SANDY SPRING BANCORP INC
Form 10-Q
August 04, 2017

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, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer X Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 1, 2017

Common stock, $1.00 par value – 23,987,383 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 risks and uncertainties include, but are not limited to, the risks identified in Item 1A of the Company’s 2016 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, 2017**	December 31, 2016
Assets		
Cash and due from banks	**$ 48,637**	$ 53,190
Federal funds sold	**2,831**	1,953
Interest-bearing deposits with banks	**25,468**	78,982
Cash and cash equivalents	**76,936**	134,125
Residential mortgage loans held for sale (at fair value)	**5,743**	13,222
Investments available-for-sale (at fair value)	**780,078**	733,554
Other equity securities	**41,413**	46,094
Total loans	**4,133,171**	3,927,808
Less: allowance for loan losses	**(45,079)**	(44,067)
Net loans	**4,088,092**	3,883,741
Premises and equipment, net	**53,235**	53,562
Other real estate owned	**1,460**	1,911
Accrued interest receivable	**14,910**	14,589
Goodwill	**85,768**	85,768
Other intangible assets, net	**629**	680
Other assets	**122,257**	124,137
Total assets	**$ 5,270,521**	$ 5,091,383
Liabilities		
Noninterest-bearing deposits	**$ 1,302,536**	$ 1,138,139
Interest-bearing deposits	**2,582,909**	2,439,405
Total deposits	**3,885,445**	3,577,544
Securities sold under retail repurchase agreements and federal funds purchased	**127,312**	125,119
Advances from FHLB	**670,000**	790,000
Subordinated debentures	**-**	30,000
Accrued interest payable and other liabilities	**33,081**	35,148
Total liabilities	**4,715,838**	4,557,811
Stockholders' Equity		
Common stock -- par value $1.00; shares authorized 50,000,000; shares issued and outstanding 23,983,997 and 23,901,084 at June 30, 2017 and December 31, 2016, respectively	**23,984**	23,901
Additional paid in capital	**166,705**	165,871
Retained earnings	**367,706**	350,414
Accumulated other comprehensive loss	**(3,712)**	(6,614)
Total stockholders' equity	**554,683**	533,572
Total liabilities and stockholders' equity	**$ 5,270,521**	$ 5,091,383

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)	**2017**	2016	**2017**	2016
Interest income:				
Interest and fees on loans and leases	**$ 42,747**	$ 36,928	**$ 82,970**	$ 73,134
Interest on loans held for sale	**72**	64	**154**	198
Interest on deposits with banks	**91**	54	**181**	107
Interest and dividends on investment securities:				
Taxable	**3,554**	2,840	**7,162**	6,126
Exempt from federal income taxes	**2,106**	1,916	**4,057**	3,889
Interest on federal funds sold	**6**	1	**10**	2
Total interest income	**48,576**	41,803	**94,534**	83,456
Interest expense:				
Interest on deposits	**3,023**	2,041	**5,511**	3,878
Interest on retail repurchase agreements and federal funds purchased	**79**	72	**155**	138
Interest on advances from FHLB	**3,148**	2,739	**6,277**	6,113
Interest on subordinated debt	**-**	219	**12**	473
Total interest expense	**6,250**	5,071	**11,955**	10,602
Net interest income	**42,326**	36,732	**82,579**	72,854
Provision for loan losses	**1,322**	2,957	**1,516**	4,193
Net interest income after provision for loan losses	**41,004**	33,775	**81,063**	68,661
Non-interest income:				
Investment securities gains	**1,273**	150	**1,275**	1,919
Service charges on deposit accounts	**2,017**	1,956	**3,981**	3,859
Mortgage banking activities	**840**	1,106	**1,448**	1,641
Wealth management income	**4,744**	4,448	**9,228**	8,853
Insurance agency commissions	**1,222**	949	**2,974**	2,394
Income from bank owned life insurance	**605**	615	**1,199**	1,230
Bank card fees	**1,253**	1,220	**2,398**	2,309
Other income	**1,617**	2,307	**3,700**	3,909
Total non-interest income	**13,571**	12,751	**26,203**	26,114
Non-interest expense:				
Salaries and employee benefits	**18,282**	17,221	**36,083**	35,451
Occupancy expense of premises	**3,211**	3,162	**6,613**	6,635
Equipment expense	**1,767**	1,693	**3,491**	3,357
Marketing	**776**	662	**1,439**	1,343
Outside data services	**1,367**	1,355	**2,759**	2,718
FDIC insurance	**823**	649	**1,628**	1,286
Amortization of intangible assets	**25**	28	**51**	60
Merger expenses	**987**	-	**987**	-
Other expense	**5,630**	6,101	**9,798**	12,338
Total non-interest expense	**32,868**	30,871	**62,849**	63,188
Income before income taxes	**21,707**	15,655	**44,417**	31,587
Income tax expense	**6,966**	5,008	**14,564**	10,127
Net income	**$ 14,741**	$ 10,647	**$ 29,853**	$ 21,460

Per share information:								
Basic net income per share	**$**	**0.61**	$	0.45	**$**	**1.24**	$	0.90
Diluted net income per share	**$**	**0.61**	$	0.44	**$**	**1.23**	$	0.89
Dividends declared per common share	**$**	**0.26**	$	0.24	**$**	**0.52**	$	0.48

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)	**2017**	2016	**2017**	2016
Net income	**$ 14,741**	$ 10,647	**$ 29,853**	$ 21,460
Other comprehensive income:				
Investments available-for-sale:				
Net change in unrealized gains on investments available-for-sale	**4,003**	2,598	**5,505**	13,253
Related income tax expense	**(1,593)**	(1,031)	**(2,191)**	(5,263)
Net investment gains reclassified into earnings	**(1,273)**	(150)	**(1,275)**	(1,919)
Related income tax expense	**508**	60	**508**	765
Net effect on other comprehensive income for the period	**1,645**	1,477	**2,547**	6,836
Defined benefit pension plan:				
Recognition of unrealized loss	**295**	291	**590**	575
Related income tax benefit	**(118)**	(115)	**(235)**	(228)
Net effect on other comprehensive income for the period	**177**	176	**355**	347
Total other comprehensive income	**1,822**	1,653	**2,902**	7,183
Comprehensive income	**$ 16,563**	$ 12,300	**$ 32,755**	$ 28,643

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)	**2017**	2016
Operating activities:		
Net income	**$ 29,853**	$ 21,460
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**3,967**	3,897
Provision for loan losses	**1,516**	4,193
Share based compensation expense	**1,052**	992
Tax benefits associated with share based compensation	**692**	267
Deferred income tax expense/(benefit)	**(540)**	60
Origination of loans held for sale	**(70,736)**	(72,226)
Proceeds from sales of loans held for sale	**79,489**	94,282
Gains on sales of loans held for sale	**(1,443)**	(1,517)
(Gains) losses on sales of other real estate owned	**(17)**	52
Investment securities gains	**(1,275)**	(1,919)
Net (increase) decrease in accrued interest receivable	**(321)**	44
Net decrease in other assets	**(1,506)**	(2,526)
Net increase (decrease) in accrued expenses and other liabilities	**(4,069)**	(3,880)
Other – net	**3,605**	650
Net cash provided by operating activities	**40,267**	43,829
Investing activities:		
Proceeds of other equity securities	**4,681**	6,994
Purchases of investments available-for-sale	**(115,028)**	(113,273)
Proceeds from sales of investment available-for-sale	**2,251**	40,863
Proceeds from maturities, calls and principal payments of investments held-to-maturity	**-**	5,004
Proceeds from maturities, calls and principal payments of investments available-for-sale	**70,361**	179,038
Net increase in loans	**(223,705)**	(195,826)
Proceeds from the sales of other real estate owned	**759**	1,352
Proceeds from sales of loans previously held for investment	**18,222**	-
Expenditures for premises and equipment	**(2,395)**	(2,594)
Net cash provided (used) in investing activities	**(244,854)**	(78,442)
Financing activities:		
Net increase in deposits	**307,901**	246,411
Net increase in retail repurchase agreements and federal funds purchased	**2,193**	8,742
Proceeds from advances from FHLB	**2,220,000**	1,290,000
Repayment of advances from FHLB	**(2,340,000)**	(1,460,000)
Retirement of subordinated debt	**(30,000)**	(5,000)
Proceeds from issuance of common stock	**817**	728
Stock tendered for payment of withholding taxes	**(952)**	(683)
Repurchase of common stock	**-**	(13,273)
Dividends paid	**(12,561)**	(11,622)
Net cash provided by financing activities	**147,398**	55,303

Net increase (decrease) in cash and cash equivalents		**(57,189)**		20,690
Cash and cash equivalents at beginning of period		**134,125**		72,882
Cash and cash equivalents at end of period	**$**	**76,936**	$	93,572
Supplemental disclosures:				
Interest payments	**$**	**12,391**	$	11,114
Income tax payments		**16,287**		12,984
Transfer of investments held-to-maturity to available-for-sale		**-**		203,118
Transfer from loans to residential mortgage loans held for sale		**18,053**		18,752
Transfer from loans to other real estate owned		**288**		-

The accompanying notes are an integral part of these statements

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

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(Dollars in thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at January 1, 2017	**$ 23,901**	**$ 165,871**	**$ 350,414**	**$ (6,614)**	**$ 533,572**
Net income	**-**	**-**	**29,853**	**-**	**29,853**
Other comprehensive income, net of tax	**-**	**-**	**-**	**2,902**	**2,902**
Common stock dividends - $0.52 per share	**-**	**-**	**(12,561)**	**-**	**(12,561)**
Stock compensation expense	**-**	**1,052**	**-**	**-**	**1,052**
Common stock issued pursuant to:					
Stock option plan - 27,284 shares	**27**	**491**	**-**	**-**	**518**
Employee stock purchase plan - 8,565 shares	**9**	**290**	**-**	**-**	**299**
Restricted stock - 47,064 shares	**47**	**(999)**	**-**	**-**	**(952)**
Balances at June 30, 2017	**$ 23,984**	**$ 166,705**	**$ 367,706**	**$ (3,712)**	**$ 554,683**
Balance at January 1, 2016	$ 24,296	$ 175,588	$ 325,840	$ (1,297)	$ 524,427
Net income	-	-	21,460	-	21,460
Other comprehensive income, net of tax	-	-	-	7,183	7,183
Common stock dividends - $0.48 per share	-	-	(11,622)	-	(11,622)
Stock compensation expense	-	992	-	-	992
Common stock issued pursuant to:					
Stock option plan - 28,941 shares	29	393	-	-	422
Employee stock purchase plan - 12,471 shares	12	279	-	-	291
Director's stock purchase plan - 258 shares	1	15	-	-	16
Restricted stock - 49,648 shares	49	(466)	-	-	(417)
Purchase of treasury shares - 512,459 shares	(512)	(12,761)	-	-	(13,273)
Balances at June 30, 2016	$ 23,875	$ 164,040	$ 335,678	$ 5,886	$ 529,479

The accompanying notes are an integral part of these statements

Sandy Spring Bancorp, Inc. and Subsidiaries

Notes to the CONDENSED Consolidated Financial Statements - UNAUDITED

Note 1 – Significant Accounting Policies

Nature of Operations

Sandy Spring Bancorp (the "Company"), a Maryland corporation, is the bank holding company for Sandy Spring Bank (the "Bank"). The Bank offers a broad range of commercial banking, retail banking, mortgage and trust services throughout central Maryland, Northern Virginia and the greater Washington D.C. market through its operation of 44 community offices and six financial centers across the region. The Bank also offers a comprehensive menu of insurance and wealth management services through its subsidiaries, Sandy Spring Insurance Corporation and West Financial Services, Inc.

Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP") and prevailing practices within the financial services industry for interim financial information and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements and prevailing practices within the banking industry. The following summary of significant accounting policies of the Company is presented to assist the reader in understanding the financial and other data presented in this report. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for any future periods or for the year ending December 31, 2017. 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 2016 Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC") on March 3, 2017. There have been no significant changes to the Company's accounting policies as disclosed in the 2016 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 losses and the related allowance, determination of impaired loans and the related measurement of impairment, potential impairment of goodwill or other intangible assets, valuation of investment securities and the determination of whether impaired securities are other-than-temporarily impaired, valuation of other real estate owned, prepayment rates, valuation of share-based compensation, the assessment that a liability should be recognized with respect to any matters under litigation, the calculation of current and deferred income taxes and the actuarial projections related to pension expense and the related liability.

Cash Flows

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

Pending Accounting Pronouncements

The FASB issued Update No. 2017-08, *Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*, in March 2017. This guidance is intended to eliminate the current diversity in practice with respect to the amortization period for certain purchased callable debt securities held at a premium. Under current generally accepted accounting principles (GAAP), entities generally amortize the premium as an adjustment of yield over the contractual life. As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium is recorded as a loss in earnings. The amendments in this update shorten the amortization period for such callable debt securities held at a premium requiring the premium to be amortized to the earliest call date. This guidance is effective for a public business entity that is a U.S. Securities and Exchange Commission (SEC) filer for its fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The adoption of this standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

The FASB issued Update No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, in January 2017. The objective of this guidance is to simplify an entity's required test for impairment of goodwill by eliminating Step 2 from the goodwill impairment test. In Step 2 an entity measured a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. In computing the implied fair value of goodwill, an entity had to determine the fair value at the impairment date of its assets and liabilities, including any unrecognized assets and liabilities, following a procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under this Update, an entity should perform its annual or quarterly goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount and record an impairment charge for the excess of the carrying amount over the reporting unit's fair value. The loss recognized should not exceed the total amount of goodwill allocated to the reporting unit and the entity must consider the income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. This guidance is effective for a public business entity that is an SEC filer for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The adoption of this standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

The FASB issued Update 2017-1, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, in January 2017. The objective of this guidance is to clarify the definition of a business to provide entities with assistance in evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The update provides a screen to determine when an integrated set of assets and activities (a "set") is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable assets or a group of similar identifiable assets, the set is not a business. The screen thus reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in this Update (1) require that to be considered a business, as set must include, at a minimum, an input and substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments provide a framework to assist entities in evaluating whether both an input and a substantive process are present. The framework includes two sets of criteria to consider that depend on whether a set has outputs. Although outputs are not required for an asset to be a business, outputs generally are a key element of a business; therefore, the Board has developed more stringent criteria for sets without outputs. This guidance is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those periods. The adoption of this standard is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

The FASB issued Update No. 2016-15, *Statement of Cash Flow (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, in August 2016. This guidance is intended to reduce the diversity in practice with respect to the presentation and classification of items in the statement of cash flows. This guidance is effective for public business entities for the first interim or annual period beginning after December 15, 2017. The standard’s provisions will be applied using a retrospective transition method to each period presented. An entity may elect early adoption but must adopt all of the amendments in the same period. The adoption of this standard is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

The FASB issued Update No. 2016-13, *Current Expected Credit Losses (CECL)*, in June 2016. This guidance changes the impairment model for most financial assets measured at amortized cost and certain other instruments. Entities will be required to use an expected loss model, replacing the incurred loss model that is currently in use. Under the new guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current condition and reasonable and supportable forecasts. This will result in earlier recognition of loss allowances in most instances. Credit losses related to available-for-sale debt securities (regardless of whether the impairment is considered to be other-than-temporary) will be measured in a manner similar to the present, except that such losses will be recorded as allowances rather than as reductions in the amortized cost of the related securities. With respect to trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures, the guidance requires that an entity estimate its lifetime expected credit loss and record an allowance resulting in the net amount expected to be collected to be reflected as the financial asset. Entities are also required to provide significantly more disclosures, including information used to track credit quality by year of origination for most financing receivables. This guidance is effective for public business entities for the first interim or annual period beginning after December 15, 2019. The standard's provisions will be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. Early adoption by public business entities is permitted for the first interim or annual period beginning after December 15, 2018. The Company is assessing this guidance to determine its impact on the Company's financial position, results of operations and cash flows.

The FASB issued Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),* in March 2016. This guidance is intended to clarify a potential implementation issue with respect to determining whether an entity is a principal or an agent in an arrangement. The guidance provides indicators to assist in this evaluation when another party is involved in the arrangement to identify which party is the principal and which party is the agent. The effective date for this guidance is the same as the effective date of Update 2014-09, Revenue from Contracts with Customers. The adoption of this standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

The FASB issued Update No. 2016-02, *Leases*, in February 2016. From the lessee's perspective, the new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for lessees. The guidance also eliminates the current real estate-specific provision and changes the guidance on sale-leaseback transactions, initial direct costs and lease executory costs. With respect to lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. All entities will classify leases to determine how to recognize lease-related revenue and expense. In applying this guidance entities will also need to determine whether an arrangement contains a lease or service agreement. Disclosures are required by lessees and lessors to meet the objective of enabling users of financials statements to assess the amount, timing, and uncertainty of cash flows arising from leases. For public entities, this guidance is effective for the first interim or annual period beginning after December 15, 2018. Early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is assessing this guidance to determine its impact on the Company's financial position, results of operations and cash flows.

The FASB issued Update No. 2016-01, *Financial Instruments - Overall*, in January 2016. This guidance requires entities to measure equity investments at fair value and recognize changes on fair value in net income. The guidance also provides a new measurement alternative for equity investments that do not have readily determinable fair values and don't qualify for the net asset value practical expedient. Entities will have to record changes in instrument –specific credit risk for financial liabilities measured under the fair value option in other comprehensive income, except for certain financial liabilities of consolidated collateralized financing entities. Entities will also have to reassess the realizability of a deferred tax asset related to an available-for-sale debt security in combination with their other deferred tax assets. This simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. For public entities, the guidance in this update is effective for the first interim or annual period beginning after December 15, 2017. Early adoption by public entities is permitted as of the beginning of the year of adoption for selected amendments by a cumulative effect adjustment to the balance sheet. The adoption of this standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

The FASB issued Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, 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's revenue is comprised of net interest income and noninterest income. As ASU 2014-09 does not apply to revenue associated with financial instruments, net interest income, mortgage origination and servicing activities, and gains and losses from securities are not impacted by the standard. For other revenue streams such as: 1) wealth management income; 2) insurance agency commissions; 3) bank card fees; and 4) service charges on deposit accounts, the Company does not expect this standard to have a material impact on the timing of revenue recognition. The Company is currently evaluating the disclosure requirements of the standard. The adoption of this standard is not expected to have a material 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, 2017				December 31, 2016			
(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	**$114,346**	**$ -**	**$(1,985)**	**$112,361**	$124,314	$ 32	$(2,556)	$121,790
State and municipal	**315,972**	**9,039**	**(78)**	**324,933**	281,090	7,180	(586)	287,684
Mortgage-backed	**332,578**	**2,762**	**(3,065)**	**332,275**	314,029	2,851	(4,169)	312,711
Corporate debt	**9,100**	**289**	**-**	**9,389**	9,100	34	-	9,134
Trust preferred	**931**	**-**	**(23)**	**908**	1,089	-	(77)	1,012
Total debt securities	**772,927**	**12,090**	**(5,151)**	**779,866**	729,622	10,097	(7,388)	732,331
Marketable equity securities	**212**	**-**	**-**	**212**	1,223	-	-	1,223
Total investments available-for-sale	**$773,139**	**$ 12,090**	**$(5,151)**	**$780,078**	$730,845	$10,097	$(7,388)	$733,554

Any unrealized losses in the U.S. government agencies, state and municipal, mortgage-backed or corporate debt investment securities at June 30, 2017 are not the result of credit related events but due to changes in interest rates. These declines in fair market value are considered temporary in nature and are expected to recover over time as these securities approach maturity.

The mortgage-backed securities portfolio at June 30, 2017 is composed entirely of either the most senior tranches of GNMA, FNMA or FHLMC collateralized mortgage obligations ($114.2 million), or GNMA, FNMA or FHLMC mortgage-backed securities ($218.1 million). The Company does not intend to sell these securities and has sufficient liquidity to hold these securities for an adequate period of time to allow for any anticipated recovery in fair value.

At June 30, 2017 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, totaled $0.9 million with a fair value of the same amount. The fair value of this security was determined by management through the use of a third party valuation specialist due to the limited trading activity for this security.

As a result of this evaluation, it was determined that the pooled trust preferred security had not incurred any credit-related other-than-temporary impairment ("OTTI") for the quarter ended June 30, 2017. The security had an insignificant unrealized loss at June 30, 2017 recognized in other comprehensive income ("OCI"). The security is not expected to be sold and the Company has the ability to hold it until maturity.

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, 2016	$	531
Additions for credit losses not previously recognized		-
Cumulative credit losses on investment securities through June 30, 2017	$	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, 2017		
			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	**11**	**$ 92,362**	**$ 1,985**	**$ -**	**$ 1,985**
State and municipal	**15**	**12,760**	**38**	**40**	**78**
Mortgage-backed	**36**	**186,396**	**2,900**	**165**	**3,065**
Trust preferred	**1**	**908**	**23**	**-**	**23**
Total	**63**	**$ 292,426**	**$ 4,946**	**$ 205**	**$ 5,151**

			December 31, 2016		
			Continuous Unrealized Losses Existing for:		
(Dollars in thousands)	Number of Securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
U.S. government agencies	12	$ 96,788	$ 2,556	$ -	$ 2,556
State and municipal	53	48,010	516	70	586
Mortgage-backed	37	212,844	3,971	198	4,169
Trust preferred	1	1,012	-	77	77
Total	103	$ 358,654	$ 7,043	$ 345	$ 7,388

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, 2017		December 31, 2016	
(In thousands)	**Amortized Cost**	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Due in one year or less	**$ 9,400**	**$ 9,503**	$ 7,493	$ 7,541
Due after one year through five years	**156,757**	**162,574**	156,953	162,233
Due after five years through ten years	**267,567**	**269,361**	282,468	282,713
Due after ten years	**339,203**	**338,428**	282,708	279,844
Total debt securities available for sale	**$ 772,927**	**$ 779,866**	$ 729,622	$ 732,331

At June 30, 2017 and December 31, 2016, investments available-for-sale with a book value of $428.2 million and $453.0 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, 2017 and December 31, 2016.

Equity securities

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

(In thousands)	**June 30, 2017**	December 31, 2016
Federal Reserve Bank stock	**$ 8,366**	$ 8,334
Federal Home Loan Bank of Atlanta stock	**33,047**	37,760
Total equity securities	**$ 41,413**	$ 46,094

Note 3 – LOANS

Outstanding loan balances at June 30, 2017 and December 31, 2016 are net of unearned income including net deferred loan costs of $2.1 million and $1.4 million, respectively. The loan portfolio segment balances at the dates indicated are presented in the following table:

(In thousands)	**June 30, 2017**	December 31, 2016
Residential real estate:		
Residential mortgage	**$ 871,766**	$ 841,692
Residential construction	**169,901**	150,229
Commercial real estate:		
Commercial owner occupied real estate	**797,629**	775,552
Commercial investor real estate	**1,069,988**	928,113
Commercial acquisition, development and construction	**314,259**	308,279
Commercial business	**451,570**	467,286
Consumer	**458,058**	456,657
Total loans	**$ 4,133,171**	$ 3,927,808

Note 4 – CREDIT QUALITY ASSESSMENT

Allowance for Loan Losses

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

	Six Months Ended June 30,	
(In thousands)	**2017**	2016
Balance at beginning of year	**$ 44,067**	$ 40,895
Provision for loan losses	**1,516**	4,193
Loan charge-offs	**(824)**	(2,272)
Loan recoveries	**320**	568
Net charge-offs	**(504)**	(1,704)
Balance at period end	**$ 45,079**	$ 43,384

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

	For the Six Months Ended June 30, 2017							
		Commercial Real Estate				Residential Real Estate		
	Commercial	Commercial	Commercial Investor	Commercial Owner Occupied		Residential	Residential	
(Dollars in thousands)	Business	AD&C	R/E	R/E	Consumer	Mortgage	Construction	Total
Balance at beginning of year	**$ 7,539**	**$ 4,652**	**$ 12,939**	**$ 7,885**	**$ 2,828**	**$ 7,261**	**$ 963**	**$ 44,067**
Provision (credit)	**1,877**	**(630)**	**150**	**(1,204)**	**464**	**725**	**134**	**1,516**
Charge-offs	**(411)**	**-**	**-**	**-**	**(404)**	**(9)**	**-**	**(824)**
Recoveries	**44**	**103**	**83**	**-**	**48**	**28**	**14**	**320**
Net recoveries (charge-offs)	**(367)**	**103**	**83**	**-**	**(356)**	**19**	**14**	**(504)**
Balance at end of period	**$ 9,049**	**$ 4,125**	**$ 13,172**	**$ 6,681**	**$ 2,936**	**$ 8,005**	**$ 1,111**	**$ 45,079**
Total loans and leases	**$451,570**	**$314,259**	**$1,069,988**	**$797,629**	**$458,058**	**$871,766**	**$169,901**	**$4,133,171**
Allowance for loans losses to total loans ratio	**2.00%**	**1.31%**	**1.23%**	**0.84%**	**0.64%**	**0.92%**	**0.65%**	**1.09%**
Balance of loans specifically evaluated for impairment	**$ 8,977**	**$ 137**	**$ 6,934**	**$ 5,667**	**$ na.**	**$ 2,888**	**$ -**	**$ 24,603**
Allowance for loans specifically evaluated for impairment	**$ 4,740**	**$ -**	**$ 736**	**$ 296**	**$ na.**	**$ -**	**$ -**	**$ 5,772**
Specific allowance to specific loans ratio	**52.80%**	**-**	**10.61%**	**5.22%**	**na.**	**-**	**-**	**23.46%**
Balance of loans collectively evaluated	**$442,593**	**$314,122**	**$1,063,054**	**$791,962**	**$458,058**	**$868,878**	**$169,901**	**$4,108,568**
Allowance for loans collectively evaluated	**$ 4,309**	**$ 4,125**	**$ 12,436**	**$ 6,385**	**$ 2,936**	**$ 8,005**	**$ 1,111**	**$ 39,307**
Collective allowance to collective loans ratio	**0.97%**	**1.31%**	**1.17%**	**0.81%**	**0.64%**	**0.92%**	**0.65%**	**0.96%**

	For the Year Ended December 31,2016							
		Commercial Real Estate				Residential Real Estate		
	Commercial	Commercial	Commercial Investor	Commercial Owner Occupied		Residential	Residential	
(Dollars in thousands)	Business	AD&C	R/E	R/E	Consumer	Mortgage	Construction	Total
Balance at beginning of year	$ 6,529	$ 4,691	$ 10,440	$ 7,984	$ 3,456	$ 6,901	$ 894	$ 40,895
Provision (credit)	1,563	(31)	2,563	(104)	112	1,406	37	5,546
Charge-offs	(597)	(48)	(197)	-	(888)	(1,404)	-	(3,134)

Recoveries	44	40	133	5	148	358	32	760
Net recoveries (charge-offs)	(553)	(8)	(64)	5	(740)	(1,046)	32	(2,374)
Balance at end of period	$ 7,539	$ 4,652	$ 12,939	$ 7,885	$ 2,828	$ 7,261	$ 963	$ 44,067
Total loans and leases	$467,286	$308,279	$928,113	$775,552	$456,657	$841,692	$150,229	$3,927,808
Allowance for loan losses to total loans ratio	1.61%	1.51%	1.39%	1.02%	0.62%	0.86%	0.64%	1.12%
Balance of loans specifically evaluated for impairment	$ 7,018	$ 137	$ 8,107	$ 5,567	$ na.	$ 3,263	$ -	$ 24,092
Allowance for loans specifically evaluated for impairment	$ 2,604	$ -	$ 1,736	$ 485	$ na.	$ -	$ -	$ 4,825
Specific allowance to specific loans ratio	37.10%	-	21.41%	8.71%	na.	-	-	20.03%
Balance of loans collectively evaluated	$460,268	$308,142	$920,006	$769,985	$456,657	$838,429	$150,229	$3,903,716
Allowance for loans collectively evaluated	$ 4,935	$ 4,652	$ 11,203	$ 7,400	$ 2,828	$ 7,261	$ 963	$ 39,242
Collective allowance to collective loans ratio	1.07%	1.51%	1.22%	0.96%	0.62%	0.87%	0.64%	1.01%

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

(In thousands)	**June 30, 2017**	December 31, 2016
Impaired loans with a specific allowance	**$ 14,193**	$ 13,563
Impaired loans without a specific allowance	**10,410**	10,529
Total impaired loans	**$ 24,603**	$ 24,092
Allowance for loan losses related to impaired loans	**$ 5,772**	$ 4,825
Allowance for loan losses related to loans collectively evaluated	**39,307**	39,242
Total allowance for loan losses	**$ 45,079**	$ 44,067
Average impaired loans for the period	**$ 24,190**	$ 26,382
Contractual interest income due on impaired loans during the period	**$ 1,281**	$ 2,082
Interest income on impaired loans recognized on a cash basis	**$ 415**	$ 511
Interest income on impaired loans recognized on an accrual basis	**$ 134**	$ 186

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, 2017

		Commercial Real Estate				Total Recorded Investment in Impaired Loans
(In thousands)	**Commercial**	**Commercial AD&C**	**Commercial Investor R/E**	**Commercial Owner Occupied R/E**	**All Other Loans**	
Impaired loans with a specific allowance						
Accruing	**$ 896**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 896**
Non-accruing	**4,405**	**-**	**6,029**	**1,224**	**-**	**11,658**
Restructured accruing	**992**	**-**	**-**	**-**	**-**	**992**
Restructured non-accruing	**8**	**-**	**-**	**639**	**-**	**647**
Balance	**$ 6,301**	**$ -**	**$ 6,029**	**$ 1,863**	**$ -**	**$ 14,193**
Allowance	**$ 4,740**	**$ -**	**$ 736**	**$ 296**	**$ -**	**$ 5,772**
Impaired loans without a specific allowance						
Non-accruing	**$ 1,597**	**$ -**	**$ 426**	**$ 1,907**	**$ -**	**$ 3,930**
Restructured accruing	**282**	**-**	**-**	**741**	**554**	**1,577**
Restructured non-accruing	**797**	**137**	**479**	**1,156**	**2,334**	**4,903**
Balance	**$ 2,676**	**$ 137**	**$ 905**	**$ 3,804**	**$ 2,888**	**$ 10,410**
Total impaired loans						

Accruing	**$ 896**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 896**
Non-accruing	**6,002**	**-**	**6,455**	**3,131**	**-**	**15,588**
Restructured accruing	**1,274**	**-**	**-**	**741**	**554**	**2,569**
Restructured non-accruing	**805**	**137**	**479**	**1,795**	**2,334**	**5,550**
Balance	**$ 8,977**	**$ 137**	**$ 6,934**	**$ 5,667**	**$ 2,888**	**$ 24,603**
Unpaid principal balance in total impaired loans	**$ 10,926**	**$ 4,398**	**$ 11,514**	**$ 7,822**	**$ 3,710**	**$ 38,370**

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	June 30, 2017					
		Commercial Real Estate				Total Recorded Investment in Impaired Loans
(In thousands)	**Commercial**	**Commercial AD&C**	**Commercial Investor R/E**	**Commercial Owner Occupied R/E**	**All Other Loans**	
Average impaired loans for the period	**$ 7,669**	**$ 137**	**$ 7,670**	**$ 5,694**	**$ 3,020**	**$ 24,190**
Contractual interest income due on impaired loans during the period	**$ 436**	**$ 160**	**$ 350**	**$ 265**	**$ 70**	
Interest income on impaired loans recognized on a cash basis	**$ 189**	**$ -**	**$ 14**	**$ 96**	**$ 116**	
Interest income on impaired loans recognized on an accrual basis	**$ 97**	**$ -**	**$ -**	**$ 18**	**$ 19**	

	December 31, 2016					
		Commercial Real Estate				Total Recorded Investment in Impaired Loans
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	
Impaired loans with a specific allowance						
Non-accruing	$ 2,807	$ -	$ 7,029	$ 1,884	$ -	$ 11,720
Restructured accruing	1,140	-	-	-	-	1,140
Restructured non-accruing	64	-	-	639	-	703
Balance	$ 4,011	$ -	$ 7,029	$ 2,523	$ -	$ 13,563
Allowance	$ 2,604	$ -	$ 1,736	$ 485	$ -	$ 4,825
Impaired loans without a specific allowance						
Non-accruing	$ 1,562	$ -	$ 562	$ 1,083	$ -	$ 3,207
Restructured accruing	45	-	-	744	560	1,349
Restructured non-accruing	1,400	137	516	1,217	2,703	5,973
Balance	$ 3,007	$ 137	$ 1,078	$ 3,044	$ 3,263	$ 10,529
Total impaired loans						
Non-accruing	$ 4,369	$ -	$ 7,591	$ 2,967	$ -	$ 14,927
Restructured accruing	1,185	-	-	744	560	2,489
Restructured non-accruing	1,464	137	516	1,856	2,703	6,676
Balance	$ 7,018	$ 137	$ 8,107	$ 5,567	$ 3,263	$ 24,092
Unpaid principal balance in total impaired loans	$ 10,082	$ 4,398	$ 12,805	$ 7,760	$ 3,971	$ 39,016

December 31, 2016

(In thousands)	Commercial	Commercial AD&C	Commercial Real Estate: Commercial Investor R/E	Commercial Real Estate: Commercial Owner Occupied R/E	All Other Loans	Total Recorded Investment in Impaired Loans
Average impaired loans for the period	$ 5,646	$ 150	$ 9,480	$ 6,561	$ 4,545	$ 26,382
Contractual interest income due on impaired loans during the period	$ 570	$ 294	$ 718	$ 310	$ 190	
Interest income on impaired loans recognized on a cash basis	$ 153	$ -	$ 43	$ 266	$ 49	
Interest income on impaired loans recognized on an accrual basis	$ 107	$ -	$ -	$ 37	$ 42	

Credit Quality

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

	June 30, 2017							
		Commercial Real Estate				Residential Real Estate		
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Consumer	Residential Mortgage	Residential Construction	Total
Non-performing loans and assets:								
Non-accrual loans	**$ 6,807**	**$ 137**	**$ 6,934**	**$ 4,926**	**$ 3,111**	**$ 7,101**	**$ 187**	**$ 29,203**
Loans 90 days past due	**-**	**-**	**-**	**424**	**4**	**-**	**-**	**428**
Restructured loans	**1,274**	**-**	**-**	**741**	**-**	**554**	**-**	**2,569**
Total non-performing loans	**8,081**	**137**	**6,934**	**6,091**	**3,115**	**7,655**	**187**	**32,200**
Other real estate owned	**39**	**365**	**395**	**-**	**-**	**661**	**-**	**1,460**
Total non-performing assets	**$ 8,120**	**$ 502**	**$ 7,329**	**$ 6,091**	**$ 3,115**	**$ 8,316**	**$ 187**	**$ 33,660**

	December 31, 2016							
		Commercial Real Estate				Residential Real Estate		
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Consumer	Residential Mortgage	Residential Construction	Total
Non-performing loans and assets:								
Non-accrual loans	$ 5,833	$ 137	$ 8,107	$ 4,823	$ 2,859	$ 7,257	$ 195	$ 29,211
Loans 90 days past due	-	-	-	-	-	232	-	232
Restructured loans	1,185	-	-	744	-	560	-	2,489
Total non-performing loans	7,018	137	8,107	5,567	2,859	8,049	195	31,932
Other real estate owned	39	365	395	637	-	475	-	1,911
Total non-performing assets	$ 7,057	$ 502	$ 8,502	$ 6,204	$ 2,859	$ 8,524	$ 195	$ 33,843

	June 30, 2017							
		Commercial Real Estate				Residential Real Estate		
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Consumer	Residential Mortgage	Residential Construction	Total
<u>Past due loans</u>								
31-60 days	**$ 4,980**	**$ -**	**$ 219**	**$ 580**	**$ 1,071**	**$ 8,645**	**$ -**	**$ 15,495**

61-90 days	**191**	**-**	**181**	**304**	**141**	**2,623**	**-**	**3,440**
> 90 days	**-**	**-**	**-**	**424**	**4**	**-**	**-**	**428**
Total past due	**5,171**	**-**	**400**	**1,308**	**1,216**	**11,268**	**-**	**19,363**
Non-accrual loans	**6,807**	**137**	**6,934**	**4,926**	**3,111**	**7,101**	**187**	**29,203**
Current loans	**439,592**	**314,122**	**1,062,654**	**791,395**	**453,731**	**853,397**	**169,714**	**4,084,605**
Total loans	**$451,570**	**$314,259**	**$1,069,988**	**$797,629**	**$458,058**	**$871,766**	**$169,901**	**$4,133,171**

	December 31, 2016							
		Commercial Real Estate				Residential Real Estate		
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Consumer	Residential Mortgage	Residential Construction	Total
Past due loans								
31-60 days	$ 663	$ 896	$ 850	$ 1,479	$ 808	$ 3,969	$ -	$ 8,665
61-90 days	672	-	1,206	744	1,104	2,139	-	5,865
> 90 days	-	-	-	-	-	232	-	232
Total past due	1,335	896	2,056	2,223	1,912	6,340	-	14,762
Non-accrual loans	5,833	137	8,107	4,823	2,859	7,257	195	29,211
Current loans	460,118	307,246	917,950	768,506	451,886	828,095	150,034	3,883,835
Total loans	$467,286	$308,279	$928,113	$775,552	$456,657	$841,692	$150,229	$3,927,808

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

		June 30, 2017			
		Commercial Real Estate			
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Total
Pass	$ 432,870	$ 314,122	$ 1,060,362	$ 783,831	$ 2,591,185
Special Mention	2,848	-	2,357	5,645	10,850
Substandard	15,852	137	7,269	8,153	31,411
Doubtful	-	-	-	-	-
Total	$ 451,570	$ 314,259	$ 1,069,988	$ 797,629	$ 2,633,446

		December 31, 2016			
		Commercial Real Estate			
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Total
Pass	$ 442,725	$ 308,142	$ 917,255	$ 758,651	$ 2,426,773
Special Mention	10,010	-	2,395	9,255	21,660
Substandard	14,551	137	8,463	7,646	30,797
Doubtful	-	-	-	-	-
Total	$ 467,286	$ 308,279	$ 928,113	$ 775,552	$ 2,479,230

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, 2017		
		Residential Real Estate		
(In thousands)	Consumer	Residential Mortgage	Residential Construction	Total
Performing	$ 454,943	$ 864,111	$ 169,714	$ 1,488,768
Non-performing:				
90 days past due	4	-	-	4
Non-accruing	3,111	7,101	187	10,399
Restructured loans	-	554	-	554
Total	$ 458,058	$ 871,766	$ 169,901	$ 1,499,725

		December 31, 2016		
		Residential Real Estate		
(In thousands)	Consumer	Residential Mortgage	Residential Construction	Total

Performing	$ 453,798	$ 833,643	$ 150,034	$ 1,437,475
Non-performing:				
90 days past due	-	232	-	232
Non-accruing	2,859	7,257	195	10,311
Restructured loans	-	560	-	560
Total	$ 456,657	$ 841,692	$ 150,229	$ 1,448,578

During the six months ended June 30, 2017, the Company restructured $0.2 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 2017 did not have any specific reserves. For the year ended December 31, 2016, the Company restructured $0.6 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 2016 did not have significant specific reserves at December 31, 2016. The commitments to lend additional funds on loans that have been restructured at June 30, 2017 and December 31, 2016 were not significant.

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, 2017					
		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	$ 244	$ -	$ -	$ -	$ -	$ 244
Restructured non-accruing	-	-	-	-	-	-
Balance	$ 244	$ -	$ -	$ -	$ -	$ 244
Specific allowance	$ -	$ -	$ -	$ -	$ -	$ -
Restructured and subsequently defaulted	$ -	$ -	$ -	$ -	$ -	$ -

	For the Year Ended December 31, 2016					
		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	$ 42	$ -	$ -	$ 508	$ -	$ 550
Restructured non-accruing	-	-	-	-	-	-
Balance	$ 42	$ -	$ -	$ 508	$ -	$ 550
Specific allowance	$ 39	$ -	$ -	$ -	$ -	$ 39
Restructured and subsequently defaulted	$ -	$ -	$ 479	$ -	$ -	$ 479

Other Real Estate Owned

Other real estate owned totaled $1.5 million and $1.9 million at June 30, 2017 and December 31, 2016, 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, 2017			**Weighted**	December 31, 2016			Weighted
(Dollars in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Average Remaining Life**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Average Remaining Life
Amortizing intangible assets:								
Other identifiable intangibles	**$ 786**	**$ (157)**	**$ 629**	**13.4 years**	$ 786	$ (106)	$ 680	13.8 years
Total amortizing intangible assets	**$ 786**	**$ (157)**	**$ 629**		$ 786	$ (106)	$ 680	
Goodwill	**$ 85,768**		**$ 85,768**		$ 85,768		$ 85,768	

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

(In thousands)	Amount	
2017	$	49
2018		95
2019		83
2020		66
Thereafter		336
Total amortizing intangible assets	$	629

Note 6 – Deposits

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

(In thousands)	**June 30, 2017**	December 31, 2016
Noninterest-bearing deposits	**$ 1,302,536**	$ 1,138,139
Interest-bearing deposits:		
Demand	**605,976**	615,058
Money market savings	**991,503**	927,837
Regular savings	**329,165**	310,471
Time deposits of less than $100,000	**282,234**	258,621
Time deposits of $100,000 or more	**374,031**	327,418
Total interest-bearing deposits	**2,582,909**	2,439,405
Total deposits	**$ 3,885,445**	$ 3,577,544

Note 7 – Stockholders' Equity

The Company re-approved a stock repurchase program in August 2015 that permits the repurchase of up to 5% of the Company's outstanding shares of common stock or approximately 1.2 million shares. Repurchases, which will be conducted through open market purchases or privately negotiated transactions, will be made depending on market conditions and other factors. The Company did not repurchase any shares during the first six months of 2017.

Note 8 – Share Based Compensation

At June 30, 2017, the Company had two share based compensation plans in existence, the 2005 Omnibus Stock Plan ("Omnibus Stock Plan") and the 2015 Omnibus Incentive Plan ("Omnibus Incentive Plan"). The Omnibus Stock Plan expired during the second quarter of 2015 but has outstanding options that may still be exercised. The Omnibus Incentive Plan is described in the following paragraph.

The Company's Omnibus Incentive Plan was approved on May 6, 2015 and provides for the granting of incentive stock options, non-qualifying stock options, stock appreciation rights, restricted stock grants, restricted stock units and performance awards to selected employees on a periodic basis at the discretion of the board. The Omnibus Incentive Plan authorizes the issuance of up to 1,500,000 shares of common stock, of which 1,339,989 are available for issuance at June 30, 2017, has a term of ten years, and is administered by a committee of at least three directors appointed by the board of directors. Options granted under the plan have an exercise price which may not be less than 100% of the fair market value of the common stock on the date of the grant and must be exercised within seven to ten years from the date of grant. The exercise price of stock options must be paid for in full in cash or shares of common stock, or a combination of both. The board committee has the discretion when making a grant of stock options to impose restrictions on the shares to be purchased upon the exercise of such options. The Company generally issues authorized but previously unissued shares to satisfy option exercises.

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

	Six Months Ended June 30,	
	2017	2016
Dividend yield	**2.45%**	3.48%
Weighted average expected volatility	**40.27%**	41.54%
Weighted average risk-free interest rate	**2.14%**	1.42%
Weighted average expected lives (in years)	**5.67**	5.71
Weighted average grant-date fair value	**$13.42**	$7.75

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 $0.5 million and $0.5 million for the three months ended June 30, 2017 and 2016, respectively, related to the awards of stock options and restricted stock grants. Compensation expense of $1.0 million and $0.9 million was recognized for the six months ended June 30, 2017 and 2016, respectively. The intrinsic value of stock options exercised in the six months ended June 30, 2017 and 2016 was $0.6 million and $0.4 million, respectively. The total of unrecognized compensation cost related to stock options was approximately $0.3 million as of June 30, 2017. 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 $5.3 million as of June 30, 2017. That cost is expected to be recognized over a weighted average period of approximately 3.4 years. The fair value of the options vested during the six months ended June 30, 2017 and 2016, was not significant.

In the first quarter of 2017, 12,941 stock options were granted, subject to a three year vesting schedule with one third of the options vesting on April 1st of each year. The Company granted 55,211 shares of restricted stock in the first quarter of 2017, 6,479 shares are subject to a three year vesting schedule with one third of the shares vesting each year and 41,859 shares are subject to a five year vesting schedule with one fifth of the shares vesting each year. All of these restricted shares will vest on April 1st of each year. An additional 6,873 shares of performance based restricted stock grants were also approved as part of the restricted shares granted in the first quarter. The performance shares are subject to cliff vesting after three years based on the relative performance of the Company's stock price in comparison to a selected peer group. Vesting can vary from 0-150% of the initial grant based on the results of the Company's stock performance.

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

	Number of Common Shares	Weighted Average Exercise Share Price	Weighted Average Contractual Remaining Life (Years)	Aggregate Intrinsic Value (in thousands)

Balance at January 1, 2017	108,503	$ 22.46		$ 1,902
Granted	12,941	$ 42.48		
Exercised	(27,284)	$ 19.00		$ 609
Forfeited or expired	(3,577)	$ 30.07		
Balance at June 30, 2017	90,583	$ 26.08	4.0	$ 1,347
Exercisable at June 30, 2017	60,098	$ 22.43	3.0	$ 1,097
Weighted average fair value of options granted during the year		$ 13.42		

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, 2017	212,646	$ 25.19
Granted	55,211	$ 42.48
Vested	(70,382)	$ 23.82
Forfeited	(7,800)	$ 27.21
Restricted stock at June 30, 2017	189,675	$ 30.67

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"). 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)	**2017**	2016	**2017**	2016
Interest cost on projected benefit obligation	**$ 410**	$ 415	**$ 820**	$ 826
Expected return on plan assets	**(496)**	(375)	**(992)**	(747)
Recognized net actuarial loss	**295**	291	**590**	575
Net periodic benefit cost	**$ 209**	$ 331	**$ 418**	$ 654

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. After consideration of these factors, the Company did not make a contribution to the plan during the first quarter of 2017 Management continues to monitor the funding level of the pension plan and may make contributions as necessary during 2017.

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:

(Dollars and amounts in thousands, except per share data)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Net income	**$ 14,741**	$ 10,647	**$ 29,853**	$ 21,460
Basic:				
Basic weighted average EPS shares	**24,198**	23,865	**24,164**	23,920
Basic net income per share	**$ 0.61**	$ 0.45	**$ 1.24**	$ 0.90
Diluted:				
Basic weighted average EPS shares	**24,198**	23,865	**24,164**	23,920
Dilutive common stock equivalents	**65**	244	**95**	246
Dilutive EPS shares	**24,263**	24,109	**24,259**	24,166
Diluted net income per share	**$ 0.61**	$ 0.44	**$ 1.23**	$ 0.89
Anti-dilutive shares	**5**	7	**3**	6

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income is defined as net income plus transactions and other occurrences that are the result of non-owner changes in equity. For condensed financial statements presented for the Company, non-owner changes in equity are comprised of unrealized gains or losses on available-for-sale debt securities and any minimum pension liability adjustments. 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, 2017	**$ 1,642**	**$ (8,256)**	**$ (6,614)**
Other comprehensive income before reclassification, net of tax	**3,314**	**-**	**3,314**
Reclassifications from accumulated other comprehensive income, net of tax	**(767)**	**355**	**(412)**
Current period change in other comprehensive income, net of tax	**2,547**	**355**	**2,902**
Balance at June 30, 2017	**$ 4,189**	**$ (7,901)**	**$ (3,712)**

Unrealized
Gains

(In thousands)	(Losses) on Investments Available-for-Sale	Defined Benefit Pension Plan	Total
Balance at January 1, 2016	$ 6,566	$ (7,863)	$ (1,297)
Other comprehensive income before reclassification, net of tax	7,990	-	7,990
Reclassifications from accumulated other comprehensive income, net of tax	(1,154)	347	(807)
Current period change in other comprehensive income, net of tax	6,836	347	7,183
Balance at June 30, 2016	$ 13,402	$ (7,516)	$ 5,886

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

(In thousands)	Six Months Ended June 30, **2017**		2016	
Unrealized gains/(losses) on investments available-for-sale				
Affected line item in the Statements of Income:				
Investment securities gains	**$**	**1,275**	$	1,919
Income before taxes		**1,275**		1,919
Tax expense		**(508)**		(765)
Net income	**$**	**767**	$	1,154
Amortization of defined benefit pension plan items				
Affected line item in the Statements of Income:				
Recognized actuarial loss[1]	**$**	**(590)**	$	(575)
Income before taxes		**(590)**		(575)
Tax benefit		**235**		228
Net income/(loss)	**$**	**(355)**	$	(347)

(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 $18.3 million with a fair value of $0.9 million as of June 30, 2017 compared to $18.9 million with a fair value of $1.0 million as of December 31, 2016. The swap positions are offset to minimize the potential impact on the Company's financial statements. Fair values of the swaps are carried as both gross assets and gross liabilities in the condensed consolidated statements of condition. The associated net gains and losses on the swaps are recorded in other non-interest income.

Note 13 – Litigation

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

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).

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.

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.

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 and mortgage-backed securities

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 and corporate debt

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. Positions that are not traded in active markets or are subject to transfer restrictions are classified within Level 3 of the fair value hierarchy.

Interest rate swap agreements

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

Assets Measured at Fair Value on a Recurring Basis

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

	June 30, 2017			
(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	**$ -**	**$ 5,743**	**$ -**	**$ 5,743**
Investments available-for-sale:				
U.S. government agencies	**-**	**112,361**	**-**	**112,361**
State and municipal	**-**	**324,933**	**-**	**324,933**
Mortgage-backed	**-**	**332,275**	**-**	**332,275**
Corporate debt	**-**	**-**	**9,389**	**9,389**
Trust preferred	**-**	**-**	**908**	**908**
Marketable equity securities	**-**	**212**	**-**	**212**
Interest rate swap agreements	**-**	**886**	**-**	**886**
Liabilities				
Interest rate swap agreements	**$ -**	**$ (886)**	**$ -**	**$ (886)**

	December 31, 2016			
(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	$ -	$ 13,222	$ -	$ 13,222
Investments available-for-sale:				
U.S. government agencies	-	121,790	-	121,790
State and municipal	-	287,684	-	287,684
Mortgage-backed	-	312,711	-	312,711
Corporate debt	-	-	9,134	9,134
Trust preferred	-	-	1,012	1,012
Marketable equity securities	-	1,223	-	1,223

Interest rate swap agreements		-		1,010		-		1,010
Liabilities								
Interest rate swap agreements	$	-	$	(1,010)	$	-	$	(1,010)

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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, 2017	$	10,146
Principal redemption		(158)
Total unrealized gains included in other comprehensive loss		309
Balance at June 30, 2017	$	10,297

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, 2017									
(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	**$**	**-**	**$**	**-**	**$**	**8,395**	**$**	**8,395**	**$**	**(10,879)**
Other real estate owned		**-**		**-**		**1,460**		**1,460**		**(116)**
Total	**$**	**-**	**$**	**-**	**$**	**9,855**	**$**	**9,855**	**$**	**(10,995)**

	December 31, 2016									
(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	$	-	$	-	$	8,981	$	8,981	$	(10,600)
Other real estate owned		-		-		1,911		1,911		(107)
Total	$	-	$	-	$	10,892	$	10,892	$	(10,707)

At June 30, 2017, impaired loans totaling $24.6 million were written down to fair value of $18.8 million as a result of specific loan loss allowances of $5.8 million associated with the impaired loans which was included in the allowance for loan losses. Impaired loans totaling $24.1 million were written down to fair value of $19.3 million at December 31, 2016 as a result of specific loan loss allowances of $4.8 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 based on observable inputs ("Level 2") or unobservable inputs ("Level 3").

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, 2017		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					
Other equity securities	**$ 41,413**	**$ 41,413**	**$ -**	**$ 41,413**	**$ -**
Loans, net of allowance	**4,088,092**	**4,139,371**	**-**	**-**	**4,139,371**
Other assets	**94,526**	**94,526**	**-**	**94,526**	**-**
Financial Liabilities					
Time deposits	**$ 656,265**	**$ 654,677**	**$ -**	**$ 654,677**	**$ -**
Securities sold under retail repurchase agreements and federal funds purchased	**127,312**	**127,312**	**-**	**127,312**	**-**
Advances from FHLB	**670,000**	**677,244**	**-**	**677,244**	**-**

	December 31, 2016		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					
Other equity securities	$ 46,094	$ 46,094	$ -	$ 46,094	$ -
Loans, net of allowance	3,883,741	3,933,700	-	-	3,933,700
Other assets	93,328	93,328	-	93,328	-
Financial Liabilities					
Time deposits	$ 586,039	$ 584,868	$ -	$ 584,868	$ -
Securities sold under retail repurchase agreements and federal funds purchased	125,119	125,119	-	125,119	-
Advances from FHLB	790,000	800,756	-	800,756	-

Subordinated debentures	30,000	29,985	-	-	29,985

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, 2017 and December 31, 2016 as determined by each insurance carrier.

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 the acquired business was retained. The accounting policies of the segments are the same as those of the Company. However, the segment data reflect inter-segment transactions and balances.

The Community Banking segment is conducted through Sandy Spring Bank and involves delivering a broad range of financial products and services, including various loan and deposit products to both individuals and businesses. Parent company income is included in the Community Banking segment, as the majority of effort of these functions is related to this segment. Major revenue sources include net interest income, gains on sales of mortgage loans, trust income fees and service charges on deposit accounts. Expenses include personnel, occupancy, marketing, equipment and other expenses. Non-cash charges associated with amortization of intangibles was not significant for the three and six months ended June 30, 2017 and 2016, 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 was not significant for the three and six months ended June 30, 2017 and 2016, 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 $1.3 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 was not significant for the three and six months ended June 30, 2017 and 2016, 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, 2017				
(In thousands)	**Community Banking**	**Insurance**	**Investment Mgmt.**	**Inter-Segment Elimination**	**Total**
Interest income	**$ 48,576**	**$ -**	**$ 2**	**$ (2)**	**$ 48,576**
Interest expense	**6,252**	**-**	**-**	**(2)**	**6,250**
Provision for loan losses	**1,322**	**-**	**-**	**-**	**1,322**
Noninterest income	**10,544**	**1,223**	**2,014**	**(210)**	**13,571**
Noninterest expense	**30,602**	**1,324**	**1,152**	**(210)**	**32,868**
Income before income taxes	**20,944**	**(101)**	**864**	**-**	**21,707**
Income tax expense	**6,669**	**(40)**	**337**	**-**	**6,966**
Net income	**$ 14,275**	**$ (61)**	**$ 527**	**$ -**	**$ 14,741**
Assets	**$ 5,273,823**	**$ 8,046**	**$ 13,676**	**$ (25,024)**	**$ 5,270,521**

	Three Months Ended June 30, 2016				
(In thousands)	Community Banking	Insurance	Investment Mgmt.	Inter-Segment Elimination	Total
Interest income	$ 41,804	$ -	$ 1	$ (2)	$ 41,803
Interest expense	5,073	-	-	(2)	5,071
Provision for loan losses	2,957	-	-	-	2,957
Non-interest income	10,136	950	1,843	(178)	12,751
Non-interest expense	28,999	1,030	1,020	(178)	30,871
Income before income taxes	14,911	(80)	824	-	15,655
Income tax expense	4,718	(31)	321	-	5,008
Net income	$ 10,193	$ (49)	$ 503	$ -	$ 10,647
Assets	$ 4,742,368	$ 5,754	$ 11,601	$ (20,274)	$ 4,739,449

	Six Months Ended June 30, 2017				
(In thousands)	**Community Banking**	**Insurance**	**Investment Mgmt.**	**Inter-Segment Elimination**	**Total**
Interest income	**$ 94,533**	**$ 1**	**$ 4**	**$ (4)**	**$ 94,534**
Interest expense	**11,959**	**-**	**-**	**(4)**	**11,955**
Provision for loan losses	**1,516**	**-**	**-**	**-**	**1,516**
Noninterest income	**19,630**	**2,975**	**4,017**	**(419)**	**26,203**
Noninterest expense	**58,401**	**2,679**	**2,188**	**(419)**	**62,849**
Income before income taxes	**42,287**	**297**	**1,833**	**-**	**44,417**
Income tax expense	**13,729**	**121**	**714**	**-**	**14,564**

Net income	**$ 28,558**	**$ 176**	**$ 1,119**	**$ -**	**$ 29,853**
Assets	**$ 5,273,823**	**$ 8,046**	**$ 13,676**	**$ (25,024)**	**$ 5,270,521**

	Six Months Ended June 30, 2016				
(In thousands)	Community Banking	Insurance	Investment Mgmt.	Inter-Segment Elimination	Total
Interest income	$ 83,457	$ 1	$ 2	$ (4)	$ 83,456
Interest expense	10,606	-	-	(4)	10,602
Provision for loan losses	4,193	-	-	-	4,193
Non-interest income	20,355	2,403	3,712	(356)	26,114
Non-interest expense	59,379	2,201	1,964	(356)	63,188
Income before income taxes	29,634	203	1,750	-	31,587
Income tax expense	9,362	83	682	-	10,127
Net income	$ 20,272	$ 120	$ 1,068	$ -	$ 21,460
Assets	$ 4,742,368	$ 5,754	$ 11,601	$ (20,274)	$ 4,739,449

Note 16 – PENDING AQUISITION

On May 15, 2017, the Company and WashingtonFirst Bankshares, Inc., a Virginia corporation ("WashingtonFirst") and parent company for WashingtonFirst Bank, entered into a definitive agreement and plan of merger that provides for WashingtonFirst to merge with and into the Company (the "Merger"). At the effective time of the Merger, the combined entity shall exist as a Maryland corporation.

Subsequent to the effective date of the Merger, WashingtonFirst Bank, a Virginia state-chartered bank and a wholly-owned subsidiary of WashingtonFirst, will merge with and into the Bank (the "Bank Merger"). The Bank will survive the Bank Merger and continue to exist as a Maryland banking corporation.

Under the terms of the agreement, WashingtonFirst shareholders are expected to receive 0.8713 shares of Company common stock for each share owned of WashingtonFirst common stock, subject to adjustment if the Company's average stock price during a specified measurement period prior to closing is more than $50.15 or less than $37.07 per share. The transaction, which is expected to close in the fourth quarter of 2017, has a value of approximately $498 million in the aggregate, based on the Company's closing price of $42.72 on May 15, 2017. Upon closing, Sandy Spring shareholders will own approximately 67.8% of the combined company and WashingtonFirst's shareholders will own approximately 32.2% of the combined company.

As of March 31, 2017, WashingtonFirst had $2.1 billion in assets with 19 full-service community banking offices throughout the Washington D.C. Metropolitan region. In addition, WashingtonFirst also provides wealth management services through its subsidiary, 1st Portfolio Wealth Advisors, and mortgage banking services through its subsidiary, WashingtonFirst Mortgage Corporation.

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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 an independent, community oriented commercial banking business that conducts full-service banking through 44 community offices located in Central Maryland, Northern Virginia and Washington D.C. The Bank is a state chartered bank subject to supervision and regulation by the Federal Reserve and the State of Maryland. The Bank's deposit accounts are insured by the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation (the "FDIC") to the maximum permitted by law. The Bank is a member of the Federal Reserve System and is an Equal Housing Lender. The Company, the Bank, and its other subsidiaries are Affirmative Action/Equal Opportunity Employers.

The Company is a $5.3 billion 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.

On May 16, 2017, the Company announced it had entered into a definitive agreement and plan of merger pursuant to which WashingtonFirst Bankshares, Inc., the parent company for WashingtonFirst Bank, will merge with and into the Company in a transaction valued at approximately $498 million. WashingtonFirst, headquartered in Reston, Virginia, has 19 community banking offices and more than $2.1 billion in assets (as of March 31, 2017).

Overview

Net income for the Company for the second quarter of 2017 totaled $14.7 million ($0.61 per diluted share) as compared to net income of $10.6 million ($0.44 per diluted share) for the second quarter of 2016. These results reflect the following events:

- Average total loans for the second quarter of 2017 increased 13% compared to the second quarter of 2016 due primarily to organic growth of 16% in the commercial loan portfolio. Overall, the entire portfolio grew $461 million over the prior year period.

- Average total deposits grew 11% to $3.9 billion for the second quarter of 2017 as compared to $3.5 billion for the second quarter of 2016.

- The net interest margin was 3.60% for the second quarter of 2017, compared to 3.51% for the second quarter of 2016 and 3.51% for the first quarter of 2017.

- The return on average equity for the second quarter of 2017 increased 32% to 10.80% as compared to 8.21% from the prior year.

- The Non-GAAP efficiency ratio was 54.10% for the current quarter as compared to 59.12% for the second quarter of 2016 and 54.78% for the first quarter of 2017.

The local economy continues to display certain positive economic trends such as lower unemployment and increased housing starts; however, these trends have been tempered by other concerns such as the lack of wage growth and the strength of the dollar. These factors in concert have acted to restrict the pace of economic expansion. Volatility in global economic markets and geo-political unrest has continued to cause uncertainty in the financial markets. Furthermore, concern over rising interest rates has acted to restrain confidence among individual consumers and small and mid-sized businesses. In light of this mixed economic environment, management is optimistic that the regional economy will continue to improve and present further growth opportunities for the Company.

Total assets at June 30, 2017 increased 4% compared to December 31, 2016 driven by loan balances that increased 5% compared to the prior year end due to growth in commercial loans. Customer funding sources, which include deposits plus other short-term borrowings from core customers, increased 8% compared to balances at December 31, 2016. The increase in customer funding sources was driven primarily by increases of 9% in noninterest-bearing and interest-bearing transaction accounts and 7% in money market savings accounts. Additionally, certificates of deposit increased 12% compared to the balances at December 31, 2016 as the Company increased rates to fund loan growth. 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. During the first six months of 2017, stockholders' equity increased $21 million to $555 million due to the increase in retained earnings during the period.

Non-performing loans represented 0.78% of total assets at June 30, 2017 compared to 0.85% at June 30, 2016 due to asset growth. The Company's non-performing assets were $32.2 million at June 30, 2017 compared to $31.4 million at June 30, 2016. The ratio of net charge-offs to average loans was 0.01% for the second quarter of 2017 compared to 0.15% for the prior year quarter.

The net interest margin was 3.60% for the second quarter of 2017, compared to 3.51% for the second quarter of 2016. The quarter's margin included the effect of the receipt of $0.7 million from the full payoff of a previously acquired credit-impaired loan. Exclusive of this non-core item, the margin would have been 3.54%. The Company continued to manage its net interest margin through the prepayment of higher rate FHLB advances, sales of selected investment securities and the extinguishment of $30 million of subordinated debentures in the first quarter of 2017. These transactions have contributed to an improving net interest margin in the second quarter of 2017 compared to the second quarter of 2016.

The provision for loan losses was $1.3 million for the second quarter of 2017 compared to $3.0 million for the second quarter of 2016. The decrease in the current quarter's charge versus the prior year's quarter reflected improved loan portfolio credit quality that partially offset the effects of loan growth on the provision over the past year.

Non-interest income increased to $13.6 million for the second quarter of 2017 compared to $12.8 million for the second quarter of 2016. The second quarter of 2017 included gains of $1.3 million on sales of investment securities. The second quarter of 2016 included a $1.2 million gain on the extinguishment of subordinated debentures and $0.2 million in gains on the sales of investment securities. Excluding these gains, non-interest income increased 8% compared to the prior year quarter.

Non-interest expenses increased 6% to $32.9 million for the second quarter of 2017 compared to $30.9 million in the second quarter of 2016. The second quarter of 2017 included $1.3 million in penalties on the early payoff of high-rate FHLB advances and $1.0 million in merger expenses. The comparable period for 2016 included $1.4 million in prepayment penalties. Excluding these transactions, non-interest expenses increased 4% compared to the second quarter of 2016 due to merit increases, performance incentives and volume driven compensation costs. The non-GAAP efficiency ratio was 54.10% for the second quarter of 2017 compared to 59.12% for the second quarter of

2016 as a result of the growth in net interest income.

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

	Six Months Ended June 30,					
		2017			2016	
(Dollars in thousands and tax-equivalent)	**Average Balances**	**(1) Interest**	**Annualized Average Yield/Rate**	Average Balances	(1) Interest	Annualized Average Yield/Rate
Assets						
Residential mortgage loans	**$ 854,022**	**$14,879**	**3.48%**	$ 809,574	$13,802	3.41%
Residential construction loans	**163,174**	**3,015**	**3.73**	138,781	2,463	3.57
Total mortgage loans	**1,017,196**	**17,894**	**3.52**	948,355	16,265	3.43
Commercial AD&C loans	**306,604**	**7,421**	**4.88**	266,888	6,113	4.61
Commercial investor real estate loans	**977,915**	**21,699**	**4.47**	769,803	17,600	4.60
Commercial owner occupied real estate loans	**775,625**	**19,009**	**4.94**	681,347	16,365	4.83
Commercial business loans	**458,563**	**10,069**	**4.43**	457,181	9,956	4.38
Total commercial loans	**2,518,707**	**58,198**	**4.66**	2,175,219	50,034	4.63
Consumer loans	**459,927**	**8,101**	**3.58**	450,335	7,774	3.49
Total loans (2)	**3,995,830**	**84,193**	**4.24**	3,573,909	74,073	4.16
Loans held for sale	**7,238**	**154**	**4.27**	11,181	198	3.54
Taxable securities	**534,306**	**7,413**	**2.78**	490,338	6,356	2.59
Tax-exempt securities (3)	**296,323**	**6,280**	**4.24**	284,524	6,024	4.23
Total investment securities	**830,629**	**13,693**	**3.30**	774,862	12,380	3.20
Interest-bearing deposits with banks	**40,038**	**181**	**0.91**	42,777	107	0.50
Federal funds sold	**2,320**	**10**	**0.84**	608	2	0.48
Total interest-earning assets	**4,876,055**	**98,231**	**4.05**	4,403,337	86,760	3.96
Less: allowance for loan losses	**(43,703)**			**(41,567)**		
Cash and due from banks	**48,165**			**46,783**		
Premises and equipment, net	**53,548**			**53,396**		
Other assets	**223,228**			**212,915**		
Total assets	**$5,157,293**			$**4,674,864**		
Liabilities and Stockholders' Equity						
Interest-bearing demand deposits	**$ 612,608**	**237**	**0.08%**	$ 577,771	223	0.08%
Regular savings deposits	**320,577**	**106**	**0.07**	294,339	89	0.06
Money market savings deposits	**986,625**	**1,854**				