SANDY SPRING BANCORP INC
Form 10-Q
May 09, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2013

OR

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

For the transition period from ___________ to ____________

Commission File Number: 0-19065

SANDY SPRING BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

301-774-6400

(Registrant's telephone number, including area code)

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

Yes x No ¨

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

Yes x No ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

Yes ¨ No x

The number of outstanding shares of common stock outstanding as of May 7, 2013.

Common stock, $1.00 par value – 24,962,021 shares

SANDY SPRING BANCORP, INC.

TABLE OF CONTENTS

Forward-Looking Statements

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

Forward-looking statements reflect the Company’s expectation or prediction of future conditions, events or results based on information currently available. These forward-looking statements are subject to significant risks and uncertainties that may cause actual results to differ materially from those in such statements. These risk and uncertainties include, but are not limited to, the risks identified in Item 1A of the Company’s 2012 Annual Report on Form 10-K, Item 1A of Part II of this report and the following:

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

- the effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board, the Securities and Exchange Commission, the Public Company Accounting Oversight Board and other regulatory agencies; and

- the effect of fiscal and governmental policies of the United States federal government.

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

PART I

Item 1. FINANCIAL STATEMENTS

Sandy spring bancorp, inc. and subsidiaries

CONDENSED Consolidated STATEMENTS OF CONDITION

(Dollars in thousands)	(Unaudited) March 31, 2013	December 31, 2012
Assets		
Cash and due from banks	$ 45,922	$ 59,540
Federal funds sold	476	466
Interest-bearing deposits with banks	38,188	26,400
Cash and cash equivalents	84,586	86,406
Residential mortgage loans held for sale (at fair value)	48,383	36,149
Investments available-for-sale (at fair value)	766,080	825,582
Investments held-to-maturity -- fair value of $216,024 and $222,024 at March 31, 2013 and December 31, 2012, respectively	211,376	215,814
Other equity securities	31,237	33,636
Total loans and leases	2,565,069	2,531,128
Less: allowance for loan and lease losses	(41,246)	(42,957)
Net loans and leases	2,523,823	2,488,171
Premises and equipment, net	47,701	48,326
Other real estate owned	5,250	5,926
Accrued interest receivable	12,926	12,392
Goodwill	84,808	84,808
Other intangible assets, net	2,702	3,163
Other assets	113,154	114,833
Total assets	$ 3,932,026	$ 3,955,206
Liabilities		
Noninterest-bearing deposits	$ 832,679	$ 847,415
Interest-bearing deposits	2,086,529	2,065,619
Total deposits	2,919,208	2,913,034
Securities sold under retail repurchase agreements and federal funds purchased	50,302	86,929
Advances from FHLB	405,000	405,058
Subordinated debentures	35,000	35,000
Accrued interest payable and other liabilities	33,569	31,673
Total liabilities	3,443,079	3,471,694
Stockholders' Equity		
Common stock -- par value $1.00; shares authorized 50,000,000; shares issued and outstanding 24,954,892 and 24,905,392 at March 31, 2013 and December 31, 2012, respectively	24,955	24,905

Additional paid in capital	191,615	191,689
Retained earnings	262,645	255,606
Accumulated other comprehensive income	9,732	11,312
Total stockholders' equity	488,947	483,512
Total liabilities and stockholders' equity	$ 3,932,026	$ 3,955,206

The accompanying notes are an integral part of these statements

Sandy Spring Bancorp, Inc. and Subsidiaries

CONDENSED Consolidated Statements of IncomE – UNAUDITED

(Dollars in thousands, except per share data)	Three Months Ended March 31, 2013	2012
Interest Income:		
Interest and fees on loans and leases	$ 29,646	$ 27,129
Interest on loans held for sale	353	149
Interest on deposits with banks	19	21
Interest and dividends on investment securities:		
Taxable	3,934	4,943
Exempt from federal income taxes	2,327	2,373
Total interest income	36,279	34,615
Interest Expense:		
Interest on deposits	1,455	2,013
Interest on retail repurchase agreements and federal funds purchased	49	61
Interest on advances from FHLB	3,223	3,587
Interest on subordinated debt	226	249
Total interest expense	4,953	5,910
Net interest income	31,326	28,705
Provision for loan and lease losses	78	664
Net interest income after provision for loan and lease losses	31,248	28,041
Non-interest Income:		
Investment securities gains	56	73
Total other-than-temporary impairment ("OTTI") losses	-	(64)
Portion of OTTI losses recognized in other comprehensive income, before taxes	-	-
Net OTTI recognized in earnings	-	(64)
Service charges on deposit accounts	2,069	2,200
Mortgage banking activities	1,527	1,025
Wealth management income	4,042	4,057
Insurance agency commissions	1,349	1,202
Income from bank owned life insurance	612	634
Visa check fees	957	898
Other income	1,807	949
Total non-interest income	12,419	10,974
Non-interest Expenses:		
Salaries and employee benefits	16,346	15,701
Occupancy expense of premises	3,182	2,846
Equipment expenses	1,249	1,190
Marketing	515	495
Outside data services	1,152	1,279
FDIC insurance	596	652
Amortization of intangible assets	461	461
Other expenses	4,322	4,059
Total non-interest expenses	27,823	26,683

Income before income taxes	15,844	12,332
Income tax expense	5,286	3,856
Net income	$ 10,558	$ 8,476
Net Income Per Share Amounts:		
Basic net income per share	$ 0.42	$ 0.35
Diluted net income per share	$ 0.42	$ 0.35
Dividends declared per common share	$ 0.14	$ 0.10

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 March 31,	
(In thousands)	2013	2012
Net income	$ 10,558	$ 8,476
Other comprehensive income:		
Investments available-for-sale:		
Net change in unrealized gains (losses) on investments available-for-sale	**(3,046)**	(1,103)
Related income tax (expense) benefit	**1,215**	439
Net investment gains reclassified into earnings	56	73
Related income tax expense	(23)	(29)
Net effect on other comprehensive income (loss) for the period	(1,798)	(620)
Defined benefit pension plan:		
Recognition of unrealized gain (loss)	364	350
Related income tax (expense) benefit	(146)	(140)
Net effect on other comprehensive income (loss) for the period	218	210
Total other comprehensive income	(1,580)	(410)
Comprehensive income	$ 8,978	$ 8,066

The accompanying notes are an integral part of these statements

Sandy Spring Bancorp, Inc. and Subsidiaries

CONDENSED Consolidated Statements of Cash Flows – UNAUDITED

	Three Months Ended March 31,	
(Dollars in thousands)	2013	2012
Operating activities:		
Net income	$ 10,558	$ 8,476
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,012	1,936
Net OTTI recognized in earnings	-	64
Provision for loan and lease losses	78	664
Share based compensation expense	318	325
Deferred income tax expense	1,111	1,641
Origination of loans held for sale	(97,722)	(55,278)
Proceeds from sales of loans held for sale	87,010	63,474
Gains on sales of loans held for sale	(1,522)	(981)
Loss on sales of other real estate owned	123	334
Investment securities gains	(56)	(73)
(Gains) losses on sales of premises and equipment	-	(93)
Net decrease (increase) in accrued interest receivable	(534)	474
Net (increase) decrease in other assets	3,198	1,923
Net decrease in accrued expenses and other liabilities	(232)	(2,104)
Other – net	1,940	1,717
Net cash provided by operating activities	6,282	22,499
Investing activities:		
Purchases of other equity securities	-	(620)
Purchases of investments held-to-maturity	-	(11,032)
Purchases of investments available-for-sale	(11,470)	(46,331)
Net proceeds from redemption of Federal Home Loan Bank of Atlanta stock	2,399	-
Proceeds from sales of investment available-for-sale	-	28,519
Proceeds from maturities, calls and principal payments of investments held-to-maturity	4,269	35,920
Proceeds from maturities, calls and principal payments of investments available-for-sale	66,715	88,220
Net increase in loans and leases	(35,822)	(38,396)
Proceeds from the sales of other real estate owned	731	1,110
Expenditures for premises and equipment	(551)	(1,301)
Net cash used in investing activities	26,271	56,089
Financing activities:		
Net increase in deposits	6,174	24,555
Net (decrease) increase in retail repurchase agreements and federal funds purchased	(36,627)	(70,483)
Repayment of advances from FHLB	(58)	(87)
Proceeds from issuance of common stock	(343)	(225)
Tax benefits associated with shared based compensation	-	74
Dividends paid	(3,519)	(2,431)

Net cash provided by financing activities	(34,373)	(48,597)
Net increase in cash and cash equivalents	(1,820)	29,991
Cash and cash equivalents at beginning of period	86,406	72,314
Cash and cash equivalents at end of period	$ 84,586	$ 102,305
Supplemental Disclosures:		
Interest payments	$ 5,189	$ 5,940
Income tax payments	-	1,356
Transfers from loans to other real estate owned	92	1,667

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

(Dollars in thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances at January 1, 2013	$ 24,905	$ 191,689	$ 255,606	$ 11,312	$ 483,512
Net income			10,558		10,558
Other comprehensive loss, net of tax				(1,580)	(1,580)
Common stock dividends - $0.14 per share			(3,519)		(3,519)
Stock compensation expense		318			318
Common stock issued pursuant to:					-
Employee stock purchase plan - 6,349 shares	7	99			106
Restricted stock - 43,151 shares	43	(491)			(448)
Balances at March 31, 2013	$ 24,955	$ 191,615	$ 262,645	$ 9,732	$ 488,947
Balances at January 1, 2012	$ 24,091	$ 177,828	$ 230,942	$ 13,248	$ 446,109
Net income	-	-	8,476	-	8,476
Other comprehensive loss, net of tax:	-	-	-	(410)	(410)
Common stock dividends - $0.10 per share	-	-	(2,432)	-	(2,432)
Stock compensation expense	-	399	-	-	399
Common stock issued pursuant to:					
Employee stock purchase plan - 7,953 shares	8	113	-	-	121
Restricted stock - 44,990 shares	45	(391)	-	-	(346)
Balances at March 31, 2012	$ 24,144	$ 177,949	$ 236,986	$ 12,838	$ 451,917

The accompanying notes are an integral part of these statements

Sandy Spring Bancorp, Inc. and Subsidiaries

Notes to the CONDENSED Consolidated Financial Statements - UNAUDITED

Note 1 – Significant Accounting Policies

Nature of Operations

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

Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“GAAP”) and prevailing practices within the financial services industry for interim financial information and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements and prevailing practices within the banking industry. The following summary of significant accounting policies of the Company is presented to assist the reader in understanding the financial and other data presented in this report. Operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for any future periods or for the year ending December 31, 2013. 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 2012 Annual Report on Form 10-K as filed with the Securities and Exchange Commission (“SEC”) on March 18, 2013. There have been no significant changes to the Company’s accounting policies as disclosed in the 2012 Annual Report on Form 10-K.

Principles of Consolidation

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

Use of Estimates

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

Cash Flows

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

Loans Acquired with Deteriorated Credit Quality

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

Adopted Accounting Pronouncements

In February 2013, the FASB issued a standard on the reporting of reclassifications out of accumulated other comprehensive income ("AOCI"). The guidance sets requirements for presentation for significant items reclassified to net income in their entirety during the period and for items not reclassified to net income in their entirety during the period. Information about the reclassifications out of AOCI must be contained in single location in the financial statements. The reclassifications must also be presented by each component as part of the reporting on the changes in the AOCI balances. This guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012. This guidance did not have any impact on the financial position, results of operations or cash flows of the Company, as it only affects the presentation of the information in the financial statements.

NOTE 2 – ACQUISITION

On May 31, 2012, the Company completed the acquisition of CommerceFirst Bancorp, Inc. and its wholly-owned subsidiary. Under the terms of the acquisition the Company acquired 100% of the shares of CommerceFirst common stock for a combination of 50% Sandy Spring Bancorp common stock and 50% cash. The results of operations acquired in this transaction have been included in the Company's financial results from the date of the acquisition. Stock consideration was exchanged at a ratio of 0.8043 of the Company's shares for each CommerceFirst share resulting in the issuance of 732,054 of the Company's common stock. Total cash consideration amounted to $12.4 million or $13.60 per share.

Note 3 – 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:

	At March. 31, 2013				At December 31, 2012			
(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	$130,412	$643	$(158)	$130,897	$155,442	$1,084	$(98)	$156,428
State and municipal	160,255	13,168	-	173,423	160,496	13,996	(1)	174,491
Mortgage-backed	440,287	17,607	(350)	457,544	471,527	19,080	(128)	490,479
Corporate debt	2,000	7	-	2,007	2,000	-	(4)	1,996
Trust preferred	1,701	-	(215)	1,486	1,701	-	(236)	1,465
Total debt securities	734,655	31,425	(723)	765,357	791,166	34,160	(467)	824,859
Marketable equity securities	723	-	-	723	723	-	-	723
Total investments available-for-sale	$735,378	$31,425	$(723)	$766,080	$791,889	$34,160	$(467)	$825,582

Any unrealized losses in the U.S. government agencies, state and municipal, mortgage-backed or corporate debt investment securities at March 31, 2013 are not the result of credit related events but due to changes in interest rates. These declines are considered temporary in nature and are expected to decline over time and recover as these securities approach maturity.

The mortgage-backed securities portfolio at March 31, 2013 is composed entirely of either the most senior tranches of GNMA collateralized mortgage obligations ($189.4 million), or GNMA, FNMA or FHLMC mortgage-backed securities ($268.1 million). The Company does not intend to sell these securities and has sufficient liquidity to hold these securities for an adequate period of time, which may be maturity, to allow for any anticipated recovery in fair value.

At March 31, 2013, the trust preferred portfolio consisted of one pooled trust preferred security. The pooled trust preferred security, which is backed by debt issued by banks and thrifts, totals $1.7 million with a fair value of $1.5 million. The fair value of this security was determined by a third party valuation specialist due to the limited trading activity for this security.

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

- Evaluation of the structural terms as established in the indenture;
- Detailed credit and structural evaluation for each piece of issuer collateral in the pool;
- Overall default (.40%), recovery and prepayment (2%)/amortization probabilities by issuers in the pool;
- Identification of adverse conditions specifically related to the security, industry and geographical area;
- Projection of estimated cash flows that incorporate default expectations and loss severities;
- Review of historical and implied volatility of the fair value of the security;
- Evaluation of credit risk concentrations;
- Evaluation of the length of time and the extent to which the fair value has been less than the amortized cost; and
- A discount rate of 12.3% was established using credit adjusted financial institution spreads for comparably rated institutions and a liquidity adjustment that considered the previously noted characteristics.

As a result of this evaluation, it was determined that the pooled trust preferred security had not incurred any credit-related other-than-temporary impairment ("OTTI") for the quarter ended March 31, 2013. Non-credit related OTTI on this security, which is not expected to be sold and which the Company has the ability to hold until maturity, was $0.2 million at March 31, 2013. This non-credit related OTTI was recognized in other comprehensive income ("OCI") at March 31, 2013.

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

- Default rates were developed based on the financial condition of the trust preferred issuers in the pool and the payment or deferral status. Conditional default rates were estimated based on the payment characteristics of the security and the financial condition of the issuers in the pool. Near term and future defaults are estimated using third party industry data in addition to a review of key financial ratios and other pertinent data on the financial stability of the underlying issuer;
- Loss severity is forecasted based on the type of impairment using research performed by third parties;
- The security contains one level of subordination below the senior tranche, with the senior tranche receiving the spread from the subordinate bonds. Given recent performance, it is not expected that the senior tranche will receive its full interest and principal at the bond's maturity date;
- Credit ratings of the underlying issuers are reviewed in conjunction with the development of the default rates applied to determine the credit amounts related to the credit loss; and
- Potential prepayments are estimated based on terms and rates of the underlying trust preferred securities to determine the impact of excess spread on the credit enhancement, the removal of the strongest institutions from the underlying

pool and any impact that prepayments might have on diversity and concentration.

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

(In thousands)	OTTI Losses
Cumulative credit losses on investment securities, through December 31, 2012	$ 531
Additions for credit losses not previously recognized	-
Cumulative credit losses on investment securities, through March 31, 2013	$ 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:

	At March. 31, 2013				
			Continuous Unrealized Losses Existing for:		
(Dollars in thousands)	Number of securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
U.S. government agencies	3	$ 39,840	$ 158	$ -	$ 158
Mortgage-backed	11	53,074	350	-	350
Trust preferred	1	1,486	-	215	215
Total	15	$ 94,400	$ 508	$ 215	$ 723

	At December 31, 2012				
			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	2	$ 29,900	$ 98	$ -	$ 98
State and municipal	1	390	1	-	1
Mortgage-backed	2	12,653	128	-	128
Corporate debt	1	1,996	4	-	4
Trust preferred	1	1,465	-	236	236
Total	7	$ 46,404	$ 231	$ 236	$ 467

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.

	At March. 31, 2013		At December 31, 2012	
(In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$35,467	$36,056	$35,544	$36,349
Due after one year through five years	4,382	4,463	3,957	3,994
Due after five years through ten years	349,635	364,619	382,957	399,180
Due after ten years	345,171	360,219	368,708	385,336
Total debt securities available for sale	$734,655	$765,357	$791,166	$824,859

At March 31, 2013 and December 31, 2012, investments available-for-sale with a book value of $190.3 million and $195.4 million, respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law. The outstanding balance of no single issuer, except for U.S. Agencies securities, exceeded ten percent of stockholders' equity at March 31, 2013 and December 31, 2012.

Investments held-to-maturity

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

	At March. 31, 2013				At December 31, 2012			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	$64,500	$ 127	$ (11)	$64,616	$64,498	$ 125	$ (29)	$64,594
State and municipal	146,583	5,189	(301)	151,471	150,995	6,194	(123)	157,066
Mortgage-backed	293	40		333	321	43	-	364
Total investments held-to-maturity	$211,376	$ 5,356	$ (312)	$216,420	$215,814	$ 6,362	$ (152)	$222,024

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

	At March. 31, 2013				
			Continuous Unrealized Losses Existing for:		
(Dollars in thousands)	Number of securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
U.S. government agencies	1	$ 4,987	$ 11		$ 11
State and municipal	24	25,414	301		301
Total	25	$ 30,401	$ 312	$ -	$ 312

	At December 31, 2012				
			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	1	$ 9,961	$ 29	$ -	$ 29

State and municipal	13	16,868	123	-	123
Total	14	$ 26,829	$ 152	$ -	$ 152

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

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

13

(In thousands)	At March. 31, 2013 Amortized Cost	At March. 31, 2013 Estimated Fair Value	At December 31, 2012 Amortized Cost	At December 31, 2012 Estimated Fair Value
Due in one year or less	$5,857	$5,924	$7,431	$7,523
Due after one year through five years	2,720	2,731	4,653	4,725
Due after five years through ten years	124,771	128,382	116,735	120,074
Due after ten years	78,028	79,383	86,995	89,702
Total debt securities held-to-maturity	$211,376	$216,420	$215,814	$222,024

At March 31, 2013 and December 31, 2012, investments held-to-maturity with a book value of $151.0 million and $155.5 million, respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law. The outstanding balance of no single issuer, except for U.S. Agency securities, exceeded ten percent of stockholders' equity at March 31, 2013 and December 31, 2012.

Equity securities

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

(In thousands)	March 31, 2013	December 31, 2012
Federal Reserve Bank stock	$ 8,269	$ 8,269
Federal Home Loan Bank of Atlanta stock	22,968	25,367
Total equity securities	$ 31,237	$ 33,636

Note 4 – Loans and Leases

Outstanding loan balances at March 31, 2013 and December 31, 2012 are net of unearned income including net deferred loan costs of $1.1 million and $1.4 million, respectively. The loan portfolio segment balances at the dates indicated are presented in the following table:

(In thousands)	March 31, 2013	December 31, 2012
Residential real estate:		
Residential mortgage	$ 538,346	$ 523,364
Residential construction	122,698	120,314
Commercial real estate:		
Commercial owner occupied real estate	565,820	571,510
Commercial investor real estate	487,802	456,888
Commercial acquisition, development and construction	150,599	151,933
Commercial Business	344,489	346,708
Leases	1,974	3,421

Consumer	353,341	356,990
Total loans and leases	$ 2,565,069	$ 2,531,128

14

Note 5 – CREDIT QUALITY ASSESSMENT

Allowance for Loan and Lease Losses

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

	Three Months Ended March 31,	
(In thousands)	2013	2012
Balance at beginning of year	$42,957	$49,426
Provision for loan and lease losses	78	664
Loan and lease charge-offs	(3,108)	(5,298)
Loan and lease recoveries	1,319	269
Net charge-offs	(1,789)	(5,029)
Balance at period end	$41,246	$45,061

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

	For the Three Months Ended March 31, 2013								
		Commercial Real Estate					Residential Real Estate		
(Dollars in thousands)	Commercial Business	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Leasing	Consumer	Residential Mortgage	Residential Construction	To
Balance at beginning of year	$6,495	$4,737	$9,583	$6,997	$332	$3,846	$8,522	$2,445	$4
Provision (credit)	2,505	(1,831)	(934)	37	(252)	535	44	(26)	7
Charge-offs	(1,857)	-	(131)	(91)#	-	(564)	(465)	-	(
Recoveries	113	1,020	100	10	-	56	18	2	1
Net charge-offs	(1,744)	1,020	(31)	(81)	-	(508)	(447)	2	(
Balance at end of period	$7,256	$3,926	$8,618	$6,953	$80	$3,873	$8,119	$2,421	$4
Total loans and leases	$344,489	$150,599	$487,802	$565,820	$1,974	$353,341	$538,346	$122,698	$2
Allowance for loans and leases to total loans and leases ratio	2.11 %	2.61 %	1.77 %	1.23 %	4.05 %	1.10 %	1.51 %	1.97 %	1
Balance of loans specifically evaluated	$7,887	$5,826	$13,205	$7,243	***na.***	$31	$4,506	$2,004	$4

for impairment									
Allowance for loans specifically evaluated for impairment	$1,940	$149	$242	$377	***na.***	***na.***	$698	$609	$4
Specific allowance to specific loans ratio	24.60 %	2.56 %	1.83 %	5.21 %	***na.***	***na.***	15.49 %	30.39 %	9
Balance of loans collectively evaluated	$336,602	$144,773	$474,597	$558,577	$1,974	$353,310	$533,840	$120,694	$2
Allowance for loans collectively evaluated	$5,316	$3,777	$8,376	$6,576	$80	$3,873	$7,421	$1,812	$3
Collective allowance to collective loans ratio	1.58 %	2.61 %	1.76 %	1.18 %	4.05 %	1.10 %	1.39 %	1.50 %	1

	For the Year Ended December 31, 2012								
		Commercial Real Estate					Residential Real Estate		
(Dollars in thousands)	Commercial Business	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Leasing	Consumer	Residential Mortgage	Residential Construction	Total
Balance at beginning of year	$6,727	$6,664	$8,248	$7,329	$795	$4,873	$10,583	$4,207	$49,426
Provision (credit)	(758)	826	4,928	804	(478)	44	(167)	(1,550)	3,649
Charge-offs	(1,022)	(3,281)	(3,690)	(1,174)	(8)	(1,298)	(2,107)	(224)	(12,804)
Recoveries	1,548	528	97	38	23	227	213	12	2,686
Net charge-offs	526	(2,753)	(3,593)	(1,136)	15	(1,071)	(1,894)	(212)	(10,118)
Balance at end of period	$6,495	$4,737	$9,583	$6,997	$332	$3,846	$8,522	$2,445	$42,957