072
Interest Expense:		
Interest on deposits	1,837	1,194
Interest on retail repurchase agreements and federal funds purchased	66	50
Interest on advances from FHLB	3,374	3,236
Interest on subordinated debt	254	219
Total interest expense	5,531	4,699
Net interest income	36,122	33,373
Provision for loan and lease losses	1,236	597
Net interest income after provision for loan and lease losses	34,886	32,776
Non-interest Income:		
Investment securities gains	1,769	-
Service charges on deposit accounts	1,903	1,882
Mortgage banking activities	535	1,178
Wealth management income	4,405	4,916
Insurance agency commissions	1,445	1,618
Income from bank owned life insurance	615	713
Visa check fees	1,089	1,057
Other income	1,602	1,795
Total non-interest income	13,363	13,159
Non-interest Expenses:		
Salaries and employee benefits	18,230	17,299
Occupancy expense of premises	3,473	3,489
Equipment expenses	1,664	1,373
Marketing	681	531
Outside data services	1,363	1,261
FDIC insurance	637	631
Amortization of intangible assets	32	107
Litigation expenses	-	200
Other expenses	6,237	4,353
Total non-interest expenses	32,317	29,244
Income before income taxes	15,932	16,691
Income tax expense	5,119	5,466
Net income	\$ 10,813	\$ 11,225

Net Income Per Share Amounts:

Basic net income per share	\$	0.45	\$	0.45
Diluted net income per share	\$	0.45	\$	0.45
Dividends declared per common share	\$	0.24	\$	0.22

The accompanying notes are an integral part of these statements

5

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

<i>(In thousands)</i>	Three Months ended March	
	2016	2015
Net income	\$ 10,813	\$ 11,225
Other comprehensive income:		
Investments available-for-sale:		
Net change in unrealized gains on investments available-for-sale	10,655	4,634
Related income tax expense	(4,232)	(1,841)
Net investment gains reclassified into earnings	(1,769)	-
Related income tax expense	705	-
Net effect on other comprehensive income for the period	5,359	2,793
Defined benefit pension plan:		
Recognition of unrealized gain	284	292
Related income tax expense	(113)	(116)
Net effect on other comprehensive income for the period	171	176
Total other comprehensive income	5,530	2,969
Comprehensive income	\$ 16,343	\$ 14,194

The accompanying notes are an integral part of these statements

6

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

<i>(Dollars in thousands)</i>	Three Months Ended March 31,	
	2016	2015
Operating activities:		
Net income	\$ 10,813	\$ 11,225
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,905	1,683
Provision for loan and lease losses	1,236	597
Share based compensation expense	477	422
Deferred income tax expense	626	669
Origination of loans held for sale	(26,862)	(44,128)
Proceeds from sales of loans held for sale	32,592	41,336
(Gains) losses on sales of loans held for sale	493	(595)
Loss on sales of other real estate owned	72	-
Investment securities gains	(1,769)	-
Net (increase) decrease in accrued interest receivable	(239)	129
Net increase in other assets	(565)	(1,763)
Net decrease in accrued expenses and other liabilities	(3,731)	(334)
Other – net	788	1,054
Net cash provided by operating activities	15,836	10,295
Investing activities:		
Proceeds of other equity securities	3,807	4,138
Proceeds from sales of investment available-for-sale	40,863	-
Proceeds from maturities, calls and principal payments of investments held-to-maturity	5,004	2,195
Proceeds from maturities, calls and principal payments of investments available-for-sale	59,561	18,628
Net increase in loans and leases	(83,890)	(38,270)
Proceeds from the sales of other real estate owned	163	-
Expenditures for premises and equipment	(1,451)	(3,045)
Net cash provided (used) in investing activities	24,057	(16,354)
Financing activities:		
Net increase in deposits	148,578	43,383
Net increase in retail repurchase agreements and federal funds purchased	11,898	27,208
Proceeds from advances from FHLB	760,000	569,000
Repayment of advances from FHLB	(855,000)	(634,000)
Proceeds from issuance of common stock	184	(146)
Tax benefits associated with share based compensation	77	146
Repurchase of common stock	(13,273)	(9,038)
Dividends paid	(5,843)	(5,561)
Net cash provided (used) by financing activities	46,621	(9,008)
Net increase (decrease) in cash and cash equivalents	86,514	(15,067)
Cash and cash equivalents at beginning of period	72,882	96,217
Cash and cash equivalents at end of period	\$ 159,396	\$ 81,150
Supplemental Disclosures:		
Interest payments	\$ 5,795	\$ 4,746

Edgar Filing: SANDY SPRING BANCORP INC - Form 10-Q

Income tax payments	6,396	4,360
Transfer of investments held-to-maturity to available-for-sale	203,118	-
Transfer from loans to residential mortgage loans held for sale	18,752	-

The accompanying notes are an integral part of these statements

7

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

	Common	Additional Paid-In	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
<i>(Dollars in thousands, except per share data)</i>	Stock	Capital	Earnings	(Loss)	Equity
Balances at January 1, 2016	\$ 24,296	\$ 175,588	\$ 325,840	\$ (1,297)	\$ 524,427
Net income	-	-	10,813	-	10,813
Other comprehensive income, net of tax	-	-	-	5,530	5,530
Common stock dividends - \$0.24 per share	-	-	(5,843)	-	(5,843)
Stock compensation expense	-	477	-	-	477
Common stock issued pursuant to:					
Stock option plan - 21,694 shares	21	264	-	-	285
Employee stock purchase plan - 6,937 shares	7	150	-	-	157
Restricted stock - 15,162 shares	15	(196)	-	-	(181)
Purchase of treasury shares - 512,459 shares	(512)	(12,761)	-	-	(13,273)
Balances at March 31, 2016	\$ 23,827	\$ 163,522	\$ 330,810	\$ 4,233	\$ 522,392
Balance at January 1, 2015	\$ 25,045	\$ 194,647	\$ 302,882	\$ (823)	\$ 521,751
Net income	-	-	11,225	-	11,225
Other comprehensive income, net of tax	-	-	-	2,969	2,969
Common stock dividends - \$0.22 per share	-	-	(5,561)	-	(5,561)
Stock compensation expense	-	422	-	-	422
Common stock issued pursuant to:					
Stock option plan - 5,752 shares	6	68	-	-	74
Employee stock purchase plan - 6,663 shares	6	163	-	-	169
Restricted stock - 27,945 shares	28	(271)	-	-	(243)
Purchase of treasury shares - 351,369 shares	(351)	(8,687)	-	-	(9,038)
Balances at March 31, 2015	\$ 24,734	\$ 186,342	\$ 308,546	\$ 2,146	\$ 521,768

The accompanying notes are an integral part of these statements

8

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 months ended March 31, 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, 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.

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.

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)	March 31, 2016				December 31, 2015			
	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	\$126,341	\$ 157	\$ (91)	\$126,407	\$109,602	\$ 132	\$(1,334)	\$108,400
State and municipal	297,455	14,172	(70)	311,557	156,402	8,305	-	164,707
Mortgage-backed	256,891	5,967	(365)	262,493	312,846	6,396	(2,546)	316,696
Corporate debt	2,100	57	-	2,157	-	-	-	-
Trust preferred	1,089	-	(54)	1,035	1,089	-	(66)	1,023
Total debt securities	683,876	20,353	(580)	703,649	579,939	14,833	(3,946)	590,826
Marketable equity securities	1,223	-	-	1,223	1,223	-	-	1,223
Total investments available-for-sale	\$685,099	\$ 20,353	\$ (580)	\$704,872	\$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 March 31, 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 March 31, 2016 is composed entirely of either the most senior tranches of GNMA, FNMA or FHLMC collateralized mortgage obligations (\$127.0 million), or GNMA, FNMA or FHLMC mortgage-backed securities (\$135.5 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 March 31, 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 March 31, 2016. 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 March 31, 2016. This non-credit related OTTI was recognized in other comprehensive income (“OCI”) at March 31, 2016.

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

<i>(In thousands)</i>	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 March 31, 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:

<i>(Dollars in thousands)</i>	Number of securities	Fair Value	March 31, 2016		Total Unrealized Losses
			Continuous Unrealized Losses Existing for:		
			Less than 12 months	More than 12 months	
U.S. government agencies	3	\$ 29,900	\$ 71	\$ 20	\$ 91
State and municipal	7	5,205	22	48	70
Mortgage-backed	11	45,670	93	272	365
Trust preferred	1	1,035	-	54	54
Total	22	\$ 81,810	\$ 186	\$ 394	\$ 580

<i>(Dollars in thousands)</i>	Number of securities	Fair Value	December 31, 2015		Total Unrealized Losses
			Continuous Unrealized Losses Existing for:		
			Less than 12 months	More than 12 months	
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.

<i>(In thousands)</i>	March 31, 2016		December 31, 2015	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 1,605	\$ 1,623	\$ 301	\$ 306
Due after one year through five years	163,105	169,257	157,710	160,257
Due after five years through ten years	293,974	304,116	168,136	174,677
Due after ten years	225,192	228,653	253,792	255,586
Total debt securities available for sale	\$ 683,876	\$ 703,649	\$ 579,939	\$ 590,826

At March 31, 2016 and December 31, 2015, investments available-for-sale with a book value of \$442.0 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 March 31, 2016 and December 31, 2015.

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:

<i>(In thousands)</i>	Amortized Cost	December 31, 2015		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
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 dates indicated are presented in the following tables:

<i>(Dollars in thousands)</i>	Number of securities	Fair Value	December 31, 2015 Continuous Unrealized Losses Existing for:		Total Unrealized Losses
			Less than 12 months	More than 12 months	
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 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.

<i>(In thousands)</i>	December 31, 2015	
	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:

<i>(In thousands)</i>	March 31, 2016	December 31, 2015
Federal Reserve Bank stock	\$ 8,269	\$ 8,269
Federal Home Loan Bank of Atlanta stock	29,260	33,067
Total equity securities	\$ 37,529	\$ 41,336

Note 3 – Loans and Leases

Outstanding loan balances at March 31, 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:

<i>(In thousands)</i>	March 31, 2016	December 31, 2015
Residential real estate:		
Residential mortgage	\$ 804,105	\$ 796,358
Residential construction	138,221	129,281
Commercial real estate:		
Commercial owner occupied real estate	675,560	678,027
Commercial investor real estate	783,161	719,084
Commercial acquisition, development and construction	261,204	255,980
Commercial Business	451,239	465,765
Consumer	447,198	450,875
Total loans and leases	\$ 3,560,688	\$ 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:

<i>(In thousands)</i>	Three Months Ended March 31,	
	2016	2015
Balance at beginning of year	\$ 40,895	\$ 37,802
Provision for loan and lease losses	1,236	597
Loan and lease charge-offs	(511)	(1,114)
Loan and lease recoveries	146	190
Net charge-offs	(365)	(924)
Balance at period end	\$ 41,766	\$ 37,475

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:

<i>(Dollars in thousands)</i>	For the Three Months Ended March 31, 2016									
	Commercial Real Estate					Residential Real Estate				
	Commercial			Commercial Owner		Residential			Residential	
	Commercial Business	Commercial AD&C	Commercial R/E	Commercial Investor R/E	Commercial Occupied Leasing	Consumer	Mortgage	Construction	Total	Total
Balance at beginning of year	\$ 6,529	\$ 4,691	\$ 10,440	\$ 7,984	\$ -	\$ 3,456	\$ 6,901	\$ 894	\$ 40,895	
Provision (credit)	228	44	1,060	59	-	(353)	204	(6)	1,236	
Charge-offs	(64)	(48)	(197)	-	-	(114)	(88)	-	(511)	
Recoveries	(3)	-	5	3	-	60	73	8	146	
Net charge-offs	(67)	(48)	(192)	3	-	(54)	(15)	8	(365)	
Balance at end of period	\$ 6,690	\$ 4,687	\$ 11,308	\$ 8,046	\$ -	\$ 3,049	\$ 7,090	\$ 896	\$ 41,766	
Total loans and leases	\$451,239	\$261,204	\$783,161	\$675,560	\$ -	\$447,198	\$804,105	\$138,221	\$3,560,688	
Allowance for loans and leases to total loans and leases ratio	1.48%	1.79%	1.44%	1.19%	na.	0.68%	0.88%	0.65%	1.17%	
Balance of loans specifically evaluated for impairment	\$ 5,078	\$ 147	\$ 9,943	\$ 7,897	\$ na.	\$ na.	\$ 6,409	\$ -	\$ 29,474	
Allowance for loans specifically evaluated for impairment	\$ 1,354	\$ 9	\$ 1,194	\$ 651	\$ na.	\$ na.	\$ -	\$ -	\$ 3,208	
Specific allowance to specific loans ratio	26.66%	6.12%	12.01%	8.24%	na.	na.	na.	na.	10.88%	
Balance of loans collectively evaluated	\$446,161	\$261,057	\$773,218	\$667,663	\$ na.	\$447,198	\$797,696	\$138,221	\$3,531,214	
Allowance for loans collectively evaluated	\$ 5,336	\$ 4,678	\$ 10,114	\$ 7,395	\$ na.	\$ 3,049	\$ 7,090	\$ 896	\$ 38,558	
Collective allowance to collective loans	1.20%	1.79%	1.31%	1.11%	na.	0.68%	0.89%	0.00%	1.09%	

ratio

For the Year Ended December 31, 2015

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

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

<i>(In thousands)</i>	March 31, 2016	December 31, 2015
Impaired loans with a specific allowance	\$ 14,486	\$ 14,208
Impaired loans without a specific allowance	14,988	14,719
Total impaired loans	\$ 29,474	\$ 28,927
Allowance for loan and lease losses related to impaired loans	\$ 3,208	\$ 3,375
Allowance for loan and lease losses related to loans collectively evaluated	38,558	37,520
Total allowance for loan and lease losses	\$ 41,766	\$ 40,895
Average impaired loans for the period	\$ 29,202	\$ 29,828
Contractual interest income due on impaired loans during the period	\$ 718	\$ 2,527
Interest income on impaired loans recognized on a cash basis	\$ 104	\$ 961
Interest income on impaired loans recognized on an accrual basis	\$ 79	\$ 274

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

<i>(In thousands)</i>	March 31, 2016					Total Recorded Investment in Impaired Loans
	Commercial Real Estate					
	Commercial	AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	
Impaired loans with a specific allowance						
Non-accruing	\$ 1,217	\$ 10	\$ 7,318	\$ 4,265	\$ -	\$ 12,810
Restructured accruing	864	-	-	-	-	864
Restructured non-accruing	173	-	-	639	-	812
Balance	\$ 2,254	\$ 10	\$ 7,318	\$ 4,904	\$ -	\$ 14,486
Allowance	\$ 1,354	\$ 9	\$ 1,194	\$ 651	\$ -	\$ 3,208
Impaired loans without a specific allowance						
Non-accruing	\$ 966	\$ -	\$ 513	\$ 887	\$ 2,750	\$ 5,116
Restructured accruing	473	-	2,058	748	573	3,852
Restructured non-accruing	1,385	137	54	1,358	3,086	6,020
Balance	\$ 2,824	\$ 137	\$ 2,625	\$ 2,993	\$ 6,409	\$ 14,988
Total impaired loans						

Edgar Filing: SANDY SPRING BANCORP INC - Form 10-Q

Non-accruing	\$ 2,183	\$ 10	\$ 7,831	\$ 5,152	\$ 2,750	\$ 17,926
Restructured accruing	1,337	-	2,058	748	573	4,716
Restructured non-accruing	1,558	137	54	1,997	3,086	6,832
Balance	\$ 5,078	\$ 147	\$ 9,943	\$ 7,897	\$ 6,409	\$ 29,474
Unpaid principal balance in total impaired loans	\$ 7,371	\$ 4,407	\$ 14,603	\$ 9,929	\$ 7,710	\$ 44,020

16

	March 31, 2016					Total
	Commercial Real Estate		Commercial Owner		All Other	Recorded Investment in Impaired Loans
	Commercial Investor	AD&C	R/E	Occupied R/E	Loans	Loans
<i>(In thousands)</i>						
Average impaired loans for the period	\$ 5,176	\$ 171	\$ 10,192	\$ 7,239	\$ 6,424	\$ 29,202
Contractual interest income due on impaired loans during the period	\$ 132	\$ 71	\$ 198	\$ 168	\$ 149	
Interest income on impaired loans recognized on a cash basis	\$ 26	\$ -	\$ 4	\$ 63	\$ 11	
Interest income on impaired loans recognized on an accrual basis	\$ 33	\$ -	\$ 26	\$ 9	\$ 11	

	December 31, 2015					Total
	Commercial Real Estate				All Other	Recorded Investment in Impaired Loans
	Commercial	AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Loans	Loans
<i>(In thousands)</i>						
Impaired loans with a specific allowance						
Non-accruing	\$ 1,168	\$ 58	\$ 7,791	\$ 3,519	\$ -	\$ 12,536
Restructured accruing	876	-	-	-	-	876
Restructured non-accruing	156	-	-	640	-	796
Balance	\$ 2,200	\$ 58	\$ 7,791	\$ 4,159	\$ -	\$ 14,208
Allowance	\$ 1,318	\$ 58	\$ 1,489	\$ 510	\$ -	\$ 3,375
Impaired loans without a specific allowance						
Non-accruing	\$ 974	\$ -	\$ 518	\$ 793	\$ 2,750	\$ 5,035
Restructured accruing	701	-	2,073	240	577	3,591
Restructured non-accruing	1,398	136	59	1,388	3,112	6,093
Balance	\$ 3,073	\$ 136	\$ 2,650	\$ 2,421	\$ 6,439	\$ 14,719
Total impaired loans						
Non-accruing	\$ 2,142	\$ 58	\$ 8,309	\$ 4,312	\$ 2,750	\$ 17,571
Restructured accruing	1,577	-	2,073	240	577	4,467
Restructured non-accruing	1,554	136	59	2,028	3,112	6,889
Balance	\$ 5,273	\$ 194	\$ 10,441	\$ 6,580	\$ 6,439	\$ 28,927
Unpaid principal balance in total impaired loans	\$ 7,158	\$ 4,456	\$ 15,138	\$ 8,555	\$ 7,154	\$ 42,461

December 31, 2015

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

Credit Quality

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

	March 31, 2016								
	Commercial Real Estate				Residential Real Estate				
	Commercial		Commercial		Residential		Residential		
	Commercial		Commercial Owner		Residential		Residential		
	Investor Occupied		Investor Occupied		Mortgage		Construction		
(In thousands)	Commercial	AD&C	R/E	R/E Leasing	Consumer	Mortgage	Construction	Total	
Non-performing loans and assets:									
Non-accrual loans and leases	\$ 3,741	\$ 147	\$ 7,885	\$ 7,149	\$ -	\$ 2,715	\$ 9,329	\$ 412	\$ 31,378
Loans and leases 90 days past due	-	-	-	-	-	1	-	-	1
Restructured loans and leases	1,337	-	2,058	748	-	-	573	-	4,716
Total non-performing loans and leases	5,078	147	9,943	7,897	-	2,716	9,902	412	36,095
Other real estate owned	39	365	433	-	-	690	887	-	2,414
Total non-performing assets	\$ 5,117	\$ 512	\$ 10,376	\$ 7,897	\$ -	\$ 3,406	\$ 10,789	\$ 412	\$ 38,509

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

	March 31, 2016								
	Commercial Real Estate				Residential Real Estate				
	Commercial		Commercial		Residential		Residential		
	Commercial		Commercial Owner		Residential		Residential		
	Investor Occupied		Investor Occupied		Mortgage		Construction		
(In thousands)	Commercial	AD&C	R/E	R/E Leasing	Consumer	Mortgage	Construction	Total	
Past due loans and leases									
31-60 days	\$ 603	\$ -	\$ 1,302	\$ 1,068	\$ -	\$ 1,644	\$ 10,766	\$ -	\$ 15,383
61-90 days	510	-	-	-	-	633	609	-	1,752

> 90 days	-	-	-	-	-	1	-	-	1
Total past due	1,113	-	1,302	1,068	-	2,278	11,375	-	17,136
Non-accrual loans and leases	3,741	147	7,885	7,149	-	2,715	9,329	412	31,378
Loans acquired with deteriorated credit quality	544	-	-	285	-	-	-	-	829
Current loans	445,841	261,057	773,974	667,058	-	442,205	783,401	137,809	3,511,345
Total loans and leases	\$451,239	\$261,204	\$783,161	\$675,560	\$-	\$447,198	\$804,105	\$138,221	\$3,560,688

December 31, 2015

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

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

March 31, 2016					
Commercial Real Estate					
	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Total
<i>(In thousands)</i>					
Pass	\$ 427,917	\$ 261,057	\$ 771,226	\$ 657,038	\$ 2,117,238
Special Mention	5,189	-	892	2,318	8,399
Substandard	18,133	147	11,043	16,204	45,527
Doubtful	-	-	-	-	-
Total	\$ 451,239	\$ 261,204	\$ 783,161	\$ 675,560	\$ 2,171,164

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

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

March 31, 2016					
Residential Real Estate					
	Leasing	Consumer	Residential Mortgage	Residential Construction	Total
<i>(In thousands)</i>					
Performing	\$ -	\$ 444,482	\$ 794,203	\$ 137,809	\$ 1,376,494
Non-performing:					
90 days past due	-	1	-	-	1
Non-accruing	-	2,715	9,329	412	12,456
Restructured loans and leases	-	-	573	-	573
Total	\$ -	\$ 447,198	\$ 804,105	\$ 138,221	\$ 1,389,524

December 31, 2015

Edgar Filing: SANDY SPRING BANCORP INC - Form 10-Q

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

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

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

For the Three Months Ended March 31, 2016							
Commercial Real Estate							
<i>(In thousands)</i>	Commercial		Commercial		Commercial	All	
	Commercial	AD&C	Investor	R/E	Owner	Other	
	Commercial	AD&C	R/E	R/E	Occupied	Loans	Total
Troubled debt restructurings							
Restructured accruing	\$ -	\$ -	\$ -	\$ -	\$ 508	\$ -	\$ 508
Restructured non-accruing	22	-	-	-	-	-	22
Balance	\$ 22	\$ -	\$ -	\$ -	\$ 508	\$ -	\$ 530
Specific allowance	\$ 22	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22
Restructured and subsequently defaulted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

Other Real Estate Owned

Other real estate owned totaled \$2.4 million and \$2.7 million at March 31, 2016 and December 31, 2015, respectively.

Note 5 – Goodwill and Other Intangible Assets

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

	March 31, 2016		Weighted Average Remaining Life	December 31, 2015		Weighted Average Remaining Life	
	Gross Carrying Amount	Accumulated Amortization		Net Carrying Amount	Gross Carrying Amount		Accumulated Amortization
<i>(Dollars in thousands)</i>							
Amortizing intangible assets:							
Other identifiable intangibles	\$ 8,623	\$ (8,518)	\$ 105	2.1 years	\$ 8,623	\$ (8,485) \$ 138	2.0 years
Total amortizing intangible assets	\$ 8,623	\$ (8,518)	\$ 105		\$ 8,623	\$ (8,485) \$ 138	
Goodwill	\$ 84,171	\$ 84,171			\$ 84,171	\$ 84,171	

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

<i>(In thousands)</i>	Amount
2016	\$ 62
2017	16
2018	16
2019	11
Total amortizing intangible assets	\$ 105

Note 6 – Deposits

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

<i>(In thousands)</i>	March 31, 2016	December 31, 2015
Noninterest-bearing deposits	\$ 1,084,746	\$ 1,001,841
Interest-bearing deposits:		
Demand	574,789	570,333
Money market savings	915,864	898,655
Regular savings	297,152	284,457
Time deposits of less than \$100,000	258,583	248,172
Time deposits of \$100,000 or more	281,174	260,272
Total interest-bearing deposits	2,327,562	2,261,889
Total deposits	\$ 3,412,308	\$ 3,263,730

Note 7 – Stockholders' Equity

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

Note 8 – Share Based Compensation

At March 31, 2016, the Company had two share based compensation plans in existence, the 2005 Omnibus Stock Plan (“Omnibus Stock Plan”) and the 2015 Omnibus Incentive Plan (“Omnibus Incentive Plan”). The Omnibus Stock Plan expired during the second quarter of 2015 but has outstanding options that may still be exercised. The Omnibus Incentive Plan is described in the following paragraph.

The Company's Omnibus Incentive Plan was approved on May 6, 2015 and provides for the granting of incentive stock options, non-qualifying stock options, stock appreciation rights, restricted stock grants, restricted stock units and performance awards to selected employees on a periodic basis at the discretion of the board. The Omnibus Incentive Plan authorizes the issuance of up to 1,500,000 shares of common stock, of which 1,400,681 are available for issuance at March 31, 2016, has a term of ten years, and is administered by a committee of at least three directors appointed by the board of directors. Options granted under the plan have an exercise price which may not be less than 100% of the fair market value of the common stock on the date of the grant and must be exercised within seven to ten years from the date of grant. The exercise price of stock options must be paid for in full in cash or shares of common stock, or a combination of both. The board committee has the discretion when making a grant of stock options to impose restrictions on the shares to be purchased upon the exercise of such options. The Company generally issues authorized but previously unissued shares to satisfy option exercises.

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

	Three Months Ended March 31,	
	2016	2015
Dividend yield	3.48%	3.40%
Weighted average expected volatility	41.54%	42.98%
Weighted average risk-free interest rate	1.42%	1.42%
Weighted average expected lives (in years)	5.71	5.42
Weighted average grant-date fair value	\$7.75	\$7.63

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

Compensation expense is recognized on a straight-line basis over the vesting period of the respective stock option or restricted stock grant. The Company recognized compensation expense of \$0.4 million and \$0.4 million for the three months ended March 31, 2016 and 2015, respectively, related to the awards of stock options and restricted stock grants. The intrinsic value of stock options exercised in the three months ended March 31, 2016 and 2015 was \$0.3 million and \$0.1 million, respectively. The total of unrecognized compensation cost related to stock options was approximately \$0.3 million as of March 31, 2016. That cost is expected to be recognized over a weighted average period of approximately 2.4 years. The total of unrecognized compensation cost related to restricted stock was approximately \$5.5 million as of March 31, 2016. That cost is expected to be recognized over a weighted average period of approximately 3.6 years. The fair value of the options vested during the three months ended March 31, 2016 and 2015, was not significant.

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

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

	Number of Common Shares	Weighted Average Exercise Share Price	Weighted Average Contractual Remaining Life(Years)	Aggregate Intrinsic Value (in thousands)
Balance at January 1, 2016	134,131	\$ 19.70		\$ 974
Granted	21,238	\$ 27.46		
Exercised	(21,694)	\$ 13.16		\$ 297
Forfeited or expired	(1,060)	\$ 25.06		
Balance at March 31, 2016	132,615	\$ 21.97	4.1	\$ 783
Exercisable at March 31, 2016	71,199	\$ 18.73	2.6	\$ 648
Weighted average fair value of options granted during the year		\$ 7.75		

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

	Number of Common Shares	Weighted Average Grant-Date Fair Value
<i>(In dollars, except share data):</i>		
Restricted stock at January 1, 2016	218,571	\$ 23.30
Granted	78,081	\$ 27.42
Vested	(24,553)	\$ 18.86
Forfeited	(3,640)	\$ 23.76
Restricted stock at March 31, 2016	268,459	\$ 24.90

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

Defined Benefit Pension Plan

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

The Company's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”), as amended. In addition, the Company contributes additional amounts as it deems appropriate based on benefits attributed to service prior to the

date of the plan freeze. The Plan invests primarily in a diversified portfolio of managed fixed income and equity funds.

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

<i>(In thousands)</i>	Three Months Ended March 31,	
	2016	2015
Interest cost on projected benefit obligation	\$ 411	\$ 410
Expected return on plan assets	(372)	(406)
Recognized net actuarial loss	284	292
Net periodic benefit cost	\$ 323	\$ 296

Contributions

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

Note 10 – Net Income per Common Share

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

<i>(Dollars and amounts in thousands, except per share data)</i>	Three Months Ended March 31,	
	2016	2015
Net income	\$ 10,813	\$ 11,225
Basic:		
Basic weighted average EPS shares	23,975	24,928
Basic net income per share	\$ 0.45	\$ 0.45
Diluted:		
Basic weighted average EPS shares	23,975	24,928
Dilutive common stock equivalents	248	121
Dilutive EPS shares	24,223	25,049
Diluted net income per share	\$ 0.45	\$ 0.45
Anti-dilutive shares	7	9

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

**Unrealized
Gains
(Losses)
on**

<i>(In thousands)</i>	Available-for-Sale	Defined Investments Benefit Pension Plan	Total
Balance at January 1, 2016	\$ 6,566	\$ (7,863)	\$ (1,297)
Other comprehensive income before reclassification, net of tax	6,423	-	6,423
Reclassifications from accumulated other comprehensive income, net of tax	(1,064)	171	(893)
Current period change in other comprehensive income, net of tax	5,359	171	5,530
Balance at March 31, 2016	\$ 11,925	\$ (7,692)	\$ 4,233

<i>(In thousands)</i>	Unrealized Gains (Losses) on		Total
	Investments	Defined Benefit Pension	
	Available-for-Sale Plan		
Balance at January 1, 2015	\$ 8,078	\$ (8,901)	\$ (823)
Other comprehensive income before reclassification, net of tax	2,793	-	2,793
Reclassifications from accumulated other comprehensive income, net of tax	-	176	176
Current period change in other comprehensive income, net of tax	2,793	176	2,969
Balance at March 31, 2015	\$ 10,871	\$ (8,725)	\$ 2,146

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

<i>(In thousands)</i>	For the three months ended March 31,	
	2016	2015
Unrealized gains/(losses) on investments available-for-sale		
Affected line item in the Statements of Income:		
Investment securities gains	\$ 1,769	\$ -
Income before taxes	1,769	-
Tax expense	705	-
Net income	\$ 1,064	\$ -
Amortization of defined benefit pension plan items		
Affected line item in the Statements of Income:		
Recognized actuarial loss ⁽¹⁾	\$ 284	\$ 292
Income before taxes	284	292
Tax expense	113	116
Net income	\$ 171	\$ 176

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

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

The Company has entered into interest rate swaps (“swaps”) to facilitate customer transactions and meet their financing needs. These swaps qualify as derivatives, but are not designated as hedging instruments. Interest rate swap contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. When the fair value of a derivative instrument contract is positive, this generally indicates that the counterparty or customer owes the Company, and results in credit risk to the Company. When the fair value of a derivative instrument contract is negative, the Company owes the customer or counterparty and therefore, has no credit risk. The notional value of commercial loan swaps outstanding was \$19.6 million with a fair value of \$1.4 million as of March 31, 2016

compared to \$19.9 million with a fair value of \$1.3 million as of December 31, 2015. The offsetting nature of the swaps results in a neutral effect on the Company's operations. Fair values of the swaps are carried as both gross assets and gross liabilities in the condensed consolidated statements of condition. The associated net gains and losses on the swaps are recorded in other non-interest income.

Note 13 – Litigation

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

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

Note 14 – Fair Value

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

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

Basis of Fair Value Measurement:

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

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

Level 3- Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity). Changes to interest rates may result in changes in the cash flows due to prepayments or extinguishments. Accordingly, this could result in higher or lower measurements of the fair values.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities

Mortgage loans held for sale

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

Investments available-for-sale

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

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

State and municipal securities

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

Trust preferred securities

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

Interest rate swap agreements

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

Assets Measured at Fair Value on a Recurring Basis

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

	March 31, 2016				Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<i>(In thousands)</i>					
Assets					
Residential mortgage loans held for sale	\$ -	\$ 27,806	\$ -		\$ 27,806
Investments available-for-sale:					
U.S. government agencies	-	126,407	-		126,407
State and municipal	-	311,557	-		311,557
Mortgage-backed	-	262,493	-		262,493
Corporate debt	-	-	2,157		2,157
Trust preferred	-	-	1,035		1,035
Marketable equity securities	-	1,223	-		1,223
Interest rate swap agreements	-	1,433	-		1,433
Liabilities					
Interest rate swap agreements	\$ -	\$ (1,433)	\$ -		\$ (1,433)

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

Liabilities

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

28

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

<i>(In thousands)</i>	Significant Unobservable Inputs (Level 3)
Investments available-for-sale:	
Balance at January 1, 2016	\$ 1,023
Transfer into Level 3	2,157
Total unrealized losses included in other comprehensive income (loss)	12
Balance at March 31, 2016	\$ 3,192

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

Assets Measured at Fair Value on a Nonrecurring Basis

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

	March 31, 2016			Total	Total Losses
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<i>(In thousands)</i>					
Impaired loans	\$ -	\$ -	\$ 9,309	\$ 9,309	\$ 10,351
Other real estate owned	-	-	2,414	2,414	(173)
Total	\$ -	\$ -	\$ 11,723	\$ 11,723	\$ 10,178

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

At March 31, 2016, impaired loans totaling \$29.5 million were written down to fair value of \$26.3 million as a result of specific loan loss allowances of \$3.2 million associated with the impaired loans which was included in the allowance for loan losses. Impaired loans totaling \$28.9 million were written down to fair value of \$25.5 million at December 31, 2015 as a result of specific loan loss allowances of \$3.4 million associated with the impaired loans.

Loan impairment is measured using the present value of expected cash flows, the loan's observable market price or the fair value of the collateral (less selling costs) if the loans are collateral dependent. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of business equipment, inventory and accounts receivable collateral is based on net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the factors identified above. Valuation techniques are consistent with those techniques applied in prior periods.

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

Fair Value of Financial Instruments

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

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

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

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

	Fair Value Measurements				
	March 31, 2016	Quoted Prices in Active Markets Identical Assets (Level 1)	Estimated for Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Carrying Amount					
<i>(In thousands)</i>					
Financial Assets					
Other equity securities	\$ 37,529	\$ 37,529	\$ -	\$ 37,529	\$ -
Loans, net of allowance	3,518,922	3,550,718	-	-	3,550,718
Other assets	91,480	91,480	-	91,480	-
Financial Liabilities					
Time Deposits	\$ 539,757	\$ 541,477	\$ -	\$ 541,477	\$ -
Securities sold under retail repurchase agreements and federal funds purchased	121,043	121,043	-	121,043	-
Advances from FHLB	590,000	611,200	-	611,200	-
Subordinated debentures	35,000	15,778	-	-	15,778

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

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

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

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

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

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

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

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

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

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

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

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

Note 15 - Segment Reporting

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

The Community Banking segment is conducted through Sandy Spring Bank and involves delivering a broad range of financial products and services, including various loan and deposit products to both individuals and businesses. Parent company income is included in the Community Banking segment, as the majority of effort of these functions is related to this segment. Major revenue sources include net interest income, gains on sales of mortgage loans, trust income fees and service charges on deposit accounts. Expenses include personnel, occupancy, marketing, equipment and other expenses. Non-cash charges associated with amortization of intangibles related to the acquired entities was not significant for the three months ended March 31, 2016 and 2015, respectively.

The Insurance segment is conducted through Sandy Spring Insurance Corporation, a subsidiary of the Bank, and offers annuities as an alternative to traditional deposit accounts. Sandy Spring Insurance Corporation operates Sandy Spring Insurance, a general insurance agency located in Annapolis, Maryland, and Neff and Associates, located in Ocean City, Maryland. Major sources of revenue are insurance commissions from commercial lines, personal lines, and medical liability lines. Expenses include personnel and support charges. Non-cash charges associated with amortization of intangibles related to the acquired entities were not significant for the three months ended March 31, 2016 and 2015, respectively.

The Investment Management segment is conducted through West Financial Services, Inc., a subsidiary of the Bank. This asset management and financial planning firm, located in McLean, Virginia, provides comprehensive investment management and financial planning to individuals, families, small businesses and associations including cash flow analysis, investment review, tax planning, retirement planning, insurance analysis and estate planning. West Financial currently has approximately \$1.1 billion in assets under management. Major revenue sources include non-interest income earned on the above services. Expenses include personnel and support charges. Non-cash charges associated with amortization of intangibles related to the acquired entities were not significant for the three months ended March 31, 2016 and 2015, respectively.

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

<i>(In thousands)</i>	Three Months Ended March 31, 2016				
	Community Banking	Insurance	Investment Mgmt.	Inter-Segment Elimination	Total
Interest income	\$ 41,653	\$ 1	\$ 1	\$ (2)	\$ 41,653
Interest expense	5,533	-	-	(2)	5,531
Provision (credit) for loan and lease losses	1,236	-	-	-	1,236
Noninterest income	10,219	1,453	1,869	(178)	13,363
Noninterest expenses	30,380	1,171	944	(178)	32,317
Income before income taxes	14,723	283	926	-	15,932
Income tax expense	4,644	114	361	-	5,119
Net income	\$ 10,079	\$ 169	\$ 565	\$ -	\$ 10,813
Assets	\$ 4,719,759	\$ 5,790	\$ 12,088	\$ (21,029)	\$ 4,716,608

<i>(In thousands)</i>	Three Months Ended March 31, 2015				
	Community Banking	Insurance	Investment Mgmt.	Inter-Segment Elimination	Total
Interest income	\$ 38,071	\$ 1	\$ 1	\$ (1)	\$ 38,072
Interest expense	4,700	-	-	(1)	4,699
Provision (credit) for loan and lease losses	597	-	-	-	597
Non-interest income	9,836	1,694	1,810	(181)	13,159
Non-interest expenses	27,017	1,383	1,025	(181)	29,244
Income before income taxes	15,593	312	786	-	16,691
Income tax expense	5,034	126	306	-	5,466
Net income	\$ 10,559	\$ 186	\$ 480	\$ -	\$ 11,225
Assets	\$ 4,403,060	\$ 5,948	\$ 13,763	\$ (21,391)	\$ 4,401,380

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

The Company

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

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

Overview

Net income for the Company for the first quarter of 2016 totaled \$10.8 million (\$0.45 per diluted share) as compared to net income of \$11.2 million (\$0.45 per diluted share) for the first quarter of 2015.

These results reflect the following events:

- Average total loans for the first quarter of 2016 increased 13% compared to the first quarter of 2015 due primarily to organic growth in the commercial and residential mortgage portfolio segments. Overall, the entire portfolio grew \$416 million over the prior year period.
- Combined noninterest-bearing and interest-bearing transaction account balances increased 7% to \$1.7 billion at March 31, 2016 as compared to \$1.5 billion at March 31, 2015.
- The net interest margin was 3.44% in the first quarter of 2016, compared to 3.44% for the first quarter of 2015 and 3.45% for the fourth quarter of 2015.
- During the first quarter the Company prepaid \$40 million in FHLB advances incurring a prepayment penalty of \$1.8 million. Concurrent with that transaction, the Company sold available-for-sale mortgage backed securities totaling \$40 million. Together with a gain on a call of another security, the Company realized gains totaling \$1.8

million. The Company expects these transactions to have a positive effect on its net interest margin in future periods.

- In February of 2016, the Company completed the sale of a portion of its wealth assets under management, which was accompanied by the reduction in advisor headcount by eight persons, as the Company took steps to improve the profitability of its wealth management business.
- During the first quarter of 2016, the Company repurchased 512,459 shares at an average price of \$25.90 per share as part of its existing share repurchase program.

In the first quarter of 2016, the Mid-Atlantic region in which the Company operates showed moderate economic improvement. While the United States economy continued to show strength during the past year, international economic concerns together with rapidly declining oil prices impeded both the regional and national economic outlook. Positive trends in housing, consumer spending and unemployment have been somewhat offset by concerns over a lack of wage growth and the strength of the dollar compared to other major currencies. These factors have caused uncertainty on the part of both large and small businesses and have thus restricted economic expansion. Slowing economic growth in China combined with growing recessionary conditions in Europe continue to be underlying volatility factors. Together with state and municipal budget challenges across the country, these factors have caused enough economic uncertainty, particularly among individual consumers and small and medium-sized businesses, to suppress confidence and thus constrain the pace of economic expansion and lending. Despite this challenging business environment, the Company has emphasized the fundamentals of community banking as it has maintained its overall credit quality and strong levels of liquidity and capital.

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

The Company's non-performing assets decreased to \$38.5 million at March 31, 2016 from \$39.2 million at March 31, 2015. This decrease was due primarily to loan pay-offs and a reduction in restructured loans as such loans have performed sufficiently to allow them to no longer be classified as non-performing. Non-performing assets represented 0.82% of total assets at March 31, 2016 compared to 0.89% at March 31, 2015. The ratio of net charge-offs to average loans and leases was 0.04% for the first quarter of 2016, compared to 0.12% for the prior year quarter.

Non-interest income remained virtually level in the first quarter of 2016 compared to the first quarter of 2015. During the quarter the Company recognized \$1.8 million in gains on sales of securities. Excluding such gains, noninterest income decreased 12% driven by a decrease in wealth management income due primarily to a reduced level of assets under management due to the sale of a portion of the portfolio. Income from mortgage banking activities also decreased due to lower sales levels.

Non-interest expenses increased 11% in the first quarter of 2016 compared to the first quarter of 2015 due mainly to \$1.8 million in penalties due to the prepayment of FHLB advances. Excluding such penalties, non-interest expenses increased 5% compared to the prior year quarter due mainly to higher salaries and benefits.

Total assets at March 31, 2016 remained virtually level compared to December 31, 2015. Loan balances increased 2% compared to the prior year end due to growth in commercial loans and residential mortgage loans while consumer loans remained even with the prior year end. Customer funding sources, which include deposits plus other short-term borrowings from core customers, increased 5% compared to balances at December 31, 2015. The increase in customer funding sources was driven primarily by increases of 6% in noninterest-bearing and interest-bearing transaction accounts and 4% in regular savings accounts. Retail repurchase agreements also increased 11% as the Company increased its emphasis on the sale of such cash management services. Certificates of deposit increased 6% and money market accounts increased 2% compared to the balances at December 31, 2015 as the Company increased rates to fund loan growth. Additionally, the Company continued to manage its net interest margin by the prepayment of FHLB advances discussed previously, coupled with the sale of a like amount of relatively low yielding investment securities. During the same period, stockholders' equity remained level at \$522 million as the effect of net income during the quarter was offset by the payment of dividends and repurchase of stock under the Company's share repurchase program.

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

	2016			Three Months Ended March 31, 2015		
	Average Balances	(1) Interest	Annualized Average Yield/Rate	Average Balances	(1) Interest	Annualized Average Yield/Rate
<i>(Dollars in thousands and tax-equivalent)</i>						
Assets						
Residential mortgage loans	\$ 807,443	\$ 6,868	3.40%	\$ 724,248	\$ 6,124	
Residential construction loans	134,708	1,195	3.57	132,456	1,221	
Total mortgage loans	942,151	8,063	3.43	856,704	7,345	
Commercial ADC loans	261,687	2,998	4.61	206,105	2,337	
Commercial investor real estate loans	750,821	8,612	4.61	645,163	7,579	
Commercial owner occupied real estate loans	677,786	8,085	4.80	611,722	7,165	
Commercial business loans	460,903	5,013	4.37	383,111	4,212	
Leasing	-	-	-	44	1	
Total commercial loans and leases	2,151,197	24,708	4.62	1,846,145	21,294	
Consumer loans	451,075	3,889	3.49	425,434	3,500	
Total loans and leases (2)	3,544,423	36,660	4.16	3,128,283	32,139	
Loans held for sale	14,036	134	3.82	7,053	76	
Taxable securities	523,873	3,413	2.61	629,266	3,936	
Tax-exempt securities (3)	286,720	3,056	4.26	296,417	3,170	
Total investment securities	810,593	6,469	3.19	925,683	7,106	
Interest-bearing deposits with banks	42,255	53	0.50	36,155	22	
Federal funds sold	489	1	0.47	474	-	
Total interest-earning assets	4,411,796	43,317	3.94	4,097,648	39,343	
Less: allowance for loan and lease losses	(41,070)			(37,444)		
Cash and due from banks	47,039			46,430		
Premises and equipment, net	53,574			50,658		
Other assets	214,408			215,696		
Total assets	\$4,685,747			\$4,372,988		
Liabilities and Stockholders' Equity						
Interest-bearing demand deposits	\$ 569,219	108	0.08%	\$ 524,059	106	
Regular savings deposits	290,243	42	0.06	270,198	34	
Money market savings deposits	897,034	437	0.20	831,707	273	
Time deposits	522,164	1,250	0.96	443,534	781	
Total interest-bearing deposits	2,278,660	1,837	0.32	2,069,498	1,194	
Other borrowings	110,984	66	0.24	90,188	50	
Advances from FHLB	679,066	3,374	2.00	622,889	3,236	
Subordinated debentures	35,000	254	2.90	35,000	219	
Total interest-bearing liabilities	3,103,710	5,531	0.72	2,817,575	4,699	
Noninterest-bearing demand deposits	1,021,471			986,688		
Other liabilities	36,257			47,379		
Stockholders' equity	524,309			521,346		
Total liabilities and stockholders' equity	\$4,685,747			\$4,372,988		

Net interest income and spread	37,786	3.22%	34,644
Less: tax-equivalent adjustment	1,664		1,271
Net interest income	\$36,122		\$33,373
Interest income/earning assets		3.94%	
Interest expense/earning assets		0.50	
Net interest margin		3.44%	

(1) Tax-equivalent income has been adjusted using the combined marginal federal and state rate of 39.88% for 2016 and 2015. annualized taxable-equivalent

adjustments utilized in the above table to compute yields aggregated to \$1.7 million and \$1.3 million in 2016 and 2015, res

(2) Non-accrual loans are included in the average balances.

(3) Includes only investments that are exempt from federal taxes.

Effect of Volume and Rate Changes on Net Interest Income

The following table analyzes the reasons for the changes from year-to-year in the principal elements that comprise net interest income:

	2016 vs. 2015			2015 vs. 2014		
	Increase	Due to Change In		Increase	Due to Change In	
	Or	Average:*		Or	Average:*	
<i>(Dollars in thousands and tax equivalent)</i>	(Decrease)	Volume	Rate	(Decrease)	Volume	Rate
Interest income from earning assets:						
Residential mortgage loans	\$ 744	\$ 708	\$ 36	\$ 677	\$ 817	\$ (140)
Residential construction loans	(26)	23	(49)	(33)	(32)	(1)
Commercial ADC loans	661	655	6	264	776	(512)
Commercial investor real estate loans	1,033	1,276	(243)	846	1,636	(790)
Commercial owner occupied real estate loans	920	1,110	(190)	98	473	(375)
Commercial business loans	801	811	(10)	175	563	(388)
Leasing	1	-	1	(5)	(4)	(1)
Consumer loans	389	233	156	383	456	(73)
Loans held for sale	58	68	(10)	17	19	(2)
Taxable securities	(523)	(642)	119	(516)	(677)	161
Tax exempt securities	(114)	(74)	(40)	(97)	(87)	(10)
Interest-bearing deposits with banks	29	4	25	2	2	-
Federal funds sold	1	-	1	-	-	-
Total interest income	3,974	4,172	(198)	1,811	3,942	(2,131)
Interest expense on funding of earning assets:						
Interest-bearing demand deposits	2	6	(4)	14	20	(6)
Regular savings deposits	8	2	6	(14)	6	(20)
Money market savings deposits	164	22	142	-	-	-
Time deposits	469	160	309	10	(10)	20
Other borrowings	16	12	4	12	19	(7)
Advances from FHLB	138	300	(162)	18	236	(218)
Subordinated debentures	35	-	35	1	-	1
Total interest expense	832	502	330	41	271	(230)
Net interest income	\$ 3,142	\$ 3,670	\$ (528)	\$ 1,770	\$ 3,671	\$ (1,901)

* Variances that are the combined effect of volume and rate, but cannot be separately identified, are allocated to the volume and rate variances based on their respective relative amounts.

Interest Income

The Company's total tax-equivalent interest income increased 10% for the first three months of 2016 compared to the prior year quarter. The previous table shows that, in 2016, the increase in average loans and leases more than offset the decline in earning asset yields with respect to the loan portfolio.

The average balance of the loan portfolio increased 13% for the first quarter of 2016 compared to the prior year period. This growth was primarily in the commercial investor real estate, commercial business and residential mortgage portfolios. These increases were driven by organic loan growth as the regional economy improved. The yield on average loans and leases decreased by 3 basis points as fewer higher rate loans were paid off and new loans were originated at comparatively lower rates. The decline in the portfolio yield was driven primarily by a decrease of 12 basis points in the yield on the commercial loan portfolio.

The average yield on total investment securities increased 12 basis points while the average balance of the portfolio decreased 12% for the first three months of 2016 compared to the first three months of 2015. The increase in the yield on investments was due primarily to a decline in the relative size of the lower-yielding mortgage-backed securities portfolio due in large part to the sale of \$40 million of such securities to fund the prepayment of Federal Home Loan Bank advances mentioned previously. In addition, the relative size of the higher yielding state and municipal portfolio increased as the size of the overall portfolio declined.

Interest Expense

Interest expense increased 18% in the first three months of 2016 compared to the first three months of 2015. The cost of interest-bearing deposits increased as the Company increased rates to maintain deposit relationships and fund loan growth. The increase in the average balances of Federal Home Loan Bank advances was largely offset by an 11 basis point decrease in the average rate paid. Average deposits increased 8% in the first three months of 2016 compared to the first three months of 2015. This increase was primarily due to increases of \$80 million or 5% in average noninterest-bearing and interest-bearing checking accounts together with increases of \$79 million or 18% in certificates of deposit and \$65 million or 8% in money market accounts as the Company increased rates on these products.

Non-interest Income

Non-interest income amounts and trends are presented in the following table for the years indicated:

	Three Months Ended March		2016/2015 \$ Change	2016/2015 % Change
	31, 2016	2015		
<i>(Dollars in thousands)</i>				
Securities gains	1,769	-	1,769	100.0

Edgar Filing: SANDY SPRING BANCORP INC - Form 10-Q

Service charges on deposit accounts	\$	1,903	\$	1,882	\$	21	1.1 %
Mortgage banking activities		535		1,178		(643)	(54.6)
Wealth management income		4,405		4,916		(511)	(10.4)
Insurance agency commissions		1,445		1,618		(173)	(10.7)
Income from bank owned life insurance		615		713		(98)	(13.7)
Bank card fees		1,089		1,057		32	3.0
Other income		1,602		1,795		(193)	(10.8)
Total non-interest income	\$	13,363	\$	13,159	\$	204	1.6
		39					

Total non-interest income was \$13.4 million for the first quarter of 2016 compared to \$13.2 million for the first quarter of 2015. The first quarter of 2016 includes \$1.8 million in gains in sales and calls of investment securities. Excluding these gains, non-interest income decreased 12% due to a decrease in income from wealth management due to the sale of a portion of the assets under management and a decrease in income from mortgage banking due primarily to lower mortgage sales volumes. Further detail by type of non-interest income follows:

- Investment securities gains increased for the current quarter to the prior year quarter due to the sale of \$40 million in mortgage-backed ARM securities and the call of a \$10 million U. S. Agency security during the quarter. The proceeds of these transactions were used, in part, to prepay \$40 million in FHLB advances.
- Income from mortgage banking activities decreased in the first three months of 2016 compared to the first three months of 2015 due primarily to lower loan sales volumes.
- Wealth management income is comprised of income from trust and estate services and investment management fees earned by West Financial Services, the Company's investment management subsidiary. Trust services fees decreased 4% for the first quarter due to decreases in assets under management and one-time estate fees. Investment management fees in West Financial Services were level for the first quarter of 2016 compared to the first quarter of 2015, due to market fluctuations that offset an increase in assets under management. Fees on sales of investment products declined for the first quarter compared to the prior year quarter as the Company a portion of portfolio of assets under management in the first quarter of 2016. Overall total assets under management decreased to \$2.3 billion at March 31, 2016 compared to \$2.9 billion at March 31, 2015 primarily as a result of the previously mentioned sale.
- Insurance agency commissions decreased in the current quarter due to a decline in income from physicians' liability insurance lines.
- Income from bank owned life insurance decreased in the first three months of 2016 compared to the first three months of 2015 due primarily to policy proceeds recognized during the first quarter of 2015.
- Other non-interest income decreased during the first quarter of 2016 compared to the first quarter of 2015 due mainly to a decrease in loan prepayment fees and lower gains on sales of SBA loans.
- Income from service charges on deposits and Bank card fees remained level for the first quarter of 2016 compared to the first quarter of 2015.

Non-interest Expense

Non-interest expense amounts and trends are presented in the following table for the years indicated:

<i>(Dollars in thousands)</i>	2016	2015	2016/2015 \$ Change	2016/2015 % Change
Salaries and employee benefits	\$ 18,230	\$ 17,299	\$ 931	5.4 %
Occupancy expense of premises	3,473	3,489	(16)	(0.5)
Equipment expenses	1,664	1,373	291	21.2

Edgar Filing: SANDY SPRING BANCORP INC - Form 10-Q

Marketing	681	531	150	28.2
Outside data services	1,363	1,261	102	8.1
FDIC insurance	637	631	6	1.0
Amortization of intangible assets	32	107	(75)	(70.1)
Litigation Expenses	-	200	(200)	(100.0)
Professional fees	1,138	1,209	(71)	(5.9)
Other real estate owned	17	10	7	70.0
Other expenses	5,082	3,134	1,948	62.2
Total non-interest expense	\$ 32,317	\$ 29,244	\$ 3,073	10.5

Non-interest expenses totaled \$32.3 million in the first quarter of 2016 compared to \$29.2 million in the first quarter of 2015, an increase of 11%. This increase in expenses was driven primarily by \$1.8 million in penalties due to the prepayment of FHLB advances during the quarter. Excluding such penalties, non-interest expenses increased 5% due to higher salaries and benefits. Further detail by category of non-interest expense follows:

- Salaries and employee benefits, the largest component of non-interest expenses, increased in the first quarter of 2016 due primarily to higher compensation expenses as a result of merit increases and increased health insurance expenses. The average number of full-time equivalent employees was 722 in the first quarter of 2016 compared to 715 in the first quarter of 2015.
- Equipment expenses increased in 2016 compared to 2015 due to higher software amortization expense.

- Outside data services expenses increased in 2016 compared to the prior year quarter due primarily to implementation of new systems.
- Intangibles amortization decreased in 2016 due to the costs of prior year acquisitions being fully amortized during the period.
- Litigation expense decreased compared to the prior year quarter due to the settlement of the litigation in the fourth quarter of 2015.
- Other non-interest expenses increased in the first quarter of 2016 compared to the prior year quarter due to penalties related to the prepayment of FHLB advances mentioned previously. Excluding this expense, other non-interest expenses remained level for the quarter compared to the prior year period.
- Expenses for marketing, occupancy, professional fees and FDIC expenses remained essentially level for 2016 compared to the prior year quarter.

Operating Expense Performance

Management views the GAAP efficiency ratio as an important financial measure of expense performance and cost management. The ratio expresses the level of non-interest expenses as a percentage of total revenue (net interest income plus total non-interest income). Lower ratios indicate improved productivity.

Non-GAAP Financial Measures

The Company also uses a traditional efficiency ratio that is a non-GAAP financial measure of operating expense control and efficiency of operations. Management believes that its traditional ratio better focuses attention on the operating performance of the Company over time than does a GAAP ratio, and is highly useful in comparing period-to-period operating performance of the Company's core business operations. It is used by management as part of its assessment of its performance in managing non-interest expenses. However, this measure is supplemental, and is not a substitute for an analysis of performance based on GAAP measures. The reader is cautioned that the non-GAAP efficiency ratio used by the Company may not be comparable to GAAP or non-GAAP efficiency ratios reported by other financial institutions.

In general, the efficiency ratio is non-interest expenses as a percentage of net interest income plus non-interest income. Non-interest expenses used in the calculation of the non-GAAP efficiency ratio exclude goodwill impairment losses, the amortization of intangibles, and non-recurring expenses. Income for the non-GAAP ratio includes the favorable effect of tax-exempt income, and excludes securities gains and losses, which vary widely from period to period without appreciably affecting operating expenses, and non-recurring gains. The measure is different from the GAAP efficiency ratio, which also is presented in this report. The GAAP measure is calculated using non-interest expense and income amounts as shown on the face of the Consolidated Statements of Income. The GAAP and non-GAAP efficiency ratios are reconciled and provided in the following table. Both the GAAP and non-GAAP efficiency ratios increased in the first quarter of 2016 compared to the first quarter of 2015 due primarily to the increase in non-interest expenses rising at a faster rate than net revenues.

In addition, the Company uses pre-tax, pre-provision income as a measure of the level of recurring income before taxes. Management believes this provides financial statement users with a useful metric of the run-rate of revenues and expenses which is readily comparable to other financial institutions. This measure is calculated by adding (subtracting) the provision (credit) for loan and lease losses, and the provision for income taxes back to net income. This metric decreased in the first quarter of 2016 compared to the first quarter of 2015 due primarily to higher non-interest expenses and reduced non-interest income.

GAAP and Non-GAAP Efficiency Ratios

<i>(Dollars in thousands)</i>	Three Months Ended March 31,	
	2016	2015
Pre-tax pre-provision income:		
Net income	\$ 10,813	\$ 11,225
Plus non-GAAP adjustment:		
Litigation expenses	-	200
Income taxes	5,119	5,466
Provision (credit) for loan and lease losses	1,236	597
Pre-tax pre-provision income	\$ 17,168	\$ 17,488
Efficiency ratio - GAAP basis:		
Non-interest expenses	\$ 32,317	\$ 29,244
Net interest income plus non-interest income	\$ 49,485	\$ 46,532
Efficiency ratio - GAAP basis:	65.31%	62.85%
Efficiency ratio - Non-GAAP basis:		
Non-interest expenses	\$ 32,317	\$ 29,244
Less non-GAAP adjustment:		
Amortization of intangible assets	32	107
Loss on FHLB redemption	1,751	-
Litigation expenses	-	200
Non-interest expenses - as adjusted	\$ 30,534	\$ 28,937
Net interest income plus non-interest income	\$ 49,485	\$ 46,532
Plus non-GAAP adjustment:		
Tax-equivalent income	1,664	1,271
Less non-GAAP adjustments:		
Securities gains	1,769	-
Net interest income plus non-interest income - as adjusted	\$ 49,380	\$ 47,803
Non-GAAP efficiency ratio	61.84%	60.53%

Income Taxes

The Company had income tax expense of \$5.1 million in the first quarter of 2016, compared to income tax expense of \$5.5 million in the first quarter of 2015. The resulting effective tax rates were 32% for the first quarter of 2016 and 33% for the first quarter of 2015. This decrease was due to the decline in net income before taxes for the quarter together with tax-exempt income comprising a higher proportion of net income before taxes.

FINANCIAL CONDITION

The Company's total assets were \$4.7 billion at March 31, 2016 and at December 31, 2014. Total loans increased 2% compared to the fourth quarter of 2015. This increase was offset by the decrease in the investment portfolio.

Analysis of Loans and Leases

A comparison of the loan portfolio at the dates indicated is presented in the following table:

	March 31, 2016		December 31, 2015		Period-to-Period Change	
	Amount	%	Amount	%	\$ Change	% Change
<i>(Dollars in thousands)</i>						
Residential real estate:						
Residential mortgage	\$ 804,105	22.6%	\$ 796,358	22.8%	\$ 7,747	1.0%
Residential construction	138,221	3.8	129,281	3.7	8,940	6.9
Commercial real estate:						
Commercial owner occupied real estate	675,560	19.0	678,027	19.4	(2,467)	(0.4)
Commercial investor real estate	783,161	22.0	719,084	20.6	64,077	8.9
Commercial acquisition, development and construction	261,204	7.3	255,980	7.3	5,224	2.0
Commercial Business	451,239	12.7	465,765	13.3	(14,526)	(3.1)
Consumer	447,198	12.6	450,875	12.9	(3,677)	(0.8)
Total loans and leases	\$3,560,688	100.0%	\$3,495,370	100.0%	\$ 65,318	1.9

Total loans and leases, excluding loans held for sale, increased 2% at March 31, 2016 compared to December 31, 2015. The commercial loan portfolio increased 2% at March 31, 2016 compared to the prior year end. Investor real estate loans reflected a 9% increase, which was somewhat offset by declines in owner occupied real estate loans and commercial business loans

The residential real estate portfolio, which is comprised of residential construction and permanent residential mortgage loans, increased 2% at March 31, 2016 compared to December 31, 2015. Permanent residential mortgages, most of which are 1-4 family, reflected an increase of 1% while residential construction loans increased 7% during the first quarter.

The consumer loan portfolio remained level at March 31, 2016 compared to December 31, 2015.

Analysis of Investment Securities

The composition of investment securities at the periods indicated is presented in the following table:

March 31, 2016	December 31, 2015
----------------	-------------------

Edgar Filing: SANDY SPRING BANCORP INC - Form 10-Q

(Dollars in thousands)

		Amount	%	Amount	%
Available-for-Sale:					
	U.S. government agencies and corporations				
U.S. government agencies and corporations	corporations	\$126,407	17.0%	\$108,400	12.9
State and municipal	State and municipal	311,557	42.0	164,707	19.6
Mortgage-backed	Mortgage-backed	262,493	35.4	316,696	37.6
Corporate debt	Corporate debt	2,157	0.3	-	-
Trust preferred	Trust preferred	1,035	0.1	1,023	0.1
Marketable equity securities	Marketable equity securities	1,223	0.1	1,223	0.1
	Total available-for-sale securities	704,872	94.9	592,049	70.3
Held-to-Maturity and Other Equity					
	U.S. government agencies and corporations				
U.S. government agencies and corporations	corporations	-	-	56,460	6.7
State and municipal	State and municipal	-	-	149,537	17.8
Mortgage-backed	Mortgage-backed	-	-	168	-
	Corporate debt	-	-	2,100	0.3
Other equity securities	Other equity securities	37,529	5.1	41,336	4.9
	Total held-to-maturity and other equity	37,529	5.1	249,601	29.7
Total Securities		\$742,401	100.0%	\$841,650	100.0

The investment portfolio decreased 12% at March 31, 2016 compared to December 31, 2015 due to the sale of \$40 million in mortgage-backed securities to fund the prepayment of FHLB advances and also due calls of securities, the proceeds of which were used to fund loan growth.

Available-for-sale securities increased 19% at March 31, 2016 compared to December 31, 2015 due to the Company's designation of the held-to-maturity investment portfolio as available-for-sale. This transfer was made to provide for additional liquidity for the Company to fund loan growth.

The investment portfolio consists primarily of U.S. Agency securities, U.S. Agency mortgage-backed securities, U.S. Agency collateralized mortgage obligations and state and municipal securities. The duration of the portfolio was 2.8 years at March 31, 2016 and 3.3 years at December 31, 2015. The Company considers the duration of the portfolio to be adequate for liquidity purposes. This investment strategy has resulted in a portfolio with low credit risk that would provide the required liquidity needed to meet increased loan demand. The portfolio is monitored on a continuing basis with consideration given to interest rate trends and the structure of the yield curve and with constant assessment of economic projections and analysis.

At March 31, 2016, the trust preferred portfolio included one pooled trust preferred security backed by debt issued by banks and thrifts, which totaled \$1.1 million, with a fair value of \$1.0 million. The fair value of this security was determined by a third party valuation specialist due to the limited trading activity for this security in the marketplace. The specialist used an income valuation approach technique (present value) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. The methodology, observable inputs and significant assumptions employed by the specialist to determine fair value are provided in Note 2 – Investments in the Notes to the Condensed Consolidated Financial Statements.

As a result of this valuation, it was determined that the pooled trust preferred security had not incurred any credit-related OTTI for the three months ended March 31, 2016. Cumulative credit-related OTTI of \$0.5 million has been recognized in earnings through March 31, 2016. 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 March 31, 2016. This non-credit related OTTI was recognized in accumulated other comprehensive income ("OCI") at March 31, 2016.

Other Earning Assets

Residential mortgage loans held for sale increased \$13 million to \$28 million as of March 31, 2016 from \$15 million as of December 31, 2015. The aggregate of federal funds sold and interest-bearing deposits with banks increased \$90 million to \$116 million at March 31, 2016 compared to December 31, 2015 due to the timing of cash flows.

Deposits

The composition of deposits at the periods indicated is presented in the following table:

March 31, 2016

December 31, 2015

<i>(Dollars in thousands)</i>	Amount	%	Amount	%	Period-to-Period Change	
					\$ Change	% Change
Noninterest-bearing deposits	\$ 1,084,746	31.8%	\$ 1,001,841	30.7%	\$ 82,905	8.3%
Interest-bearing deposits:						
Demand	574,789	16.9	570,333	17.5	4,456	0.8
Money market savings	915,864	26.8	898,655	27.5	17,209	1.9
Regular savings	297,152	8.7	284,457	8.7	12,695	4.5
Time deposits of less than \$100,000	258,583	7.6	248,172	7.6	10,411	4.2
Time deposits of \$100,000 or more	281,174	8.2	260,272	8.0	20,902	8.0
Total interest-bearing deposits	2,327,562	68.2	2,261,889	69.3	65,673	2.9
Total deposits	\$ 3,412,308	100.0%	\$ 3,263,730	100.0%	\$ 148,578	4.6

Deposits and Borrowings

Total deposits increased \$149 million or 5% at March 31, 2016 compared to December 31, 2015. This increase was due primarily to increases of 8% in noninterest-bearing checking accounts and 6% in certificates of deposit compared to the prior year end. In addition, regular savings accounts increased 4% compared to December 31, 2015 and money market accounts increased 2%. The increase in these products occurred as the Company raised rates to maintain client relationships and to fund loan growth in addition to clients' emphasis on safety and liquidity in the face of volatile equity markets. Total borrowings decreased 10% at March 31, 2016 compared to December 31, 2015 due primarily to the prepayment of \$40 million in FHLB advances during the first quarter of 2016.

Capital Management

Management monitors historical and projected earnings, dividends and asset growth, as well as risks associated with the various types of on and off-balance sheet assets and liabilities, in order to determine appropriate capital levels. During the first quarter of 2016, total stockholders' equity was \$522 million at March 31, 2016 compared to \$524 million at December 31, 2015 as net income during the first quarter was offset by the payment of dividends and stock repurchases. The ratio of average equity to average assets was 11.19% for the first quarter of 2016, as compared to 11.92% for the first quarter of 2015.

Bank holding companies and banks are required to maintain capital ratios in accordance with guidelines adopted by the federal bank regulators. These guidelines are commonly known as Risk-Based Capital guidelines. The actual regulatory ratios and required ratios for capital adequacy, in addition to the ratios required to be categorized as “well capitalized”, are summarized for the Company in the following table.

Risk-Based Capital Ratios

	March 31, 2016	Ratios at December 31, 2015	Minimum Regulatory Requirements
Total Capital to risk-weighted assets	14.02%	14.25%	8.00%
Tier 1 Capital to risk-weighted assets	12.88%	13.13%	6.00%
Common Equity Tier 1 Capital	11.92%	12.17%	4.50%
Tier 1 Leverage	10.23%	10.60%	4.00%

Tier 1 capital of \$471 million and total qualifying capital of \$513 million each included \$35.0 million in trust preferred securities that are considered regulatory capital for purposes of determining the Company's Tier 1 capital ratio. As of March 31, 2016, the most recent notification from the Bank's primary regulator categorized the Bank as a "well-capitalized" institution under the prompt corrective action rules of the Federal Deposit Insurance Act. Designation as a well-capitalized institution under these regulations is not a recommendation or endorsement of the Company or the Bank by federal bank regulators.

In July 2013, the Federal Reserve Board approved revisions to its capital adequacy guidelines and prompt corrective action rules that implement the revised standards of the Basel Committee on Banking Supervision, commonly called Basel III, and address relevant provisions of the Dodd-Frank Act. The rules include new risk-based capital and leverage ratios, which were effective January 1, 2015, and revise the definition of what constitutes “capital” for calculating those ratios. The minimum capital level requirements applicable to the Company and the Bank are: (1) a common equity Tier 1 capital ratio of 4.5%; (2) a Tier 1 capital ratio of 6% (increased from 4%); (3) a total capital ratio of 8% (unchanged from prior rules); and (4) a Tier 1 leverage ratio of 4%. The rules eliminate the inclusion of certain instruments, such as trust preferred securities, from Tier 1 capital. Instruments issued prior to May 19, 2010

have been grandfathered for companies with consolidated assets of \$15 billion or less. The rules also establish a “capital conservation buffer” of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The new capital conservation buffer requirement has been phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses to executive officers if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Tangible Common Equity

Tangible equity, tangible assets and tangible book value per share are non-GAAP financial measures calculated using GAAP amounts. Tangible common equity and tangible assets exclude the balances of goodwill and other intangible assets from stockholder’s equity and total assets, respectively. Management believes that this non-GAAP financial measure provides information to investors that may be useful in understanding our financial condition. Because not all companies use the same calculation of tangible equity and tangible assets, this presentation may not be comparable to other similarly titled measures calculated by other companies. A reconciliation of the non-GAAP ratio of tangible equity to tangible assets and tangible book value per share are provided in the following table.

Tangible Common Equity Ratio – Non-GAAP

<i>(Dollars in thousands, except per share data)</i>	March 31, 2016	December 31, 2015
Tangible common equity ratio:		
Total stockholders' equity	\$ 522,392	\$ 524,427
Accumulated other comprehensive income (loss)	(4,233)	1,297
Goodwill	(84,171)	(84,171)
Other intangible assets, net	(105)	(138)
Tangible common equity	\$ 433,883	\$ 441,415
Total assets	\$ 4,716,608	\$ 4,655,380
Goodwill	(84,171)	(84,171)
Other intangible assets, net	(105)	(138)
Tangible assets	\$ 4,632,332	\$ 4,571,071
Tangible common equity ratio	9.37%	9.66%
Tangible book value per share	\$ 18.21	\$ 18.17

Credit Risk

The fundamental lending business of the Company is based on understanding, measuring and controlling the credit risk inherent in the loan portfolio. The Company's loan and lease portfolio is subject to varying degrees of credit risk. Credit risk entails both general risks, which are inherent in the process of lending, and risk specific to individual borrowers. The Company's credit risk is mitigated through portfolio diversification, which limits exposure to any single customer, industry or collateral type. Typically, each consumer and residential lending product has a generally predictable level of credit losses based on historical loss experience. Home mortgage and home equity loans and lines generally have the lowest credit loss experience. Loans secured by personal property, such as auto loans, generally experience medium credit losses. Unsecured loan products, such as personal revolving credit, have the highest credit loss experience and for that reason, the Company has chosen not to engage in a significant amount of this type of lending. Credit risk in commercial lending can vary significantly, as losses as a percentage of outstanding loans can shift widely during economic cycles and are particularly sensitive to changing economic conditions. Generally, improving economic conditions result in improved operating results on the part of commercial customers, enhancing their ability to meet their particular debt service requirements. Improvements, if any, in operating cash flows can be offset by the impact of rising interest rates that may occur during improved economic times. Inconsistent economic conditions may have an adverse effect on the operating results of commercial customers, reducing their ability to meet debt service obligations.

Total non-performing loans increased 5% to \$36.1 million at March 31, 2016 compared to the balance at December 31, 2015. While the diversification of the lending portfolio among different commercial, residential and consumer product lines along with different market conditions of the D.C. suburbs, Northern Virginia and Baltimore

metropolitan area has mitigated some of the risks in the portfolio, local economic conditions and levels of non-performing loans may continue to be influenced by the volatility being experienced in various business sectors of the economy on both a regional and national level.

To control and manage credit risk, management has a credit process in place to reasonably ensure that credit standards are maintained along with an in-house loan administration accompanied by oversight and review procedures. The primary purpose of loan underwriting is the evaluation of specific lending risks and involves the analysis of the borrower's ability to service the debt as well as the assessment of the value of the underlying collateral. Oversight and review procedures include the monitoring of portfolio credit quality, early identification of potential problem credits and the aggressive management of problem credits. As part of the oversight and review process, the Company maintains an allowance for loan and lease losses (the "allowance").

The allowance represents an estimation of the losses that are inherent in the loan and lease portfolio. The adequacy of the allowance is determined through careful and ongoing evaluation of the credit portfolio, and involves consideration of a number of factors, as outlined below, to establish an adequate allowance for loan losses. Determination of the allowance is inherently subjective and requires significant estimates, including estimated losses on pools of homogeneous loans and leases based on historical loss experience and consideration of current economic trends, which may be susceptible to significant change. Loans and leases deemed uncollectible are charged against the allowance, while recoveries are credited to the allowance. Management adjusts the level of the allowance through the provision for loan and lease losses, which is recorded as a current period operating expense.

The methodology for assessing the appropriateness of the allowance includes: (1) a general allowance that reflects historical losses, as adjusted, by credit category, and (2) a specific allowance for impaired credits on an individual or portfolio basis. This methodology is further described in “Note 1 – Significant Accounting Policies” of the Notes to the Consolidated Financial Statements. The amount of the allowance is reviewed monthly and approved quarterly by the Risk Committee of the board of directors.

The Company recognizes a collateral dependent lending relationship as non-performing when either the loan becomes 90 days delinquent or as a result of factors (such as bankruptcy, interruption of cash flows, etc.) considered at the monthly credit committee meeting. When a commercial loan is placed on non-accrual status, it is considered to be impaired and all accrued but unpaid interest is reversed. Classification as an impaired loan is based on a determination that the Company may not collect all principal and interest payments according to contractual terms. Impaired loans exclude large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment such as leases, residential real estate and consumer loans. Typically, all payments received on non-accrual loans are applied to the remaining principal balance of the loans. Integral to the assessment of the allowance process is an evaluation that is performed to determine whether a specific allowance on an impaired loan is warranted and, when losses are confirmed, a charge-off is taken to reduce the loan to its net realizable value. Any further collateral deterioration results in either further specific allowances being established or additional charge-offs. At such time an action plan is agreed upon for the particular loan and an appraisal will be ordered depending on the time elapsed since the prior appraisal, the loan balance and/or the result of the internal evaluation. A current appraisal on large loans is usually obtained if the appraisal on file is more than 12 months old and there has been a material change in market conditions, zoning, physical use or the adequacy of the collateral based on an internal evaluation. The Company’s policy is to strictly adhere to regulatory appraisal standards. If an appraisal is ordered, no more than a 30 day turnaround is requested from the appraiser, who is selected by Credit Administration from an approved appraiser list. After receipt of the updated appraisal, the assigned credit officer will recommend to the Chief Credit Officer whether a specific allowance or a charge-off should be taken. The Chief Credit Officer has the authority to approve a specific allowance or charge-off between monthly credit committee meetings to ensure that there are no significant time lapses during this process.

The Company’s methodology for evaluating whether a loan is impaired begins with risk-rating credits on an individual basis and includes consideration of the borrower’s overall financial condition, payment record and available cash resources that may include the sufficiency of collateral value and, in a select few cases, verifiable support from financial guarantors. In measuring impairment, the Company looks primarily to the discounted cash flows of the project itself or to the value of the collateral as the primary sources of repayment of the loan. The Company may consider the existence of guarantees and the financial strength and wherewithal of the guarantors involved in any loan

relationship. Guarantees may be considered as a source of repayment based on the guarantor's financial condition and respective payment capacity. Accordingly, absent a verifiable payment capacity, a guarantee alone would not be sufficient to avoid classifying the loan as impaired.

Management has established a credit process that dictates that structured procedures be performed to monitor these loans between the receipt of an original appraisal and the updated appraisal. These procedures include the following:

- An internal evaluation is updated quarterly to include borrower financial statements and/or cash flow projections.
- The borrower may be contacted for a meeting to discuss an updated or revised action plan which may include a request for additional collateral.
- Re-verification of the documentation supporting the Company's position with respect to the collateral securing the loan.
- At the monthly credit committee meeting the loan may be downgraded and a specific allowance may be decided upon in advance of the receipt of the appraisal.

- Upon receipt of the updated appraisal (or based on an updated internal financial evaluation) the loan balance is compared to the appraisal and a specific allowance is decided upon for the particular loan, typically for the amount of the difference between the appraisal and the loan balance.
- The Company will specifically reserve for or charge-off the excess of the loan amount over the amount of the appraisal net of closing costs. In certain cases the Company may establish a larger reserve due to knowledge of current market conditions or the existence of an offer for the collateral that will facilitate a more timely resolution of the loan.

If an updated appraisal is received subsequent to the preliminary determination of a specific allowance or partial charge-off, and it is less than the initial appraisal used in the initial charge-off, an additional specific allowance or charge-off is taken on the related credit. Partially charged-off loans are not written back up based on updated appraisals and always remain on non-accrual with any and all subsequent payments applied to the remaining balance of the loan as principal reductions. No interest income is recognized on loans that have been partially charged-off.

Loans that have their terms restructured (e.g., interest rates, loan maturity date, payment and amortization period, etc.) in circumstances that provide payment relief or other concessions, to a borrower experiencing financial difficulty are considered troubled debt restructured loans (TDR's). All restructurings that constitute concessions to a borrower experiencing financial difficulties are considered impaired loans and may either be in accruing status or non-accruing status. Non-accruing restructured loans may return to accruing status provided there is a sufficient period of payment performance in accordance with the restructure terms. Loans may be removed from disclosure as an impaired loan if their revised loans terms are considered to be consistent with terms that can be obtained in the credit market for loans with comparable risk.

The Company may extend the maturity of a performing or current loan that may have some inherent weakness associated with the loan. However, the Company generally follows a policy of not extending maturities on non-performing loans under existing terms. Maturity date extensions only occur under revised terms that clearly place the Company in a position to increase the likelihood of or assure full collection of the loan under the contractual terms and /or terms at the time of the extension that may eliminate or mitigate the inherent weakness in the loan. These terms may incorporate, but are not limited to additional assignment of collateral, significant balance curtailments/liquidations and assignments of additional project cash flows. Guarantees may be a consideration in the extension of loan maturities. As a general matter, the Company does not view extension of a loan to be a satisfactory approach to resolving non-performing credits. On an exception basis, certain performing loans that have displayed some inherent weakness in the underlying collateral values, an inability to comply with certain loan covenants which are not affecting the performance of the credit or other identified weakness may be extended.

Collateral values or estimates of discounted cash flows (inclusive of any potential cash flow from guarantees) are evaluated to estimate the probability and severity of potential losses. The actual occurrence and severity of losses involving impaired credits can differ substantially from estimates.

The determination of the allowance requires significant judgment, and estimates of probable losses in the loan and lease portfolio can vary significantly from the amounts actually observed. While management uses available information to recognize probable losses, future additions to the allowance may be necessary based on changes in the credits comprising the portfolio and changes in the financial condition of borrowers, such as may result from changes in economic conditions. In addition, federal and state regulatory agencies, as an integral part of their examination process, and independent consultants engaged by the Bank, periodically review the loan and lease portfolio and the allowance. Such reviews may result in adjustments to the allowance based upon their analysis of the information available at the time of each examination.

The Company makes provisions for loan and lease losses in amounts necessary to maintain the allowance at an appropriate level, as established by use of the allowance methodology previously discussed. The provision for loan and lease losses was a charge of \$1.2 million in the first quarter of 2016 compared to a charge of \$0.6 million in the first quarter of 2015. Historical net charge-offs represent a principal component in the application of the Company's allowance methodology. The charge to the provision in the first quarter of 2016 was driven primarily by growth in the loan portfolio.

The Company typically sells a substantial portion of its fixed-rate residential mortgage originations in the secondary mortgage market. Concurrent with such sales, the Company is required to make customary representations and warranties to the purchasers about the mortgage loans and the manner in which they were originated. The related sale agreements grant the purchasers recourse back to the Company, which could require the Company to repurchase loans or to share in any losses incurred by the purchasers. This recourse exposure typically extends for a period of nine to eighteen months after the sale of the loan although the time frame for repurchase requests can extend for an indefinite period. Such transactions could be due to a number of causes including borrower fraud or early payment default. The Company has seen a very limited number of repurchase and indemnity demands from purchasers for such events and routinely monitors its exposure in this regard. The Company maintains a liability of \$0.5 million for probable losses due to repurchases. The Company believes that this reserve is adequate.

Allowance for Loan and Lease Losses

During the first quarter of 2016, there were no changes in the Company's methodology for assessing the appropriateness of the allowance for loan and lease losses from the prior year. Variations can occur over time in the estimation of the allowance as a result of the credit performance of borrowers.

At March 31, 2016, total non-performing loans and leases were \$36.1 million, or 1.01% of total loans and leases, compared to \$34.5 million, or 0.99% of total loans and leases, at December 31, 2015. The allowance represented 116% of non-performing loans and leases at March 31, 2016 as compared to 119% at December 31, 2015. The decrease in this ratio was due primarily to growth in the loan portfolio. The allowance for loan and lease losses as a percent of total loans and leases was 1.17% at March 31, 2016 as compared to 1.17% at December 31, 2015.

Continued analysis of the actual loss history on the problem credits in 2015 and 2016 provided an indication that the coverage of the inherent losses on the problem credits was adequate. The Company continues to monitor the impact of the economic conditions on our commercial customers, the reduced inflow of non-accruals and criticized loans in addition to the significant decline in early stage delinquencies. The improvement in these credit metrics supports management's outlook for continued improved credit quality performance.

The balance of impaired loans was \$29.5 million, with specific allowances of \$3.2 million against those loans at March 31, 2016, as compared to \$28.9 million with allowances of \$3.4 million, at December 31, 2015.

The Company's borrowers are concentrated in nine counties in Maryland, three counties in Virginia and in Washington D.C. Commercial and residential mortgages, including home equity loans and lines, represented 75% of total loans and leases at both March 31, 2016 and December 31, 2015. Certain loan terms may create concentrations of credit risk and increase the Company's exposure to loss. These include terms that permit the deferral of principal payments or payments that are smaller than normal interest accruals (negative amortization); loans with high loan-to-value ratios; loans, such as option adjustable-rate mortgages, that may expose the borrower to future increases in repayments that are in excess of increases that would result solely from increases in market interest rates; and

interest-only loans. The Company does not make loans that provide for negative amortization or option adjustable-rate mortgages.

Summary of Loan and Lease Loss Experience

The following table presents the activity in the allowance for loan and lease losses for the periods

<i>(Dollars in thousands)</i>	Three Months Ended March 31, 2016	Year Ended December 31, 2015
Balance, January 1	\$ 40,895	\$ 37,802
Provision for loan and lease losses	1,236	5,371
Loan charge-offs:		
Residential real estate:		
Residential mortgage	(88)	(614)
Commercial real estate:		
Commercial investor	(197)	(91)
Commercial owner occupied	-	(1,043)
Commercial AD&C	(48)	(739)
Commercial business	(64)	(306)
Leases	-	(4)
Consumer	(114)	(998)
Total charge-offs	(511)	(3,795)
Loan recoveries:		
Residential real estate:		
Residential mortgage	73	145
Residential construction	8	51
Commercial real estate:		
Commercial investor	5	20
Commercial owner occupied	3	3
Commercial AD&C	-	580
Commercial business	(3)	475
Leases	-	-
Consumer	60	243
Total recoveries	146	1,517
Net charge-offs	(365)	(2,278)
Balance, period end	\$ 41,766	\$ 40,895
Net charge-offs to average loans and leases	0.04%	0.07%
Allowance for loan losses to loans	1.17%	1.17%

Analysis of Credit Risk

The following table presents information with respect to non-performing assets and 90-day delinquencies for the periods indicated:

<i>(Dollars in thousands)</i>	March 31, 2016	December 31, 2015
Non-accrual loans and leases:		
Residential real estate:		
Residential mortgage	\$ 9,329	\$ 8,822
Residential construction	412	418
Commercial real estate:		
Commercial investor	7,885	8,368
Commercial owner occupied	7,149	6,340
Commercial AD&C	147	194
Commercial business	3,741	3,696
Leases	-	-
Consumer	2,715	2,193
Total non-accrual loans and leases	31,378	30,031
Loans and leases 90 days past due		
Residential real estate:		
Residential mortgage	-	-
Residential construction	-	-
Commercial real estate:		
Commercial investor	-	-
Commercial owner occupied	-	-
Commercial AD&C	-	-
Commercial business	-	-
Leases	-	-
Consumer	1	-
Total 90 days past due loans and leases	1	-
Restructured loans and leases (accruing)	4,716	4,467
Total non-performing loans and leases	36,095	34,498
Other real estate owned, net	2,414	2,742
Total non-performing assets	\$ 38,509	\$ 37,240

Market Risk Management

The Company's net income is largely dependent on its net interest income. Net interest income is susceptible to interest rate risk to the extent that interest-bearing liabilities mature or re-price on a different basis than interest-earning assets. When interest-bearing liabilities mature or re-price more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when interest-earning assets mature or re-price more quickly than interest-bearing liabilities, falling interest

rates could result in a decrease in net interest income. Net interest income is also affected by changes in the portion of interest-earning assets that are funded by interest-bearing liabilities rather than by other sources of funds, such as noninterest-bearing deposits and stockholders' equity.

The Company's interest rate risk management goals are (1) to increase net interest income at a growth rate consistent with the growth rate of total assets, and (2) to minimize fluctuations in net interest margin as a percentage of interest-earning assets. Management attempts to achieve these goals by balancing, within policy limits, the volume of floating-rate liabilities with a similar volume of floating-rate assets; by keeping the average maturity of fixed-rate asset and liability contracts reasonably matched; by maintaining a pool of administered core deposits; and by adjusting pricing rates to market conditions on a continuing basis.

The Company's board of directors has established a comprehensive interest rate risk management policy, which is administered by management's Asset Liability Management Committee ("ALCO"). The policy establishes limits on risk, which are quantitative measures of the percentage change in net interest income (a measure of net interest income at risk) and the fair value of equity capital (a measure of economic value of equity or "EVE" at risk) resulting from a hypothetical change in U.S. Treasury interest rates for maturities from one day to thirty years. The Company measures the potential adverse impacts that changing interest rates may have on its short-term earnings, long-term value, and liquidity by employing simulation analysis through the use of computer modeling. The simulation model captures optionality factors such as call features and interest rate caps and floors imbedded in investment and loan portfolio contracts. As with any method of gauging interest rate risk, there are certain shortcomings inherent in the interest rate modeling methodology used by the Company. When interest rates change, actual movements in different categories of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from assumptions used in the model. As an example, certain money market deposit accounts are assumed to reprice at 100% of the interest rate change in each of the up rate shock scenarios even though this is not a contractual requirement. As a practical matter, management would likely lag the impact of any upward movement in market rates on these accounts as a mechanism to manage the bank's net interest margin. Finally, the methodology does not measure or reflect the impact that higher rates may have on adjustable-rate loan customers' ability to service their debts, or the impact of rate changes on demand for loan, lease, and deposit products.

The Company prepares a current base case and eight alternative simulations at least once a quarter and reports the analysis to the board of directors. In addition, more frequent forecasts are produced when interest rates are particularly uncertain or when other business conditions so dictate.

The statement of condition is subject to quarterly testing for eight alternative interest rate shock possibilities to indicate the inherent interest rate risk. Average interest rates are shocked by +/- 100, 200, 300, and 400 basis points ("bp"), although the Company may elect not to use particular scenarios that it determines are impractical in a current rate environment. It is management's goal to structure the balance sheet so that net interest earnings at risk over a twelve-month period and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels.

The Company augments its quarterly interest rate shock analysis with alternative external interest rate scenarios on a monthly basis. These alternative interest rate scenarios may include non-parallel rate ramps and non-parallel yield curve twists. If a measure of risk produced by the alternative simulations of the entire balance sheet violates policy guidelines, ALCO is required to develop a plan to restore the measure of risk to a level that complies with policy limits within two quarters.

Measures of net interest income at risk produced by simulation analysis are indicators of an institution's short-term performance in alternative rate environments. These measures are typically based upon a relatively brief period, usually one year. They do not necessarily indicate the long-term prospects or economic value of the institution.

Estimated Changes in Net Interest Income

Change in Interest Rates:	+ 400 bp	+ 300 bp	+ 200 bp	+ 100 bp	- 100 bp	- 200 bp	-300 bp	-400 bp
Policy Limit	23.50%	17.50%	15.00%	10.00%	10.00%	15.00%	17.50%	23.50%
March 31, 2016	(2.95%)	(1.21%)	0.65%	0.51%	N/A	N/A	N/A	N/A
December 31, 2015	(5.99%)	(3.63%)	(1.52%)	(0.68%)	N/A	N/A	N/A	N/A

As shown above, measures of net interest income at risk improved from December 31, 2015 at all rising interest rate shock levels. All measures remained well within prescribed policy limits.

The decrease in the risk position with respect to net interest income from December 31, 2015 to March 31, 2016 was the result of a decline in short-term FHLB borrowings which will reduce the Company's exposure to increases in interest rates. Also contributing to the lower risk position is an increase in the balance of interest-bearing deposits with banks, which will reprice immediately should interest rates increase.

The measures of equity value at risk indicate the ongoing economic value of the Company by considering the effects of changes in interest rates on all of the Company's cash flows, and by discounting the cash flows to estimate the present value of assets and liabilities. The difference between these discounted values of the assets and liabilities is the economic value of equity, which, in theory, approximates the fair value of the Company's net assets.

Estimated Changes in Economic Value of Equity (EVE)

Change in Interest Rates:	+ 400 bp	+ 300 bp	+ 200 bp	+ 100 bp	- 100 bp	- 200 bp	-300 bp	-400 bp
Policy Limit	35.00%	25.00%	20.00%	10.00%	10.00%	20.00%	25.00%	35.00%
March 31, 2016	(6.03%)	(3.51%)	(0.99%)	0.36%	N/A	N/A	N/A	N/A
December 31, 2015	(8.24%)	(5.50%)	(2.72%)	(1.28%)	N/A	N/A	N/A	N/A

Measures of the economic value of equity (“EVE”) at risk improved from December 31, 2015 to March 31, 2016 in all rising shock scenarios. The positive impact in EVE was driven by the decrease in FHLB advances together with higher balances of noninterest-bearing checking accounts, resulting in increased market value premiums should rates increase.

Liquidity Management

Liquidity is measured by a financial institution's ability to raise funds through loan and lease repayments, maturing investments, deposit growth, borrowed funds, capital and the sale of highly marketable assets such as investment securities and residential mortgage loans. The Company's liquidity position, considering both internal and external sources available, exceeded anticipated short-term and long-term needs at March 31, 2016. Management considers core deposits, defined to include all deposits other than time deposits of \$100 thousand or more, to be a relatively stable funding source. Core deposits equaled 70% of total interest-earning assets at March 31, 2016. In addition, loan and lease payments, maturities, calls and pay downs of securities, deposit growth and earnings contribute a flow of funds available to meet liquidity requirements. In assessing liquidity, management considers operating requirements, the seasonality of deposit flows, investment, loan and deposit maturities and calls, expected funding of loans and deposit withdrawals, and the market values of available-for-sale investments, so that sufficient funds are available on short notice to meet obligations as they arise and to ensure that the Company is able to pursue new business opportunities.

Liquidity is measured using an approach designed to take into account, in addition to factors already discussed above, the Company's growth and mortgage banking activities. Also considered are changes in the liquidity of the investment portfolio due to fluctuations in interest rates. Under this approach, implemented by the Funds Management Subcommittee of ALCO under formal policy guidelines, the Company's liquidity position is measured weekly, looking forward at thirty day intervals from thirty (30) to three hundred sixty (360) days. The measurement is based upon the projection of funds sold or purchased position, along with ratios and trends developed to measure dependence on purchased funds and core growth. Resulting projections as of March 31, 2016, show short-term investments exceeding short-term borrowings by \$37 million over the subsequent 360 days. This projected excess of liquidity versus requirements provides the Company with flexibility in how it funds loans and other earning assets.

The Company also has external sources of funds, which can be drawn upon when required. The main sources of external liquidity are available lines of credit with the Federal Home Loan Bank of Atlanta and the Federal Reserve. The line of credit with the Federal Home Loan Bank of Atlanta totaled \$1.4 billion, of which \$1.4 billion was available for borrowing based on pledged collateral, with \$590 million borrowed against it as of March 31, 2016. The line of credit at the Federal Reserve totaled \$361 million, all of which was available for borrowing based on pledged collateral, with no borrowings against it as of March 31, 2016. Other external sources of liquidity available to the

Company in the form of unsecured lines of credit granted by correspondent banks totaled \$70 million at March 31, 2016, against which there were no outstanding borrowings. In addition, the Company had a secured line of credit with a correspondent bank of \$20 million as of March 31, 2016. Based upon its liquidity analysis, including external sources of liquidity available, management believes the liquidity position was appropriate at March 31, 2016.

The parent company (“Bancorp”) is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, Bancorp is responsible for paying any dividends declared to its common shareholders and interest and principal on outstanding debt. Bancorp’s primary source of income is dividends received from the Bank. The amount of dividends that the Bank may declare and pay to Bancorp in any calendar year, without the receipt of prior approval from the Federal Reserve, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. Based on this requirement, as of March 31, 2016, the Bank could have declared a dividend of \$8 million to Bancorp. At March 31, 2016, Bancorp had liquid assets of \$16 million.

Arrangements to fund credit products or guarantee financing take the form of loan commitments (including lines of credit on revolving credit structures) and letters of credit. Approvals for these arrangements are obtained in the same manner as loans. Generally, cash flows, collateral value and risk assessment are considered when determining the amount and structure of credit arrangements.

Commitments to extend credit in the form of consumer, commercial real estate and business at the dates indicated were as follows:

<i>(In thousands)</i>	March 31, 2016	December 31, 2015
Commercial	\$ 221,332	\$ 234,552
Real estate-development and construction	83,495	80,935
Real estate-residential mortgage	31,637	23,375
Lines of credit, principally home equity and business lines	886,762	879,326
Standby letters of credit	63,034	66,012
Total Commitments to extend credit and available credit lines	\$ 1,286,260	\$ 1,284,200

Commitments to extend credit are agreements to provide financing to a customer with the provision that there are no violations of any condition established in the agreement. Commitments generally have interest rates determined by current market rates, expirations dates or other termination clauses and may require payment of a fee. Lines of credit typically represent unused portions of lines of credit that were provided and remain available as long as there is no violation of any contractual condition. Commitments to extend credit are evaluated on a case by case basis periodically. Many of the commitments are expected to expire without being drawn upon. It would be highly unlikely that all customers would draw on their lines of credit in full at any time and, therefore, the total commitment amount or line of credit amounts do not necessarily represent future cash requirements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Financial Condition - Market Risk and Interest Rate Sensitivity” in Management’s Discussion and Analysis of Financial Condition and Results of Operations, above, which is incorporated herein by reference.

Item 4. CONTROLS AND PROCEDURES

The Company’s management, under the supervision and with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, evaluated as of the last day of the period covered by this report, the effectiveness of the design and operation of the Company’s disclosure controls and procedures, as defined in Rule 13a-15 under the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective. There were no changes in the Company’s internal controls over financial reporting (as defined in Rule 13a-15 under the Securities Act of 1934) during the three months ended March 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business, the Company becomes involved in litigation arising from the banking, financial and other activities it conducts. Management, after consultation with legal counsel, does not anticipate that the ultimate liability, if any, arising from these matters will have a material effect on the Company's financial condition, operating results or liquidity.

Item 1A. Risk Factors

There have been no material changes in the risk factors as discussed in the 2015 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company re-approved a stock repurchase program in August 2015 that permits the repurchase of up to 5% of the Company's outstanding shares of common stock or approximately 1,200,000 shares. Repurchases which will be conducted through open market purchases or privately negotiated transactions, will be made depending on market conditions and other factors. The following table provides information regarding repurchase transactions executed during the quarter ended March 31, 2016.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number that May Yet Be Purchased Under the Plans or Programs
January 1, 2016 through January 31, 2016	233,304	\$26.04	233,304	743,016
February 1, 2016 through February 28, 2016	255,486	\$25.69	255,486	487,530
March 1, 2016 through March 31, 2016	23,669	\$26.80	23,669	463,861

Item 3. Defaults Upon Senior Securities – None**Item 4. Mine Safety Disclosures – Not applicable****Item 5. Other Information - None****Item 6. Exhibits**

Exhibit 31(a)	Certification of Chief Executive Officer
Exhibit 31(b)	Certification of Chief Financial Officer
Exhibit 32(a)	Certification of Chief Executive Officer pursuant to 18 U.S. Section 1350
Exhibit 32(b)	Certification of Chief Financial Officer pursuant to 18 U.S. Section 1350

Exhibit 101 The following materials from the Sandy Spring Bancorp, Inc. Quarterly Report on Form 10-Q for the quarter end March 31, 2016 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Condition; (ii) The Condensed Consolidated Statements of Income; (iii) The Condensed Consolidated Statements of Comprehensive Income; (iv) The Condensed Consolidated Statements of Cash Flows; (v) The Condensed Consolidated Statements of Changes in Stockholders' Equity; (vi) related notes.

Signatures

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this quarterly report to be signed on its behalf by the undersigned, thereunto duly authorized.

SANDY SPRING BANCORP, INC.

(Registrant)

By: /s/ Daniel J. Schrider

Daniel J. Schrider

President and Chief Executive Officer

Date: May 6, 2016

By: /s/ Philip J. Mantua

Philip J. Mantua

Executive Vice President and Chief Financial Officer

Date: May 6, 2016