SANDY SPRING BANCORP INC
Form 10-Q
August 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2015

OR

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

For the transition period from ____________ to ____________

Commission File Number: 0-19065

SANDY SPRING BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland	**52-1532952**
(State of incorporation)	(I.R.S. Employer Identification Number)

17801 Georgia Avenue, Olney, Maryland	**20832**
(Address of principal executive office)	(Zip Code)

301-774-6400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days.

Yes [X] No [ ]

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

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

Yes [ ] No [X]

The number of outstanding shares of common stock outstanding as of August 3, 2015

Common stock, $1.00 par value – 24,566,838 shares

SANDY SPRING BANCORP, INC.

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Forward-Looking Statements

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

Forward-looking statements reflect our expectation or prediction of future conditions, events or results based on information currently available. These forward-looking statements are subject to significant risks and uncertainties that may cause actual results to differ materially from those in such statements. These risk and uncertainties include, but are not limited to, the risks identified in Item 1A of the Company's 2014 Annual Report on Form 10-K, Item 1A of Part II of this report and the following:

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

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

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

(Dollars in thousands)	**June 30, 2015**	December 31, 2014
Assets		
Cash and due from banks	**$ 53,569**	$ 52,804
Federal funds sold	**472**	473
Interest-bearing deposits with banks	**35,601**	42,940
Cash and cash equivalents	**89,642**	96,217
Residential mortgage loans held for sale (at fair value)	**19,445**	10,512
Investments available-for-sale (at fair value)	**625,819**	672,209
Investments held-to-maturity -- fair value of $217,880 and $222,260 at June 30, 2015 and December 31, 2014, respectively	**216,866**	219,973
Other equity securities	**35,599**	41,437
Total loans and leases	**3,288,865**	3,127,392
Less: allowance for loan and lease losses	**(38,713)**	(37,802)
Net loans and leases	**3,250,152**	3,089,590
Premises and equipment, net	**51,609**	49,402
Other real estate owned	**4,514**	3,195
Accrued interest receivable	**13,144**	12,634
Goodwill	**84,171**	84,171
Other intangible assets, net	**296**	510
Other assets	**116,110**	117,282
Total assets	**$ 4,507,367**	$ 4,397,132
Liabilities		
Noninterest-bearing deposits	**$ 1,092,413**	$ 993,737
Interest-bearing deposits	**2,154,933**	2,072,772
Total deposits	**3,247,346**	3,066,509
Securities sold under retail repurchase agreements and federal funds purchased	**111,817**	74,432
Advances from FHLB	**550,000**	655,000
Subordinated debentures	**35,000**	35,000
Accrued interest payable and other liabilities	**44,331**	44,440
Total liabilities	**3,988,494**	3,875,381
Stockholders' Equity		
Common stock -- par value $1.00; shares authorized 50,000,000; shares issued and outstanding 24,562,471 and 25,044,877 at June 30, 2015 and December 31, 2014, respectively	**24,562**	25,045
Additional paid in capital	**181,504**	194,647
Retained earnings	**313,399**	302,882
Accumulated other comprehensive loss	**(592)**	(823)
Total stockholders' equity	**518,873**	521,751
Total liabilities and stockholders' equity	**$ 4,507,367**	$ 4,397,132

The accompanying notes are an integral part of these statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	**2015**	2014	**2015**	2014
Interest Income:				
Interest and fees on loans and leases	**$ 33,031**	$ 30,706	**$ 65,170**	$ 60,440
Interest on loans held for sale	**132**	71	**208**	130
Interest on deposits with banks	**22**	22	**44**	42
Interest and dividends on investment securities:				
Taxable	**3,850**	3,876	**7,427**	7,992
Exempt from federal income taxes	**1,814**	2,316	**4,072**	4,637
Total interest income	**38,849**	36,991	**76,921**	73,241
Interest Expense:				
Interest on deposits	**1,367**	1,193	**2,561**	2,377
Interest on retail repurchase agreements and federal funds purchased	**60**	37	**110**	75
Interest on advances from FHLB	**3,266**	3,233	**6,502**	6,451
Interest on subordinated debt	**223**	219	**442**	437
Total interest expense	**4,916**	4,682	**9,615**	9,340
Net interest income	**33,933**	32,309	**67,306**	63,901
Provision (credit) for loan and lease losses	**1,218**	158	**1,815**	(824)
Net interest income after provision (credit) for loan and lease losses	**32,715**	32,151	**65,491**	64,725
Non-interest Income:				
Investment securities gains	**19**	-	**19**	-
Service charges on deposit accounts	**1,839**	2,089	**3,721**	4,061
Mortgage banking activities	**822**	570	**2,000**	886
Wealth management income	**5,161**	4,741	**10,077**	9,207
Insurance agency commissions	**881**	961	**2,499**	2,601
Income from bank owned life insurance	**606**	608	**1,319**	1,206
Visa check fees	**1,220**	1,169	**2,277**	2,147
Other income	**1,561**	1,556	**3,356**	2,835
Total non-interest income	**12,109**	11,694	**25,268**	22,943
Non-interest Expenses:				
Salaries and employee benefits	**17,534**	16,474	**34,833**	32,829
Occupancy expense of premises	**3,173**	3,274	**6,662**	6,746
Equipment expenses	**1,490**	1,262	**2,863**	2,518
Marketing	**942**	802	**1,473**	1,344
Outside data services	**1,102**	1,216	**2,363**	2,432
FDIC insurance	**654**	573	**1,285**	1,093
Amortization of intangible assets	**106**	224	**213**	594
Litigation expenses	**162**	6,128	**362**	6,128
Other expenses	**4,314**	4,188	**8,667**	8,006
Total non-interest expenses	**29,477**	34,141	**58,721**	61,690
Income before income taxes	**15,347**	9,704	**32,038**	25,978
Income tax expense	**5,014**	2,722	**10,480**	8,068
Net income	**$ 10,333**	$ 6,982	**$ 21,558**	$ 17,910

Net Income Per Share Amounts:				
Basic net income per share	**$ 0.42**	$ 0.28	**$ 0.87**	$ 0.72
Diluted net income per share	**$ 0.42**	$ 0.28	**$ 0.87**	$ 0.71
Dividends declared per share	**$ 0.22**	$ 0.18	**$ 0.44**	$ 0.36

The accompanying notes are an integral part of these statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2015**	2014	**2015**	2014
Net income	**$ 10,333**	$ 6,982	**$ 21,558**	$ 17,910
Other comprehensive income:				
Investments available-for-sale:				
Net change in unrealized gains (losses) on investments available-for-sale	**(4,819)**	6,361	**(185)**	13,493
Related income tax (expense) benefit	**1,915**	(2,522)	**74**	(5,345)
Net investment gains reclassified into earnings	**19**	-	**19**	-
Related income tax expense	**(8)**	-	**(8)**	-
Net effect on other comprehensive income (loss) for the period	**(2,893)**	3,839	**(100)**	8,148
Defined benefit pension plan:				
Recognition of unrealized gain	**259**	68	**551**	116
Related income tax expense	**(104)**	(24)	**(220)**	(61)
Net effect on other comprehensive income for the period	**155**	44	**331**	55
Total other comprehensive income (loss)	**(2,738)**	3,883	**231**	8,203
Comprehensive income	**$ 7,595**	$ 10,865	**$ 21,789**	$ 26,113

The accompanying notes are an integral part of these statements

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

	Six Months Ended June 30,	
(Dollars in thousands)	**2015**	2014
Operating activities:		
Net income	**$ 21,558**	$ 17,910
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**3,504**	3,673
Provision (credit) for loan and lease losses	**1,815**	(824)
Share based compensation expense	**941**	853
Deferred income tax expense	**116**	1,029
Origination of loans held for sale	**(109,045)**	(59,566)
Proceeds from sales of loans held for sale	**101,688**	59,704
Gains on sales of loans held for sale	**(1,576)**	(815)
Loss on sales of other real estate owned	**-**	(2)
Investment securities gains	**(19)**	-
Net (increase) decrease in accrued interest receivable	**(510)**	261
Net increase in other assets	**(65)**	(4,580)
Net increase (decrease) in accrued expenses and other liabilities	**(162)**	4,472
Other – net	**2,069**	2,427
Net cash provided by operating activities	**20,314**	24,542
Investing activities:		
Purchases of investments held-to-maturity	**(2,100)**	-
Net proceeds from other equity securities	**5,838**	4,560
Proceeds from maturities, calls and principal payments of investments held-to-maturity	**4,786**	680
Proceeds from maturities, calls and principal payments of investments available-for-sale	**45,249**	42,228
Net increase in loans and leases	**(163,717)**	(127,333)
Proceeds from the sales of other real estate owned	**-**	32
Expenditures for premises and equipment	**(4,559)**	(1,795)
Net cash used in investing activities	**(114,503)**	(81,628)
Financing activities:		
Net increase in deposits	**180,837**	161,445
Net increase in retail repurchase agreements and federal funds purchased	**37,385**	19,075
Proceeds from advances from FHLB	**1,174,000**	980,000
Repayment of advances from FHLB	**(1,279,000)**	(1,058,000)
Proceeds from issuance of common stock	**13**	34
Tax benefits associated with share based compensation	**335**	-
Repurchase of common stock	**(14,915)**	-
Dividends paid	**(11,041)**	(9,094)
Net cash (used) provided by financing activities	**87,614**	93,460
Net increase (decrease) in cash and cash equivalents	**(6,575)**	36,374
Cash and cash equivalents at beginning of period	**96,217**	74,427
Cash and cash equivalents at end of period	**$ 89,642**	$ 110,801

Supplemental Disclosures:

Interest payments	**$**	**9,619**	$	9,358
Income tax payments		**9,876**		10,151
Transfers from loans to other real estate owned		**1,340**		671

The accompanying notes are an integral part of these statements

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

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(Dollars in thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at January 1, 2015	**$ 25,045**	**$ 194,647**	**$ 302,882**	**$ (823)**	**$ 521,751**
Net income	**-**	**-**	**21,558**	**-**	**21,558**
Other comprehensive income, net of tax	**-**	**-**	**-**	**231**	**231**
Common stock dividends - $0.44 per share	**-**	**-**	**(11,041)**	**-**	**(11,041)**
Stock compensation expense	**-**	**941**	**-**	**-**	**941**
Common stock issued pursuant to:					
Stock option plan - 26,695 shares	**26**	**365**	**-**	**-**	**391**
Directors stock purchase plan - 837 shares	**1**	**21**	**-**	**-**	**22**
Employee stock purchase plan - 12,613 shares	**12**	**264**	**-**	**-**	**276**
Restricted stock - 52,921 shares	**53**	**(394)**	**-**	**-**	**(341)**
Purchase of treasury shares - 575,472 shares	**(575)**	**(14,340)**	**-**	**-**	**(14,915)**
Balances at June 30, 2015	**$ 24,562**	**$ 181,504**	**$ 313,399**	**$ (592)**	**$ 518,873**
Balance at January 1, 2014	$ 24,990	$ 193,445	$ 283,898	$ (2,970)	$ 499,363
Net income	-	-	17,910	-	17,910
Other comprehensive income, net of tax	-	-	-	8,203	8,203
Common stock dividends - $0.36 per share	-	-	(9,094)	-	(9,094)
Stock compensation expense	-	853	-	-	853
Common stock issued pursuant to:					
Stock option plan - 13,721 shares	14	174	-	-	188
Employee stock purchase plan - 11,423 shares	11	229	-	-	240
Restricted stock - 54,535 shares	55	(449)	-	-	(394)
Balances at June 30, 2014	$ 25,070	$ 194,252	$ 292,714	$ 5,233	$ 517,269

The accompanying notes are an integral part of these statements

Sandy Spring Bancorp, Inc. and Subsidiaries

Notes to the CONDENSED Consolidated Financial Statements - UNAUDITED

Note 1 – Significant Accounting Policies

Nature of Operations

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

Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“GAAP”) and prevailing practices within the financial services industry for interim financial information and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements and prevailing practices within the banking industry. The following summary of significant accounting policies of the Company is presented to assist the reader in understanding the financial and other data presented in this report. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for any future periods or for the year ending December 31, 2015. In the opinion of management, all adjustments (comprising only normal recurring accruals) necessary for a fair presentation of the results of the interim periods have been included. Certain reclassifications have been made to prior period amounts, as necessary, to conform to the current period presentation. The Company has evaluated subsequent events through the date of the issuance of its financial statements.

These statements should be read in conjunction with the financial statements and accompanying notes included in the Company’s 2014 Annual Report on Form 10-K as filed with the Securities and Exchange Commission (“SEC”) on March 6, 2015. There have been no significant changes to the Company’s accounting policies as disclosed in the 2014 Annual Report on Form 10-K.

Principles of Consolidation

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

Use of Estimates

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

Cash Flows

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

Pending Accounting Pronouncements

The FASB issued a standard in May 2014 that provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to customers. The guidance also provides for a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate. This standard may affect an entity's financial statements, business processes and internal control over financial reporting. The guidance is effective for the first interim or annual period beginning after December 15, 2017. The guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. The Company is assessing this guidance to determine its impact on the Company's financial position, results of operations and cash flows.

Note 2 – Investments

Investments available-for-sale

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

	June 30, 2015				December 31, 2014			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	**$139,542**	**$ 122**	**$(1,684)**	**$137,980**	$144,497	$ -	$(2,818)	$141,679
State and municipal	**153,769**	**8,185**	**(1)**	**161,953**	157,603	9,453	(4)	167,052
Mortgage-backed	**317,433**	**8,794**	**(2,082)**	**324,145**	354,631	9,824	(2,936)	361,519
Trust preferred	**1,111**	**-**	**(93)**	**1,018**	1,348	-	(112)	1,236
Total debt securities	**611,855**	**17,101**	**(3,860)**	**625,096**	658,079	19,277	(5,870)	671,486
Marketable equity securities	**723**	**-**	**-**	**723**	723	-	-	723
Total investments available-for-sale	**$612,578**	**$ 17,101**	**$(3,860)**	**$625,819**	$658,802	$19,277	$(5,870)	$672,209

Any unrealized losses in the U.S. government agencies, state and municipal, mortgage-backed or corporate debt investment securities at June 30, 2015 are not the result of credit related events but due to changes in interest rates. These declines are considered temporary in nature and are expected to decline over time and recover as these securities approach maturity.

The mortgage-backed securities portfolio at June 30, 2015 is composed entirely of either the most senior tranches of GNMA, FNMA or FHLMC collateralized mortgage obligations ($150.6 million), or GNMA, FNMA or FHLMC mortgage-backed securities ($173.5 million). The Company does not intend to sell these securities and has sufficient liquidity to hold these securities for an adequate period of time, which may be maturity, to allow for any anticipated recovery in fair value.

At June 30, 2015 the trust preferred portfolio consisted of one pooled trust preferred security. The pooled trust preferred security, which is backed by debt issued by banks and thrifts, totals $1.1 million with a fair value of $1.0 million. The fair value of this security was determined by management through the use of a third party valuation specialist due to the limited trading activity for this security.

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

- Evaluation of the structural terms as established in the indenture;
- Detailed credit and structural evaluation for each piece of issuer collateral in the pool;
- Overall default (.61%), recovery and prepayment (2%)/amortization probabilities by issuers in the pool;
- Identification of adverse conditions specifically related to the security, industry and geographical area;
- Projection of estimated cash flows that incorporate default expectations and loss severities;
- Review of historical and implied volatility of the fair value of the security;
- Evaluation of credit risk concentrations;
- Evaluation of the length of time and the extent to which the fair value has been less than the amortized cost; and
- A discount rate of 11.5% was established using credit adjusted financial institution spreads for comparably rated institutions and a liquidity adjustment that considered the previously noted characteristics.

As a result of this evaluation, it was determined that the pooled trust preferred security had not incurred any credit-related other-than-temporary impairment ("OTTI") for the quarter ended June 30, 2015. Non-credit related OTTI on this security, which is not expected to be sold and which the Company has the ability to hold until maturity, was $0.1 million at June 30, 2015. This non-credit related OTTI was recognized in other comprehensive income ("OCI") at June 30, 2015.

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

- Default rates were developed based on the financial condition of the trust preferred issuers in the pool and the payment or deferral status. Conditional default rates were estimated based on the payment characteristics of the security and the financial condition of the issuers in the pool. Near term and future defaults are estimated using third party industry data in addition to a review of key financial ratios and other pertinent data on the financial stability of the underlying issuer;

- Loss severity is forecasted based on the type of impairment using research performed by third parties;

- The security contains one level of subordination below the senior tranche, with the senior tranche receiving the spread from the subordinate bonds. Given recent performance, it is not expected that the senior tranche will receive its full interest and principal at the bond's maturity date;

- Credit ratings of the underlying issuers are reviewed in conjunction with the development of the default rates applied to determine the credit amounts related to the credit loss; and

- Potential prepayments are estimated based on terms and rates of the underlying trust preferred securities to determine the impact of excess spread on the credit enhancement, the removal of the strongest institutions from the underlying pool and any impact that prepayments might have on diversity and concentration.

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

(In thousands)	OTTI Losses	
Cumulative credit losses on investment securities, through December 31, 2014	$	531
Additions for credit losses not previously recognized		-
Cumulative credit losses on investment securities, through June 30, 2015	$	531

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

			June 30, 2015		
			Continuous Unrealized Losses Existing for:		
(Dollars in thousands)	**Number of securities**	**Fair Value**	**Less than 12 months**	**More than 12 months**	**Total Unrealized Losses**
U.S. government agencies	**10**	**$ 108,274**	**$ 605**	**$ 1,079**	**$ 1,684**
State and municipal	**2**	**1,410**	**1**	**-**	**1**
Mortgage-backed	**22**	**111,424**	**250**	**1,832**	**2,082**
Trust preferred	**1**	**1,111**	**-**	**93**	**93**
Total	**35**	**$ 222,219**	**$ 856**	**$ 3,004**	**$ 3,860**

			December 31, 2014		
			Continuous Unrealized Losses Existing for:		
(Dollars in thousands)	Number of securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
U.S. government agencies	14	$ 141,679	$ 60	$ 2,758	$ 2,818
State and municipal	2	1,409	4	-	4
Mortgage-backed	20	108,902	58	2,878	2,936
Trust preferred	1	1,236	-	112	112
Total	37	$ 253,226	$ 122	$ 5,748	$ 5,870

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

	June 30, 2015		December 31, 2014	
(In thousands)	**Amortized Cost**	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Due in one year or less	**$ 690**	**$ 701**	$ 691	$ 714
Due after one year through five years	**116,702**	**118,680**	47,900	49,385
Due after five years through ten years	**247,330**	**254,687**	332,841	340,852
Due after ten years	**247,133**	**251,028**	276,647	280,535
Total debt securities available for sale	**$ 611,855**	**$ 625,096**	$ 658,079	$ 671,486

At June 30, 2015 and December 31, 2014, investments available-for-sale with a book value of $229.0 million and $212.9 million, respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law. The outstanding balance of no single issuer, except for U.S. Agencies securities, exceeded ten percent of stockholders' equity at June 30, 2015 and December 31, 2014.

Investments held-to-maturity

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

	June 30, 2015				December 31, 2014			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	**$ 64,515**	**$ -**	**$ (1,340)**	**$ 63,175**	$ 64,512	$ -	$ (1,734)	$ 62,778
State and municipal	**150,069**	**3,454**	**(1,126)**	**152,397**	155,261	4,321	(325)	159,257
Mortgage-backed	**182**	**26**	**-**	**208**	200	25	-	225
Corporate debt	**2,100**	**-**	**-**	**2,100**	-	-	-	-
Total investments held-to-maturity	**$ 216,866**	**$ 3,480**	**$ (2,466)**	**$ 217,880**	$ 219,973	$ 4,346	$ (2,059)	$ 222,260

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

	June 30, 2015				
			Continuous Unrealized Losses Existing for:		
(Dollars in thousands)	**Number of securities**	**Fair Value**	**Less than 12 months**	**More than 12 months**	**Total Unrealized Losses**
U.S. government agencies	**8**	**$ 63,175**	**$ 533**	**$ 807**	**$ 1,340**
State and municipal	**63**	**55,987**	**874**	**252**	**1,126**
Total	**71**	**$ 119,162**	**$ 1,407**	**$ 1,059**	**$ 2,466**

	December 31, 2014				
			Continuous Unrealized Losses Existing for:		
(Dollars in thousands)	Number of securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
U.S. government agencies	8	$ 62,778	$ -	$ 1,734	$ 1,734
State and municipal	41	32,027	18	307	325
Total	49	$ 94,805	$ 18	$ 2,041	$ 2,059

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

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

	June 30, 2015		December 31, 2014	
(In thousands)	**Amortized Cost**	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Due in one year or less	**$ 846**	**$ 865**	$ 1,690	$ 1,694
Due after one year through five years	**10,656**	**11,013**	6,763	6,938
Due after five years through ten years	**169,756**	**170,879**	163,252	164,787
Due after ten years	**35,608**	**35,123**	48,268	48,841
Total debt securities held-to-maturity	**$ 216,866**	**$ 217,880**	$ 219,973	$ 222,260

At June 30, 2015 and December 31, 2014, investments held-to-maturity with a book value of $193.3 million and $202.4 million, respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law. The outstanding balance of no single issuer, except for U.S. Agency securities, exceeded ten percent of stockholders' equity at June 30, 2015 and December 31, 2014.

Equity securities

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

(In thousands)	**June 30, 2015**	December 31, 2014
Federal Reserve Bank stock	**$ 8,269**	$ 8,269
Federal Home Loan Bank of Atlanta stock	**27,330**	33,168
Total equity securities	**$ 35,599**	$ 41,437

Note 3 – Loans and Leases

Outstanding loan balances at June 30, 2015 and December 31, 2014 are net of unearned income including net deferred loan costs of $0.7 million and $0.5 million, respectively. The loan portfolio segment balances at the dates indicated are presented in the following table:

(In thousands)	**June 30, 2015**	December 31, 2014
Residential real estate:		
Residential mortgage	**$ 744,195**	$ 717,886
Residential construction	**137,134**	136,741
Commercial real estate:		
Commercial owner occupied real estate	**643,973**	611,061
Commercial investor real estate	**694,179**	640,193
Commercial acquisition, development and construction	**223,103**	205,124
Commercial Business	**409,795**	390,781
Leases	**21**	54
Consumer	**436,465**	425,552
Total loans and leases	**$ 3,288,865**	$ 3,127,392

Note 4 – CREDIT QUALITY ASSESSMENT

Allowance for Loan and Lease Losses

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

Six Months Ended June 30,

(In thousands)	**2015**	2014
Balance at beginning of year	**$ 37,802**	$ 38,766
Provision for loan and lease losses	**1,815**	(824)
Loan and lease charge-offs	**(1,837)**	(1,176)
Loan and lease recoveries	**933**	1,193
Net (charge-offs) recoveries	**(904)**	17
Balance at period end	**$ 38,713**	$ 37,959

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

	For the Six Months Ended June 30, 2015								
		Commercial Real Estate					Residential Real Estate		
(Dollars in thousands)	Commercial Business	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Leasing	Consumer	Residential Mortgage	Residential Construction	Total
Balance at beginning of year	$ 5,852	$ 4,267	$ 9,784	$ 7,143	$ 9	$ 3,592	$ 6,232	$ 923	$ 37,802
Provision (credit)	13	(336)	947	584	-	234	318	55	1,815
Charge-offs	(181)	(739)	(90)	(212)	-	(537)	(78)	-	(1,837)
Recoveries	197	580	10	1	-	99	31	15	933
Net charge-offs	16	(159)	(80)	(211)	-	(438)	(47)	15	(904)
Balance at end of period	$ 5,881	$ 3,772	$ 10,651	$ 7,516	$ 9	$ 3,388	$ 6,503	$ 993	$ 38,713
Total loans and leases	$409,795	$223,103	$694,179	$643,973	$ 21	$436,465	$744,195	$137,134	$3,288,865
Allowance for loans and leases to total loans and leases ratio	1.44%	1.69%	1.53%	1.17%	42.86%	0.78%	0.87%	0.72%	1.18%
Balance of loans specifically evaluated for impairment	$ 4,181	$ 194	$ 12,126	$ 8,423	$ na.	$ na.	$ 3,770	$ na.	$ 28,694
Allowance for loans specifically evaluated for impairment	$ 1,047	$ 58	$ 715	$ 1,066	$ na.	$ na.	$ -	$ na.	$ 2,886
Specific allowance to specific loans ratio	25.04%	29.90%	5.90%	12.66%	na.	na.	na.	na.	10.06%
Balance of loans collectively evaluated	$405,614	$222,909	$682,053	$635,550	$ 21	$436,465	$740,425	$137,134	$3,260,171
Allowance for loans collectively evaluated	$ 4,834	$ 3,714	$ 9,936	$ 6,450	$ 9	$ 3,388	$ 6,503	$ 993	$ 35,827
Collective allowance to	1.19%	1.67%	1.46%	1.01%	42.86%	0.78%	0.88%	0.72%	1.10%

collective loans ratio

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

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

(In thousands)	**June 30, 2015**	December 31, 2014
Impaired loans with a specific allowance	**$ 9,661**	$ 11,411
Impaired loans without a specific allowance	**19,033**	18,008
Total impaired loans	**$ 28,694**	$ 29,419
Allowance for loan and lease losses related to impaired loans	**$ 2,886**	$ 2,894
Allowance for loan and lease losses related to loans collectively evaluated	**35,827**	34,908
Total allowance for loan and lease losses	**$ 38,713**	$ 37,802
Average impaired loans for the period	**$ 28,769**	$ 34,331
Contractual interest income due on impaired loans during the period	**$ 1,326**	$ 2,339
Interest income on impaired loans recognized on a cash basis	**$ 324**	$ 773
Interest income on impaired loans recognized on an accrual basis	**$ 122**	$ 280

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

June 30, 2015

		Commercial Real Estate				
(In thousands)	**Commercial**	**Commercial AD&C**	**Commercial Investor R/E**	**Commercial Owner Occupied R/E**	**All Other Loans**	**Total Recorded Investment in Impaired Loans**
Impaired loans with a specific allowance						
Non-accruing	**$ 659**	**$ 57**	**$ 2,589**	**$ 4,561**	**$ -**	**$ 7,866**
Restructured accruing	**881**	**-**	**-**	**-**	**-**	**881**
Restructured non-accruing	**203**	**-**	**72**	**639**	**-**	**914**
Balance	**$ 1,743**	**$ 57**	**$ 2,661**	**$ 5,200**	**$ -**	**$ 9,661**
Allowance	**$ 1,047**	**$ 58**	**$ 715**	**$ 1,066**	**$ -**	**$ 2,886**
Impaired loans without a specific allowance						
Non-accruing	**$ 1,013**	**$ -**	**$ 7,362**	**$ 1,785**	**$ -**	**$ 10,160**
Restructured accruing	**15**	**-**	**2,103**	**-**	**2,621**	**4,739**
Restructured non-accruing	**1,410**	**137**	**-**	**1,438**	**1,149**	**4,134**
Balance	**$ 2,438**	**$ 137**	**$ 9,465**	**$ 3,223**	**$ 3,770**	**$ 19,033**
Total impaired loans						

Non-accruing	**$ 1,672**	**$ 57**	**$ 9,951**	**$ 6,346**	**$ -**	**$ 18,026**
Restructured accruing	**896**	**-**	**2,103**	**-**	**2,621**	**5,620**
Restructured non-accruing	**1,613**	**137**	**72**	**2,077**	**1,149**	**5,048**
Balance	**$ 4,181**	**$ 194**	**$ 12,126**	**$ 8,423**	**$ 3,770**	**$ 28,694**
Unpaid principal balance in total impaired loans	**$ 5,646**	**$ 4,456**	**$ 16,878**	**$ 10,271**	**$ 4,086**	**$ 41,337**

	June 30, 2015					
		Commercial Real Estate				Total Recorde Investme in Impaire
(In thousands)	**Commercial**	**AD&C**	**Commercial Investor R/E**	**Commercial Owner Occupied R/E**	**All Other Loans**	**Loans**
Average impaired loans for the period	**$ 4,013**	**$ 1,340**	**$ 10,829**	**$ 8,779**	**$ 3,808**	**$ 28,769**
Contractual interest income due on impaired loans during the period	**$ 207**	**$ 188**	**$ 469**	**$ 366**	**$ 96**	
Interest income on impaired loans recognized on a cash basis	**$ 93**	**$ 11**	**$ 15**	**$ 185**	**$ 20**	
Interest income on impaired loans recognized on an accrual basis	**$ 29**	**$ -**	**$ 54**	**$ -**	**$ 39**	

	December 31, 2014					
		Commercial Real Estate				Total Recorded Investment in Impaired
(In thousands)	Commercial	AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	Loans
Impaired loans with a specific allowance						
Non-accruing	$ 473	$ 1,330	$ 2,288	$ 5,013	$ -	$ 9,104
Restructured accruing	687	-	-	-	-	687
Restructured non-accruing	308	-	76	1,236	-	1,620
Balance	$ 1,468	$ 1,330	$ 2,364	$ 6,249	$ -	$ 11,411
Allowance	$ 788	$ 741	$ 541	$ 824	$ -	$ 2,894
Impaired loans without a specific allowance						
Non-accruing	$ 1,115	$ -	$ 5,792	$ 1,769	$ -	$ 8,676
Restructured accruing	23	-	2,123	-	2,664	4,810
Restructured non-accruing	1,288	1,134	-	923	1,177	4,522
Balance	$ 2,426	$ 1,134	$ 7,915	$ 2,692	$ 3,841	$ 18,008
Total impaired loans						
Non-accruing	$ 1,588	$ 1,330	$ 8,080	$ 6,782	$ -	$ 17,780
Restructured accruing	710	-	2,123	-	2,664	5,497
Restructured non-accruing	1,596	1,134	76	2,159	1,177	6,142
Balance	$ 3,894	$ 2,464	$ 10,279	$ 8,941	$ 3,841	$ 29,419
Unpaid principal balance in total impaired loans	$ 5,360	$ 7,044	$ 14,926	$ 10,729	$ 4,126	$ 42,185

December 31, 2014

		Commercial Real Estate				
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	Total Recorded Investment in Impaired Loans
Average impaired loans for the period	$ 5,308	$ 3,651	$ 9,327	$ 8,963	$ 7,082	$ 34,331
Contractual interest income due on impaired loans during the period	$ 311	$ 352	$ 730	$ 859	$ 87	
Interest income on impaired loans recognized on a cash basis	$ 252	$ 39	$ 78	$ 344	$ 60	
Interest income on impaired loans recognized on an accrual basis	$ 63	$ -	$ 111	$ -	$ 106	

Credit Quality

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

	June 30, 2015								
		Commercial Real Estate					Residential Real Estate		
		Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E			Residential Mortgage	Residential 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	**$ 3,285**	**$ 194**	**$ 10,023**	**$ 8,423**	**$ -**	**$ 1,214**	**$ 7,780**	**$ 780**	**$ 31,699**
Loans and leases 90 days past due	**-**	**-**	**-**	**-**	**2**	**7**	**-**	**-**	**9**
Restructured loans and leases	**896**	**-**	**2,103**	**-**	**-**	**-**	**2,621**	**-**	**5,620**
Total non-performing loans and leases	**4,181**	**194**	**12,126**	**8,423**	**2**	**1,221**	**10,401**	**780**	**37,328**
Other real estate owned	**39**	**789**	**-**	**-**	**-**	**690**	**1,613**	**1,383**	**4,514**
Total non-performing assets	**$ 4,220**	**$ 983**	**$ 12,126**	**$ 8,423**	**$ 2**	**$ 1,911**	**$ 12,014**	**$ 2,163**	**$ 41,842**

	December 31, 2014								
		Commercial Real Estate					Residential Real Estate		
		Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E			Residential Mortgage	Residential 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	$ 3,184	$ 2,464	$ 8,156	$ 8,941	$ -	$ 1,668	$ 3,012	$ 1,105	$ 28,530
Loans and leases 90 days past due	-	-	-	-	-	-	-	-	-
Restructured loans and leases	710	-	2,123	-	-	-	2,664	-	5,497
Total non-performing loans and leases	3,894	2,464	10,279	8,941	-	1,668	5,676	1,105	34,027
Other real estate owned	39	365	-	-	-	-	1,408	1,383	3,195
Total non-performing assets	$ 3,933	$ 2,829	$ 10,279	$ 8,941	$ -	$ 1,668	$ 7,084	$ 2,488	$ 37,222

	June 30, 2015								
		Commercial Real Estate					Residential Real Estate		
		Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E			Residential Mortgage	Residential Construction	
(In thousands)	**Commercial**	**AD&C**	**R/E**	**R/E**	**Leasing**	**Consumer**	**Mortgage**	**Construction**	**Total**
<u>Past due loans and leases</u>									
31-60 days	**$ 61**	**$ -**	**$ 85**	**$ 609**	**$ -**	**$ 1,307**	**$ 3,772**	**$ -**	**$ 5,834**

61-90 days	**-**	**-**	**1,440**	**458**	**-**	**643**	**1,244**	**-**	**3,785**
> 90 days	**-**	**-**	**-**	**-**	**2**	**7**	**-**	**-**	**9**
Total past due	**61**	**-**	**1,525**	**1,067**	**2**	**1,957**	**5,016**	**-**	**9,628**
Non-accrual loans and leases	**3,285**	**194**	**10,023**	**8,423**	**-**	**1,214**	**7,780**	**780**	**31,699**
Loans acquired with deteriorated credit quality	**1,198**	**-**	**-**	**1,053**	**-**	**-**	**-**	**-**	**2,251**
Current loans	**405,251**	**222,909**	**682,631**	**633,430**	**19**	**433,294**	**731,399**	**136,354**	**3,245,287**
Total loans and leases	**$409,795**	**$223,103**	**$694,179**	**$643,973**	**$21**	**$436,465**	**$744,195**	**$137,134**	**$3,288,865**

December 31, 2014

		Commercial Real Estate					Residential Real Estate		
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Leasing	Consumer	Residential Mortgage	Residential Construction	Total
Past due loans and leases									
31-60 days	$ 759	$ -	$ 2,374	$ 2,658	$ 11	$ 797	$ 3,064	$ -	$ 9,663
61-90 days	995	320	1,493	156	-	179	836	-	3,979
> 90 days	-	-	-	-	-	-	-	-	-
Total past due	1,754	320	3,867	2,814	11	976	3,900	-	13,642
Non-accrual loans and leases	3,184	2,464	8,156	8,941	-	1,668	3,012	1,105	28,530
Loans acquired with deteriorated credit quality	1,238	-	-	1,773	-	-	-	-	3,011
Current loans	384,605	202,340	628,170	597,533	43	422,908	710,974	135,636	3,082,209
Total loans and leases	$390,781	$205,124	$640,193	$611,061	$54	$425,552	$717,886	$136,741	$3,127,392

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

June 30, 2015

		Commercial Real Estate			
(In thousands)	**Commercial**	**Commercial AD&C**	**Commercial Investor R/E**	**Commercial Owner Occupied R/E**	**Total**
Pass	**$ 384,562**	**$ 220,747**	**$ 679,253**	**$ 616,435**	**$ 1,900,997**
Special Mention	**8,212**	**698**	**1,857**	**6,431**	**17,198**
Substandard	**17,021**	**1,658**	**13,069**	**21,107**	**52,855**
Doubtful	**-**	**-**	**-**	**-**	**-**
Total	**$ 409,795**	**$ 223,103**	**$ 694,179**	**$ 643,973**	**$ 1,971,050**

Decemeber 31, 2014

		Commercial Real Estate			
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Total
Pass	$ 366,367	$ 201,642	$ 621,511	$ 581,575	$ 1,771,095
Special Mention	8,835	698	3,931	7,669	21,133
Substandard	15,579	2,784	14,751	21,817	54,931
Doubtful	-	-	-	-	-
Total	$ 390,781	$ 205,124	$ 640,193	$ 611,061	$ 1,847,159

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

			June 30, 2015		
			Residential Real Estate		
			Residential	**Residential**	
(In thousands)	**Leasing**	**Consumer**	**Mortgage**	**Construction**	**Total**
Performing	**$ 19**	**$ 435,244**	**$ 733,794**	**$ 136,354**	**$ 1,305,411**
Non-performing:					
90 days past due	**2**	**7**	**-**	**-**	**9**
Non-accruing	**-**	**1,214**	**7,780**	**780**	**9,774**
Restructured loans and leases	**-**	**-**	**2,621**	**-**	**2,621**
Total	**$ 21**	**$ 436,465**	**$ 744,195**	**$ 137,134**	**$ 1,317,815**

			December 31, 2014		
			Residential Real Estate		
			Residential	Residential	
(In thousands)	Leasing	Consumer	Mortgage	Construction	Total
Performing	$ 54	$ 423,884	$ 712,210	$ 135,636	$ 1,271,784
Non-performing:					
90 days past due	-	-	-	-	-
Non-accruing	-	1,668	3,012	1,105	5,785
Restructured loans and leases	-	-	2,664	-	2,664
Total	$ 54	$ 425,552	$ 717,886	$ 136,741	$ 1,280,233

During the six months ended June 30, 2015, the Company restructured $0.9 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 2015 have specific reserves of $0.4 million at June 30, 2015. For the year ended December 31, 2014, the Company restructured $1.6 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 2014 had specific reserves of $0.1 million at December 31, 2014. Commitments to lend additional funds on loans that have been restructured at June 30, 2015 and December 31, 2014 amounted to $0.3 million and $0.1 million, respectively.

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

	For the Six Months Ended June 30, 2015			
		Commercial Real Estate		
			Commercial	**All**
	Commercial	**Commercial**	**Owner**	**Other**

(In thousands)	Commercial	AD&C	Investor R/E	Occupied R/E	Loans	Total
Troubled debt restructurings						
Restructured accruing	$ 275	$ -	$ -	$ -	$ -	$ 275
Restructured non-accruing	-	-	-	639	-	639
Balance	$ 275	$ -	$ -	$ 639	$ -	$ 914
Specific allowance	$ 275	$ -	$ -	$ 149	$ -	$ 424
Restructured and subsequently defaulted	$ -	$ -	$ -	$ -	$ -	$ -

	For the Year Ended December 31, 2014					
		Commercial Real Estate				
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	Total
Troubled debt restructurings						
Restructured accruing	$ 75	$ -	$ 1,284	$ -	$ -	$ 1,359
Restructured non-accruing	92	192	-	-	-	284
Balance	$ 167	$ 192	$ 1,284	$ -	$ -	$ 1,643
Specific allowance	$ 99	$ -	$ -	$ -	$ -	$ 99
Restructured and subsequently defaulted	$ -	$ -	$ -	$ -	$ -	$ -

Other Real Estate Owned

Other real estate owned totaled $4.5 million and $3.2 million at June 30, 2015 and December 31, 2014, 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:

	June 30, 2015				December 31, 2014			
(Dollars in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Weighted Average Remaining Life**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
Amortizing intangible assets:								
Other identifiable intangibles	**$ 8,623**	**$ (8,327)**	**$ 296**	**1.6 years**	$ 8,623	$ (8,113)	$ 510	1.7 years
Total amortizing intangible assets	**$ 8,623**	**$ (8,327)**	**$ 296**		$ 8,623	$ (8,113)	$ 510	
Goodwill	**$ 84,171**		**$ 84,171**		$ 84,171		$ 84,171	

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

(In thousands)	Amount
2015	$ 158
2016	94

2017		16
2018		16
Thereafter		12
Total amortizing intangible assets	$	296

Note 6 – Deposits

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

(In thousands)	**June 30, 2015**	December 31, 2014
Noninterest-bearing deposits	**$ 1,092,413**	$ 993,737
Interest-bearing deposits:		
Demand	**525,584**	534,605
Money market savings	**860,315**	828,494
Regular savings	**280,143**	264,751
Time deposits of less than $100,000	**245,347**	239,857
Time deposits of $100,000 or more	**243,544**	205,065
Total interest-bearing deposits	**2,154,933**	2,072,772
Total deposits	**$ 3,247,346**	$ 3,066,509

Note 7 – Stockholders' Equity

The Company re-approved a stock repurchase program in August 2013 that permits the repurchase of up to 5% of the Company's outstanding shares of common stock at the date the plan was approved or approximately 1.3 million shares. Repurchases, which will be conducted through open market purchases or privately negotiated transactions, will be made depending on market conditions and other factors. During the first six months of 2015, the Company repurchased 575,472 shares at an average cost of $25.92 per share or a total of $14.9 million.

Note 8 – Share Based Compensation

At June 30, 2015, 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 non-qualifying stock options to the Company's directors, and incentive and non-qualifying stock options, stock appreciation rights, restricted stock grants, RSU's and performance awards to selected key 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, all of which are available for issuance at June 30, 2015, 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 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. At June 30, 2015, no stock options or awards had been granted from this plan.

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

	Six Months Ended June 30,	
	2015	2014
Dividend yield	**3.40%**	3.04%
Weighted average expected volatility	**42.98%**	46.78%
Weighted average risk-free interest rate	**1.42%**	1.56%
Weighted average expected lives (in years)	**5.42**	5.08
Weighted average grant-date fair value	**$7.63**	$8.05

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 June 30, 2015 and 2014, respectively, related to the awards of stock options and restricted stock grants. Compensation expense of $0.9 million and $0.8 million was recognized for the six months ended June 30, 2015 and 2014, respectively. The intrinsic value of stock options exercised in the six months ended June 30, 2015 and 2014 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 June 30, 2015. That cost is expected to be recognized over a weighted average period of approximately 2.2 years. The total of unrecognized compensation cost related to restricted stock was approximately $4.8 million as of June 30, 2015. That cost is expected to be recognized over a weighted average period of approximately 3.5 years. The fair value of the options vested during the six months ended June 30, 2015 and 2014, was $0.2 million and $0.2 million, respectively.

In the first quarter of 2015, 21,245 stock options were granted, subject to a three year vesting schedule with one third of the options vesting on April 1st of each year. Additionally, 79,860 shares of restricted stock were granted, subject to a five year vesting schedule with one fifth of the shares vesting on April 1st of each year.

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	Average Contractual Remaining Life(Years)	Aggregate Intrinsic Value (in thousands)
Balance at January 1, 2015	224,381	$ 20.88		$ 1,300
Granted	21,245	$ 26.20		
Exercised	(26,695)	$ 14.68		$ 308
Forfeited or expired	(71,708)	$ 27.96		
Balance at June 30, 2015	147,223	$ 19.37	3.7	$ 1,268
Exercisable at June 30, 2015	105,984	$ 17.26	2.7	$ 1,137
Weighted average fair value of options granted during the year		$ 7.63		

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

(In dollars, except share data):	Number of Common Shares	Weighted Average Grant-Date Fair Value
Restricted stock at January 1, 2015	226,871	$ 21.07
Granted	79,860	$ 26.20
Vested	(78,565)	$ 19.79
Forfeited	(3,317)	$ 22.80

Restricted stock at June 30, 2015	224,849	$ 23.31

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

Defined Benefit Pension Plan

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2015**	2014	**2015**	2014
Interest cost on projected benefit obligation	**$ 407**	$ 403	**$ 817**	$ 794
Expected return on plan assets	**(406)**	(493)	**(812)**	(987)
Recognized net actuarial loss	**259**	68	**551**	116
Net periodic benefit cost	**$ 260**	$ (22)	**$ 556**	$ (77)

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 2015.

Note 10 – Net Income per Common Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars and amounts in thousands, except per share data)	**2015**	2014	**2015**	2014
Net income	**$ 10,333**	$ 6,982	**$ 21,558**	$ 17,910
<u>Basic:</u>				
Basic weighted average EPS shares	**24,626**	25,062	**24,776**	25,031
Basic net income per share	**$ 0.42**	$ 0.28	**$ 0.87**	$ 0.72
<u>Diluted:</u>				

Basic weighted average EPS shares		**24,626**		25,062		**24,776**		25,031
Dilutive common stock equivalents		**64**		65		**92**		95
Dilutive EPS shares		**24,690**		25,127		**24,868**		25,126
Diluted net income per share	**$**	**0.42**	$	0.28	**$**	**0.87**	$	0.71
Anti-dilutive shares		**8**		65		**8**		56

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NOTE 11 – OTHER COMPREHENSIVE INCOME

Comprehensive income is defined as net income plus transactions and other occurrences that are the result of non-owner changes in equity. For condensed financial statements presented for the Company, non-owner changes 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:

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

(In thousands)	Unrealized Gains (Losses) on Investments Available-for-Sale	Defined Benefit Pension Plan	Total
Balance at January 1, 2014	$ 358	$ (3,328)	$ (2,970)
Other comprehensive income before reclassification, net of tax	8,148	-	8,148
Reclassifications from accumulated other comprehensive income, net of tax	-	55	55
Current period change in other comprehensive income, net of tax	8,148	55	8,203
Balance at June 30, 2014	$ 8,506	$ (3,273)	$ 5,233

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

(In thousands)	For the Six Months Ended June 30, **2015**	2014

Unrealized gains/(losses) on investments available-for-sale				
Affected line item in the Statements of Income:				
Investment securities gains	**$**	**19**	$	-
Income before taxes		**19**		-
Tax expense		**8**		-
Net income	**$**	**11**	$	-
Amortization of defined benefit pension plan items				
Affected line item in the Statements of Income:				
Recognized actuarial loss (1)	**$**	**551**	$	116
Income before taxes		**551**		116
Tax expense		**220**		61
Net income	**$**	**331**	$	55

(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 $20.4 million with a fair value of $1.4 million as of June 30, 2015 compared to $20.9 million with a fair value of $1.5 million as of December 31, 2014. 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. During 2014, the Company accrued $6.5 million for litigation expenses as a result of an adverse jury verdict rendered in the second quarter of 2014 associated with the actions of a former employee of CommerceFirst Bank, which was acquired in 2012. The Company is currently in the process of appealing the decision. As a result of the appeal process, an additional $0.4 million in legal expenses have been accrued in the first six months of 2015.

After consultation with legal counsel, management does not anticipate that the ultimate liability, if any, arising out of any other legal matters will have a material adverse effect on the Company's financial condition, operating results or liquidity.

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.

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Assets Measured at Fair Value on a Recurring Basis

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

	June 30, 2015			
(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Residential mortgage loans held for sale	$ -	$ 19,445	$ -	$ 19,445
Investments available-for-sale:				
U.S. government agencies	-	137,980	-	137,980
State and municipal	-	161,953	-	161,953
Mortgage-backed	-	324,145	-	324,145
Trust preferred	-	-	1,018	1,018
Marketable equity securities	-	723	-	723
Interest rate swap agreements	-	1,390	-	1,390
Liabilities				
Interest rate swap agreements	$ -	$ (1,390)	$ -	$ (1,390)

	December 31, 2014			
(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Residential mortgage loans held for sale	$ -	$ 10,512	$ -	$ 10,512
Investments available-for-sale:				
U.S. government agencies	-	141,679	-	141,679
State and municipal	-	167,052	-	167,052
Mortgage-backed	-	361,519	-	361,519
Trust preferred	-	-	1,236	1,236
Marketable equity securities	-	723	-	723
Interest rate swap agreements	-	1,501	-	1,501

Liabilities								
Interest rate swap agreements	$	-	$	(1,501)	$	-	$	(1,501)

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

(In thousands)	Significant Unobservable Inputs (Level 3)
Investments available-for-sale:	
Balance at January 1, 2015	$ 1,236
Principal redemption	(218)
Balance at June 30, 2015	$ 1,018

Assets Measured at Fair Value on a Nonrecurring Basis

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

	June 30, 2015				
(In thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**	**Total Losses**
Impaired loans	**$ -**	**$ -**	**$ 6,913**	**$ 6,913**	**$ 10,304**
Other real estate owned	**-**	**-**	**4,514**	**4,514**	**(268)**
Total	**$ -**	**$ -**	**$ 11,427**	**$ 11,427**	**$ 10,036**

	December 31, 2014				
(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Total Losses
Impaired loans	$ -	$ -	$ 7,819	$ 7,819	$ 13,893
Other real estate owned	-	-	3,195	3,195	(247)
Total	$ -	$ -	$ 11,014	$ 11,014	$ 13,646

At June 30, 2015, impaired loans totaling $28.7 million were written down to fair value of $25.8 million as a result of specific loan loss allowances of $2.9 million associated with the impaired loans which was included in the allowance for loan losses. Impaired loans totaling $29.4 million were written down to fair value of $26.5 million at December 31, 2014 as a result of specific loan loss allowances of $2.9 million associated with the impaired loans.

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

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

Fair Value of Financial Instruments

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

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

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

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

	June 30, 2015		Fair Value Measurements		
(In thousands)	**Carrying Amount**	**Estimated Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial Assets					
Investments held-to-maturity and other equity securities	**$ 252,465**	**$ 253,479**	**$ -**	**$ 253,479**	**$ -**
Loans, net of allowance	**3,250,152**	**3,279,656**	**-**	**-**	**3,279,656**
Other assets	**89,617**	**89,617**	**-**	**89,617**	**-**
Financial Liabilities					
Time Deposits	**$ 488,891**	**$ 489,419**	**$ -**	**$ 489,419**	**$ -**
Securities sold under retail repurchase agreements and federal funds purchased	**111,817**	**111,817**	**-**	**111,817**	**-**
Advances from FHLB	**550,000**	**572,615**	**-**	**572,615**	**-**
Subordinated debentures	**35,000**	**13,108**	**-**	**-**	**13,108**

	December 31, 2014		Fair Value Measurements		
(In thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Investments held-to-maturity and other equity securities	$ 261,410	$ 263,697	$ -	$ 263,697	$ -
Loans, net of allowance	3,089,590	3,118,635	-	-	3,118,635
Other assets	88,657	88,657	-	88,657	-
Financial Liabilities					
Time Deposits	$ 444,921	$ 444,729	$ -	$ 444,729	$ -
Securities sold under retail repurchase agreements and federal funds purchased	74,432	74,432	-	74,432	-

Advances from FHLB	655,000	679,163	-	679,163	-
Subordinated debentures	35,000	13,276	-	-	13,276

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

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

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

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

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

Other assets: The investment in bank-owned life insurance represents the cash surrender value of the policies at June 30, 2015 and December 31, 2014 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 on sales of investment products and service charges on deposit accounts. Expenses include personnel, occupancy, marketing, equipment and other expenses. Non-cash charges associated with amortization of intangibles related to the acquired entities was not significant for the three and six ended June 30, 2015 and 2014, 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 was not significant for the three and six ended June 30, 2015 and 2014, 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 was not significant for the three and six ended June 30, 2015 and 2014, respectively.

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

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

	Three Months Ended June 30, 2014				
(In thousands)	Community Banking	Insurance	Investment Mgmt.	Inter-Segment Elimination	Total
Interest income	$ 36,991	$ 3	$ 5	$ (8)	$ 36,991
Interest expense	4,690	-	-	(8)	4,682
Provision for loan and lease losses	158	-	-	-	158
Non-interest income	12,108	1,045	1,717	(3,176)	11,694
Non-interest expenses	35,305	1,125	887	(3,176)	34,141
Income before income taxes	8,946	(77)	835	-	9,704
Income tax expense	2,427	(30)	325	-	2,722
Net income	$ 6,519	$ (47)	$ 510	$ -	$ 6,982
Assets	$ 4,257,129	$ 6,025	$ 10,927	$ (39,739)	$ 4,234,342

	Six Months Ended June 30, 2015				
(In thousands)	**Community Banking**	**Insurance**	**Investment Mgmt.**	**Inter-Segment Elimination**	**Total**
Interest income	**$ 76,920**	**$ 1**	**$ 3**	**$ (3)**	**$ 76,921**
Interest expense	**9,618**	**-**	**-**	**(3)**	**9,615**
Provision for loan and lease losses	**1,815**	**-**	**-**	**-**	**1,815**
Noninterest income	**34,781**	**2,678**	**3,564**	**(15,755)**	**25,268**
Noninterest expenses	**69,975**	**2,552**	**1,949**	**(15,755)**	**58,721**
Income before income taxes	**30,293**	**127**	**1,618**	**-**	**32,038**
Income tax expense	**9,797**	**52**	**631**	**-**	**10,480**

Net income	**$**	**20,496**	**$**	**75**	**$**	**987**	**$**	**-**	**$**	**21,558**
Assets	**$**	**4,508,858**	**$**	**5,647**	**$**	**10,672**	**$**	**(17,810)**	**$**	**4,507,367**

	Six Months Ended June 30, 2014				
(In thousands)	Community Banking	Insurance	Investment Mgmt.	Inter-Segment Elimination	Total
Interest income	$ 73,241	$ 5	$ 9	$ (14)	$ 73,241
Interest expense	9,354	-	-	(14)	9,340
Provision (credit) for loan and lease losses	(824)	-	-	-	(824)
Non-interest income	20,123	2,776	3,395	(3,351)	22,943
Non-interest expenses	60,917	2,317	1,807	(3,351)	61,690
Income before income taxes	23,917	464	1,597	-	25,978
Income tax expense	7,258	188	622	-	8,068
Net income	$ 16,659	$ 276	$ 975	$ -	$ 17,910
Assets	$ 4,257,129	$ 6,025	$ 10,927	$ (39,739)	$ 4,234,342

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 44 community offices located in Central Maryland and Northern Virginia. 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 $4.5 billion in assets, the Company is a community banking organization that focuses its lending and other services on businesses and consumers in the local market area. Through its subsidiaries, Sandy Spring Insurance Corporation and West Financial Services, Inc., Sandy Spring Bank offers a comprehensive menu of insurance and investment management services.

Overview

Net income for the Company for the second quarter of 2015 totaled $10.3 million ($0.42 per diluted share) as compared to net income of $7.0 million ($0.28 per diluted share) for the second quarter of 2014. For the first six months of 2015, net income totaled $21.6 million ($0.87 per diluted share), compared to net income of $17.9 million ($0.71 per diluted share), for the first six months of 2014. During the second quarter of 2014, the Company recognized accrued litigation expenses of $6.1 million due to an adverse jury verdict. These results reflect the following events:

- Average total loans for the second quarter of 2015 increased 12% compared to the second quarter of 2014 due to organic growth in each of the three major portfolio segments.

- Combined noninterest-bearing and interest-bearing transaction account balances increased 11% to $1.6 billion at June 30, 2015 as compared to $1.5 billion at June 30,2014.

- The provision for loan and lease losses was a charge of $1.2 million for the second quarter of 2015 as compared to a charge of $0.2 million for the second quarter of 2014 and a charge of $0.6 million for the first quarter of 2015. The increase in the provision for the second quarter of 2015 was driven primarily by loan growth over the prior year period.

- The net interest margin was 3.42% in the second quarter of 2015, compared to 3.48% for the second quarter of 2014 and 3.44% for the first quarter of 2015. The decrease compared to the prior year's quarter was the result of declining loan yields, primarily in the commercial loan portfolio.

- Non-interest income increased $0.4 million or 4% for the second quarter of 2015 compared to the second quarter of 2014 due largely to increases in wealth management income and income from mortgage banking activities.

- During the first six months of 2015, the Company repurchased 575,472 shares of its common stock at an average price of $25.92 per share as part of its existing share repurchase program.

In the first six months of 2015, the Mid-Atlantic region in which the Company operates continued to show economic improvement. While the national economy improved during the first half of the year, international economic concerns together with volatile oil prices impeded both the regional and national economic outlook. Positive trends in housing, consumer spending and unemployment have been 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 and stock market declines in China together with continuing default concerns in Greece and Puerto Rico have served as underlying volatility factors in financial markets. 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. Despite this challenging business environment, the Company has emphasized the fundamentals of community banking as it has maintained strong levels of liquidity and capital while overall credit quality has continued to improve.

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 $41.8 million at June 30, 2015 from $43.7 million at June 30, 2014. This decrease was due primarily to problem loan pay-offs and a reduction in restructured loans. Non-performing assets represented 0.93% of total assets at June 30, 2015 compared to 1.03% at June 30, 2014. The ratio of net charge-offs to average loans and leases was insignificant for the second quarter of 2015, compared to 0.03% for the prior year quarter.

Non-interest income increased 4% in the second quarter of 2015 compared to the second quarter of 2014. This increase was driven by a 9% increase in wealth management income due primarily to higher assets under management. Income from mortgage banking activities increased 44% for the quarter due primarily to higher volumes of loan originations.

Non-interest expenses decreased 14% in the second quarter of 2015 compared to the prior year quarter due mainly to litigation expenses incurred in the second quarter of 2014. Excluding such expenses, non-interest expenses increased 5% due to higher salaries and benefits and other non-interest expenses.

Total assets at June 30, 2015 increased 3% compared to December 31, 2014. Loan balances increased 5% compared to the prior year end due to growth of 7% in commercial loans while both consumer and residential mortgage loans increased 3% compared to the prior year end. Customer funding sources, which include deposits plus other short-term borrowings from core customers, increased 7% compared to balances at December 31, 2014. The increase in customer funding sources was driven primarily by increases of 10% in certificates of deposit, 6% in noninterest-bearing and interest-bearing transaction accounts and 6% in regular savings accounts. Retail repurchase agreements also increased 50% as the Company increased its emphasis on the sale of cash management services. The Company continued to manage its net interest margin, primarily by utilizing short-term FHLB borrowings, deposit growth and retail repurchase agreements to fund loans during this extended period of historically low interest rates. During the same period, stockholders' equity decreased $3 million to $519 million as the payment of dividends and repurchases of stock under the Company's share repurchase program exceeded net income during the period.

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

	Six Months Ended June 30,					
	2015			2014		
(Dollars in thousands and tax-equivalent)	**Average Balances**	**(1) Interest**	**Annualized Average Yield/Rate**	Average Balances	(1) Interest	An A Yi
Assets						
Residential mortgage loans	**$ 729,343**	**$12,279**	**3.37%**	$ 640,155	$11,061	
Residential construction loans	**134,849**	**2,489**	**3.72**	140,147	2,612	
Commercial ADC loans	**212,257**	**4,862**	**4.62**	165,319	4,253	
Commercial investor real estate loans	**657,088**	**15,350**	**4.71**	566,275	13,872	
Commercial owner occupied real estate loans	**618,100**	**15,200**	**4.96**	582,042	14,213	
Commercial business loans	**390,853**	**8,507**	**4.39**	349,162	8,091	
Leasing	**36**	**1**	**3.76**	459	12	
Consumer loans	**429,746**	**7,106**	**3.35**	383,983	6,326	
Total loans and leases (2)	**3,172,272**	**65,794**	**4.18**	2,827,542	60,440	
Loans held for sale	**10,583**	**208**	**3.94**	6,083	130	
Taxable securities	**617,861**	**7,722**	**2.50**	699,460	8,715	
Tax-exempt securities (3)	**294,024**	**6,305**	**4.29**	302,398	6,527	
Interest-bearing deposits with banks	**35,273**	**44**	**0.25**	33,853	42	
Federal funds sold	**473**	**1**	**0.22**	475	-	
Total interest-earning assets	**4,130,486**	**80,074**	**3.90**	3,869,811	75,854	
Less: allowance for loan and lease losses	**(37,833)**			(38,864)		
Cash and due from banks	**46,663**			45,268		
Premises and equipment, net	**51,127**			45,787		
Other assets	**215,567**			209,535		
Total assets	**$4,406,010**			$4,131,537		
Liabilities and Stockholders' Equity						
Interest-bearing demand deposits	**$ 525,692**	**207**	**0.08%**	$ 468,677	194	
Regular savings deposits	**274,220**	**71**	**0.05**	255,667	97	
Money market savings deposits	**832,549**	**590**	**0.14**	871,464	546	
Time deposits	**455,147**	**1,693**	**0.75**	462,591	1,540	
Total interest-bearing deposits	**2,087,608**	**2,561**	**0.25**	2,058,399	2,377	
Other borrowings	**98,228**	**110**	**0.23**	65,889	75	
Advances from FHLB	**614,254**	**6,502**	**2.13**	573,619	6,451	
Subordinated debentures	**35,000**	**442**	**2.53**	35,000	437	
Total interest-bearing liabilities	**2,835,090**	**9,615**	**0.68**	2,732,907	9,340	
Noninterest-bearing demand deposits	**1,004,965**			862,830		
Other liabilities	**46,824**			27,984		
Stockholders' equity	**519,131**			507,816		
Total liabilities and stockholders' equity	**$4,406,010**			$4,131,537		
Net interest income and spread		**$70,459**	**3.22%**		$66,514	
Less: tax-equivalent adjustment		**3,153**			2,613	

Net interest income	**$67,306**	$63,901
Interest income/earning assets	**3.90%**	
Interest expense/earning assets	**0.47**	
Net interest margin	**3.43%**	

(1) Tax-equivalent income has been adjusted using the combined marginal federal and state rate of 39.88% for 2015 and 2014. annualized taxable-equivalent
adjustments utilized in the above table to compute yields aggregated to $3.2 million and $2.6 million in 2015 and 2014, res
(2) Non-accrual loans are included in the average balances.
(3) Includes only investments that are exempt from federal taxes.

Results of Operations

For the Six Months Ended June 30, 2015 Compared to the Six Months Ended June 30, 2014

Net income for the Company for the first six months of 2015 totaled $21.6 million ($0.87 per diluted share) compared to net income of $17.9 million ($0.71 per diluted share) for the first six months of 2014.

Net Interest Income

The largest source of the Company's operating revenue is net interest income, which is the difference between the interest earned on interest-earning assets and the interest paid on interest-bearing liabilities. For purposes of this discussion and analysis, the interest earned on tax-exempt investment securities has been adjusted to an amount comparable to interest subject to normal income taxes. The result is referred to as tax-equivalent interest income and tax-equivalent net interest income. The following discussion of net interest income should be considered in conjunction with the review of the information provided in the preceding table.

Net interest income for the first six months of 2015 was $67.3 million compared to $63.9 million for the first six months of 2014. On a tax-equivalent basis, net interest income for the first six months of 2015 was $70.5 million compared to $66.5 million for the first six months of 2014, an increase of 6%. The preceding table provides an analysis of net interest income performance that reflects a net interest margin that decreased to 3.43% for the first six months of 2015 compared to 3.48% for the prior year period. Year-to-date 2015 average interest-earning assets increased by 7% while average interest-bearing liabilities increased 4% compared to the year ago period. Average noninterest-bearing deposits increased 16% in the first six months of 2015 while the percentage of average noninterest-bearing deposits to total deposits increased to 32% for the first six months of 2015 compared to 30% for the first six months of 2014.The decrease in the net interest margin was caused by the effect of lower rates on interest-earning assets that exceeded the benefit of lower rates on interest-bearing deposits and borrowings and the increase in noninterest-bearing deposits.

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:

	2015 vs. 2014			2014 vs. 2013		
	Increase			Increase		
		Due to Change In			Due to Change In	
	Or	**Average:***		Or	Average:*	
(Dollars in thousands and tax equivalent)	**(Decrease)**	**Volume**	**Rate**	(Decrease)	Volume	Rate
Interest income from earning assets:						

Loans and leases	**$ 5,354**	**$ 7,598**	**$ (2,244)**	$ 1,582	$ 5,680	$ (4,098)
Loans held for sale	**78**	**89**	**(11)**	(532)	(681)	149
Securities	**(1,215)**	**(1,382)**	**167**	124	(700)	824
Other earning assets	**3**	**3**	**-**	(1)	(1)	-
Total interest income	**4,220**	**6,308**	**(2,088)**	1,173	4,298	(3,125)
Interest expense on funding of earning assets:						
Interest-bearing demand deposits	**13**	**15**	**(2)**	11	21	(10)
Regular savings deposits	**(26)**	**8**	**(34)**	(9)	8	(17)
Money market savings deposits	**44**	**(21)**	**65**	(243)	(11)	(232)
Time deposits	**153**	**(26)**	**179**	(233)	(140)	(93)
Total borrowings	**91**	**721**	**(630)**	14	1,333	(1,319)
Total interest expense	**275**	**697**	**(422)**	(460)	1,211	(1,671)
Net interest income	**$ 3,945**	**$ 5,611**	**$ (1,666)**	$ 1,633	$ 3,087	$ (1,454)

* 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 for the first six months of 2015 increased 6% compared to the first six months of 2014. The previous table shows that, in 2015, 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 12% for the first six months of 2015 compared to the prior year period. This growth was primarily in the commercial investor real estate 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 16 basis points due to the pay-off of higher rate loans and the origination of new loans at comparatively lower rates. The decline in the portfolio yield was driven primarily by a decrease of 24 basis points in the yield on the commercial loan portfolio together with a decrease of 9 basis points in the yield in the residential mortgage portfolio.

The average yield on total investment securities increased 4 basis points while the average balance of the portfolio decreased 9% for the first six months of 2015 compared to the first six months of 2014. The increase in the yield on investments was due primarily to a change in the mix of the overall portfolio as principal amortization reduced the relative size of the lower-yielding mortgage-backed securities while the balance of tax-exempt securities remained essentially unchanged.

Interest Expense

Interest expense increased 3% in the first six months of 2015 compared to the first half of 2014. The increase in the expense was due to the cost of interest-bearing deposits increasing primarily due to growth in the average balances at relatively the same rates, while the increase in the average balances of Federal Home Loan Bank advances was largely offset by a 14 basis point decrease in the average rates paid. Average deposits increased 6% in the first six months of 2015 compared to the prior year period. This increase was primarily due to increases of $199 million or 15% in average noninterest-bearing and interest-bearing checking accounts together with an increase of $19 million or 7% in regular savings accounts as clients kept funds in short-term instruments to preserve liquidity. This growth was partially offset by a decrease in average certificates of deposit of $7 million or 2% in the first six months of 2015 compared to the prior year-to-date. Average balances of money market accounts decreased 4% in the first six months of 2015 compared to the first six months of 2014 as clients generally maintained liquidity.

Non-interest Income

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

	Six Months Ended June 30,		2015/2014	2015/2014
(Dollars in thousands)	**2015**	2014	$ Change	% Change

Securities gains	**$ 19**	$ -	$ 19	-
Service charges on deposit accounts	**3,721**	4,061	(340)	(8.4) %
Mortgage banking activities	**2,000**	886	1,114	125.7
Wealth management income	**10,077**	9,207	870	9.4
Insurance agency commissions	**2,499**	2,601	(102)	(3.9)
Income from bank owned life insurance	**1,319**	1,206	113	9.4
Bank card fees	**2,277**	2,147	130	6.1
Other income	**3,356**	2,835	521	18.4
Total non-interest income	**$ 25,268**	$ 22,943	$ 2,325	10.1

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Total non-interest income was $25.3 million for the first six months of 2015 compared to $22.9 million for the first six months of 2014. The primary drivers of non-interest income for the first six months of 2015 were increases in wealth management income, income from mortgage banking activities and other non-interest income. Further detail by type of non-interest income follows:

- Wealth management income is comprised of income from trust and estate services, investment management fees earned by West Financial Services, the Company's investment management subsidiary, and fees on sales on investment products and services. Trust services fees increased 15% for the first six months of 2015 compared to the prior year period due to an increase in assets under management and one-time estate fees. Investment management fees in West Financial Services increased 5% in 2015 compared to the first six months of 2014, also due to higher assets under management. Fees on sales of investment products increased 5% for the first six months of 2015 compared to the prior year period, due to higher assets under management. Overall total assets under management increased to $2.9 billion at June 30, 2015 compared to $2.7 billion at June 30, 2014 as a result of positive market movements and additions from new and existing clients.

- Income from mortgage banking activities increased in 2015 compared to 2014 due primarily to higher loan origination volumes from refinancing activity as mortgage rates remained at historic lows.

- Other non-interest income increased during 2015 compared to 2014 due mainly to increases in loan prepayment fees and gains on sales of SBA loans.

- Income from bank owned life insurance increased in the first six months of 2015 compared to the first half of 2014 due primarily to policy proceeds recognized during 2015.

- Income from service charges on deposits decreased due to a decrease in return check charges for 2015 compared to the prior year period.

- Insurance agency commissions decreased due primarily to a decline in annual contingency commissions based on policy performance.

- Income from bank card fees increased 6% due to a higher volume of electronic transactions.

Non-interest Expense

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

(Dollars in thousands)	**Six Months Ended June 30, 2015**	2014	2015/2014 $ Change	2015/2014 % Change
Salaries and employee benefits	**$ 34,833**	$ 32,829	$ 2,004	6.1 %
Occupancy expense of premises	**6,662**	6,746	(84)	(1.2)
Equipment expenses	**2,863**	2,518	345	13.7
Marketing	**1,473**	1,344	129	9.6
Outside data services	**2,363**	2,432	(69)	(2.8)
FDIC insurance	**1,285**	1,093	192	17.6
Amortization of intangible assets	**213**	594	(381)	(64.1)

Litigation Expenses	**362**	6,128	(5,766)