

SANDY SPRING BANCORP INC  
Form 10-Q  
August 09, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the Quarterly Period Ended June 30, 2012**

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)

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

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

**301-774-6400**

(Registrant's telephone number, including area code)

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

Yes ☐ No ☒

The number of outstanding shares of common stock outstanding as of August 7, 2012.

**Common stock, \$1.00 par value – 24,890,484 shares**



**SANDY SPRING BANCORP, INC.**

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## Forward-Looking Statements

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

Forward-looking statements reflect our expectation or prediction of future conditions, events or results based on information currently available. These forward-looking statements are subject to significant risks and uncertainties that may cause actual results to differ materially from those in such statements. These risk and uncertainties include, but are not limited to, the risks identified in Item 1A of 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. We do 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**

	June 30, 2012	December 31, 2011
(Dollars in thousands)		
<b>Assets</b>		
Cash and due from banks	\$46,002	\$ 49,832
Federal funds sold	467	1,006
Interest-bearing deposits with banks	76,365	21,476
Cash and cash equivalents	122,834	72,314
Residential mortgage loans held for sale (at fair value)	25,827	25,341
Investments available-for-sale (at fair value)	808,881	951,301
Investments held-to-maturity — fair value of \$169,396 and \$184,167 at June 30, 2012 and December 31, 2011, respectively	164,846	178,465
Other equity securities	33,016	34,933
Total loans and leases	2,475,078	2,239,692
Less: allowance for loan and lease losses	(45,265 )	(49,426 )
Net loans and leases	2,429,813	2,190,266
Premises and equipment, net	49,240	48,483
Other real estate owned	9,553	4,431
Accrued interest receivable	13,456	12,898
Goodwill	81,892	76,816
Other intangible assets, net	4,017	4,734
Other assets	111,802	111,388
Total assets	\$3,855,177	\$ 3,711,370
<b>Liabilities</b>		
Noninterest-bearing deposits	\$763,566	\$ 650,377
Interest-bearing deposits	2,088,489	2,006,143
Total deposits	2,852,055	2,656,520
Securities sold under retail repurchase agreements and federal funds purchased	64,779	143,613
Advances from FHLB	405,233	405,408
Subordinated debentures	35,000	35,000
Accrued interest payable and other liabilities	26,646	24,720
Total liabilities	3,383,713	3,265,261
<b>Stockholders' Equity</b>		
Common stock — par value \$1.00; shares authorized 50,000,000; shares issued and outstanding 24,886,724 and 24,091,042 at June 30, 2012 and December 31, respectively	24,887	24,091
Additional paid in capital	190,733	177,828
Retained earnings	241,267	230,942



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Accumulated other comprehensive income	14,577	13,248
Total stockholders' equity	471,464	446,109
Total liabilities and stockholders' equity	\$3,855,177	\$ 3,711,370

The accompanying notes are an integral part of these statements

**Sandy Spring Bancorp, Inc. and Subsidiaries****CONDENSED Consolidated Statements of IncomeE – UNAUDITED**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
(Dollars in thousands, except per share data)				
Interest Income:				
Interest and fees on loans and leases	\$28,338	\$26,816	\$55,467	\$53,806
Interest on loans held for sale	190	124	339	246
Interest on deposits with banks	24	21	45	39
Interest and dividends on investment securities:				
Taxable	4,662	5,649	9,605	11,089
Exempt from federal income taxes	2,343	2,398	4,716	4,577
Interest on federal funds sold	1	-	1	1
Total interest income	35,558	35,008	70,173	69,758
Interest Expense:				
Interest on deposits	1,871	2,987	3,884	5,900
Interest on retail repurchase agreements and federal funds purchased	51	53	112	106
Interest on advances from FHLB	3,586	3,590	7,173	7,141
Interest on subordinated debt	241	224	490	447
Total interest expense	5,749	6,854	11,659	13,594
Net interest income	29,809	28,154	58,514	56,164
Provision for loan and lease losses	1,585	1,151	2,249	2,666
Net interest income after provision for loan and lease losses	28,224	27,003	56,265	53,498
Non-interest Income:				
Investment securities gains	90	32	163	52
Total other-than-temporary impairment ("OTTI") losses	(8 )	(43 )	(72 )	(102 )
Portion of OTTI losses recognized in other comprehensive income, before taxes	-	-	-	18
Net OTTI recognized in earnings	(8 )	(43 )	(72 )	(84 )
Service charges on deposit accounts	2,283	2,437	4,483	4,689
Mortgage banking activities	1,288	808	2,313	1,263
Wealth management income	4,034	4,023	8,091	7,668
Insurance agency commissions	934	953	2,136	2,133
Income from bank owned life insurance	660	654	1,294	1,300
Visa check fees	962	949	1,860	1,783
Other income	1,250	989	2,199	1,990
Total non-interest income	11,493	10,802	22,467	20,794
Non-interest Expenses:				
Salaries and employee benefits	15,927	14,676	31,628	29,300
Occupancy expense of premises	2,943	2,790	5,789	5,933
Equipment expenses	1,255	1,128	2,445	2,270
Marketing	565	709	1,060	1,194
Outside data services	1,828	999	3,107	1,994

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FDIC insurance	653	736	1,305	1,780
Amortization of intangible assets	466	462	927	923
Other expenses	5,221	4,338	9,280	8,506
Total non-interest expenses	28,858	25,838	55,541	51,900
Income before income taxes	10,859	11,967	23,191	22,392
Income tax expense	3,652	3,671	7,508	6,805
Net income	\$7,207	\$8,296	\$15,683	\$15,587

Net Income Per Share Amounts:

Basic net income per share	\$0.30	\$0.34	\$0.65	\$0.65
Diluted net income per share	\$0.30	\$0.34	\$0.65	\$0.65
Dividends declared per share	\$0.12	\$0.08	\$0.22	\$0.16

The accompanying notes are an integral part of these statements

**Sandy Spring Bancorp, Inc. and Subsidiaries****CONDENSED Consolidated Statements of OTHER COMPREHENSIVE INCOME - UNAUDITED**

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2012	2011	2012	2011
Net income	\$ 7,207	\$ 8,296	\$ 15,683	\$ 15,587
Other comprehensive income:				
Investments available-for-sale:				
Net change in unrealized gains (losses) on investments available-for-sale	2,452	12,570	1,349	12,833
Related income tax expense	(977 )	(5,012 )	(538 )	(5,117 )
Net investment gains reclassified into earnings	90	32	163	52
Related income tax expense	(36 )	(13 )	(65 )	(21 )
Net effect on other comprehensive income (loss) for the period	1,529	7,577	909	7,747
Defined benefit pension plan:				
Recognition of unrealized gain	349	276	699	593
Related income tax expense	(139 )	(109 )	(279 )	(236 )
Net effect on other comprehensive income for the period	210	167	420	357
Total other comprehensive income (loss)	1,739	7,744	1,329	8,104
Comprehensive income	\$ 8,946	\$ 16,040	\$ 17,012	\$ 23,691

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)	2012	2011
Operating activities:		
Net income	\$ 15,683	\$ 15,587
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,880	3,684
Net OTTI recognized in earnings	72	84
Provision for loan and lease losses	2,249	2,666
Share based compensation expense	740	590
Deferred income tax expense	1,192	2,444
Origination of loans held for sale	(122,996 )	(93,302 )
Proceeds from sales of loans held for sale	124,489	105,843
Gains on sales of loans held for sale	(1,979 )	(1,474 )
Loss on sales of other real estate owned	701	667
Investment securities gains	(163 )	(52 )
(Gains) losses on sales of premises and equipment	(88 )	18
Net increase in accrued interest receivable	(558 )	(518 )
Net decrease in other assets	487	12,483
Net increase in accrued expenses and other liabilities	2,269	3,830
Other – net	3,850	3,914
Net cash provided by operating activities	29,828	56,464
Investing activities:		
Purchases of other equity securities	(1,382 )	-
Purchases of investments held-to-maturity	(47,916 )	(28,974 )
Purchases of investments available-for-sale	(73,733 )	(200,238 )
Proceeds from redemption of Federal Home Loan Bank of Atlanta stock.	3,224	1,007
Proceeds from sales of investment available-for-sale	28,519	-
Proceeds from maturities, calls and principal payments of investments held-to-maturity	61,507	30,694
Proceeds from maturities, calls and principal payments of investments available-for-sale	186,353	122,185
Net (increase) decrease in loans and leases	(245,594 )	5,889
Proceeds from the sales of other real estate owned	2,402	4,057
Acquisition of business activity, net of cash acquired	(849 )	-
Expenditures for premises and equipment	(2,946 )	(2,110 )
Net cash used in investing activities	(90,415 )	(67,490 )
Financing activities:		
Net increase in deposits	195,535	107,989
Net decrease in retail repurchase agreements and federal funds purchased	(78,834 )	(31,029 )
Repayment of advances from FHLB	(175 )	(175 )
Redemption of stock warrant	-	(4,449 )
Remittances due to the vesting of restricted stock	(136 )	167
Tax benefits associated with shared based compensation	74	-
Dividends paid	(5,358 )	(3,884 )
Net cash provided by financing activities	111,106	68,619
Net increase in cash and cash equivalents	50,519	57,593

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Cash and cash equivalents at beginning of period	72,314	63,117
Cash and cash equivalents at end of period	\$ 122,833	\$ 120,710

Supplemental Disclosures:

Interest payments	\$ 11,413	\$ 13,629
Income tax payments	4,086	3,600
Transfers from loans to other real estate owned	3,798	2,868

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**

	Preferred	Common		Additional	Retained	Accumulated	Total
(Dollars in thousands, except per share data)	Stock	Stock	Warrants	Paid-In Capital	Earnings	Other Comprehensive Income (Loss)	Stockholders' Equity
Balances at January 1, 2012	\$ -	\$24,091	\$ -	\$177,828	\$230,942	\$13,248	\$446,109
Net income	-	-	-	-	15,683	-	15,683
Other comprehensive income, net of tax	-	-	-	-	-	1,329	1,329
Common stock dividends - \$0.22 per share	-	-	-	-	(5,358 )	-	(5,358 )
Stock compensation expense	-	-	-	740	-	-	740
Common stock issued pursuant to:							
Acquisition of CommerceFirst Bancorp, Inc. - 732,054 shares	-	732	-	12,291	-	-	13,023
Stock option plan - 1,217 shares	-	1	-	14	-	-	15
Employee stock purchase plan - 16,341 shares	-	17	-	233	-	-	250
Director stock purchase plan - 1,083 shares	-	1	-	18	-	-	19
Restricted stock - 44,987 shares	-	45	-	(391 )	-	-	(346 )
Balances at June 30, 2012	\$ -	\$24,887	\$ -	\$190,733	\$241,267	\$14,577	\$471,464
Balances at January 1, 2011	\$ -	\$24,047	\$3,699	\$177,344	\$205,099	\$ (2,620 )	\$407,569
Net income	-	-	-	-	15,587	-	15,587
Other comprehensive income, net of tax:	-	-	-	-	-	8,104	8,104
Common stock dividends - \$0.16 per share	-	-	-	-	(3,884 )	-	(3,884 )
Stock compensation expense	-	-	-	590	-	-	590
Stock warrant redemption	-	-	(3,699 )	(750 )	-	-	(4,449 )
Common stock issued pursuant to:							
Stock option plan - 1,765 shares	-	2	-	19	-	-	21
Employee stock purchase plan - 16,448 shares	-	16	-	246	-	-	262
Director stock purchase plan - 1,833 shares	-	2	-	30	-	-	32
Restricted stock - 28,450 shares	-	28	-	(176 )	-	-	(148 )
Balances at June 30, 2011	\$ -	\$24,095	\$ -	\$177,303	\$216,802	\$5,484	\$423,684

The accompanying notes are an integral part of these statements



## **Sandy Spring Bancorp, Inc. and Subsidiaries**

### **Notes to the 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 and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for any future periods or for the year ending December 31, 2012. 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 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 2011 Annual Report on Form 10-K as filed with the Securities and Exchange Commission (“SEC”) on March 15, 2012. There have been no significant changes to the Company's accounting policies as disclosed in the 2011 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 significant 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 an 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. Increases in the present value of expected cash flows after the purchase date is recognized as an adjustment to the accretable yield. The present value of any decreases in expected cash flows after the purchase date is recognized as an impairment through a charge to the provision for loan losses. Subsequent to the purchase date, the methods utilized to estimate the required 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 June 2011, the FASB issued a standard that requires comprehensive income to be reported in either a single statement or two consecutive statements reporting net income and other comprehensive income. The guidance does not alter the items that are reported in other comprehensive income or require reclassification of items from other comprehensive income to net income. This guidance should be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company has opted to present comprehensive income in two consecutive statements. 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.

The FASB issued a standard in April 2011 that removed from the assessment of effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee, as the criterion is not a determining factor of effective control. This guidance is effective for the first interim or annual period beginning on or after December 15, 2011. This guidance did not have a material impact on the financial position, results of operations or cash flows of the Company.

In May 2011, the FASB issued guidance on fair value that applies to all entities that measure assets, liabilities or instruments classified in stockholders' equity at fair value or provide fair value disclosures for items not recorded at fair value. The guidance clarifies how a principal market is determined, addresses the fair value measurement of instruments with offsetting market or counterparty credit risk and the concept of valuation premise and highest and best use, extends the prohibition of blockage factors to all three levels of the fair value hierarchy, and requires additional disclosures. This guidance is effective for interim and annual periods beginning after December 15, 2011. Differences in fair value measurement resulting from the application of the guidance will be recognized in income in the period of adoption as a change in estimate. Disclosure requirements will be recognized prospectively. Changes in valuation techniques and related inputs as a result of the application of the guidance in addition to an estimate of the total effect of the changes, if practicable, will be disclosed in the period of adoption. The application of this guidance did not have a significant impact on the financial position, results of operations or cash flows of the Company.

## **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. 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.

The transaction has been accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration transferred were recorded at their estimated fair value on the acquisition date. Assets acquired amounted to \$190.9 million, including loans and leases of \$169.0 million. Liabilities assumed totaled \$170.6 million, including \$169.9 million in deposits. The acquisition resulted in the addition of \$13.0 million to the Company's equity. Goodwill of \$5.1 million was recorded as a result of the transaction and will not be deductible for tax purposes. The goodwill from this transaction will be included in the Company's Community Banking segment. The stock portion of the consideration to CommerceFirst shareholders is intended to qualify as a tax-free transaction.

The consideration transferred for CommerceFirst's common equity and the amounts of acquired identifiable assets and liabilities assumed as of the acquisition date were as follows:

(in thousands)	
Purchase Price:	
Value of common share issued	\$13,023
Cash	12,381
Total purchase price	25,404
Identifiable assets:	
Cash and due from banks	11,532
Investments	502
Loans and leases	168,984
Other Real Estate Owned	4,232
Intangible assets	210
Other assets	5,439
Total identifiable assets	190,899
Liabilities:	
Deposits	169,921
Other Liabilities	644
Total liabilities	170,565
Net goodwill resulting from acquisition	\$5,070

The determination of the fair value of acquired assets and assumed liabilities required that expected cash flows from those assets and liabilities be estimated and discounted at appropriate rates of interest. The most significant of these determinations related to the valuation of acquired loans with evidence of deteriorated credit quality. The following is a summary of the loans acquired in the acquisition with evidence of deteriorated credit quality:

Loans  
Acquired

(in thousands)	with Evidence of Deteriorated Credit Quality
Contractually required principal and interest at acquisition	\$ 11,356
Contractual cash flows not expected to be collected	(4,427 )
Expected cash flows at acquisition	6,929
Interest component of expected cash flows	(850 )
Basis in acquired loans at acquisition - estimated fair value	\$ 6,079

The fair value of checking, savings and money market deposit accounts acquired was assumed to be the carrying value as these accounts have no stated maturity and are payable on demand. Certificate of deposit accounts were valued at the present value of the expected contractual payments discounted at the market rates for similar certificates. There was no core deposit intangible associated with the acquisition of the deposits.

Merger related expenses associated with the acquisition related to personnel and integrating and conforming the acquired operations with and into the Company. These expenses consisted of professional services, conversion and integration of operations, termination of existing contractual arrangements and cost to provide an introduction of the Company to its new customers. A summary of merger related expenses included in the indicated captions in the consolidated statement of income at June 30, 2012 as follows:

	For the Six Months Ended June 30, 2012
<i>(in thousands)</i>	
Salaries and employee benefits	\$ 737
Outside data services	1,031
Other non-interest expenses:	
Professional fees (legal, consulting, etc.)	683
Miscellaneous expenses	121
Total merger expenses	\$ 2,572

### Pro Forma Condensed Combined Financial Information

If the acquisition of CommerceFirst had been completed on January 1, 2011, total revenue, net of interest expense, would have been approximately \$85.8 million and \$82.6 million for the six months ended June 30, 2012 and 2011, respectively. Net income would have been approximately \$16.1 million and \$16.5 million for the same periods. The pro forma information does not provide for the impact of potential business model revisions nor does it consider any potential impacts of current market conditions on revenue, expense efficiencies or other factors.

### 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 June 30, 2012				At December 31, 2011			
	Amortized	Gross	Gross	Estimated	Amortized	Gross	Gross	Estimated
(In thousands)	Cost	Unrealized	Unrealized	Fair	Cost	Unrealized	Unrealized	Fair
		Gains	Losses	Value		Gains	Losses	Value
U.S. government agencies	\$ 120,027	\$ 1,593	\$ -	\$ 121,620	\$ 197,816	\$ 2,436	\$ -	\$ 200,252
State and municipal	159,144	12,575	(13 )	171,706	160,657	12,456	(2 )	173,111
Mortgage-backed	488,647	20,924	(37 )	509,534	551,518	18,639	(13 )	570,144
Corporate debt	2,000	-	(5 )	1,995	2,000	-	(22 )	1,978
Trust preferred	3,554	164	(415 )	3,303	5,936	260	(480 )	5,716
Total debt securities	773,372	35,256	(470 )	808,158	917,927	33,791	(517 )	951,201
Marketable equity securities	723	-	-	723	100	-	-	100
	\$ 774,095	\$ 35,256	\$ (470 )	\$ 808,881	\$ 918,027	\$ 33,791	\$ (517 )	\$ 951,301

Total investments  
available-for-sale

Any unrealized losses in the U.S. government agencies, state and municipal, mortgage-backed or corporate debt investment securities at June 30, 2012 are the result of changes in interest rates and are not considered credit related. These declines are considered temporary in nature and will decline over time and recover as these securities approach maturity.

The mortgage-backed portfolio at June 30, 2012 is composed entirely of either the most senior tranches of GNMA collateralized mortgage obligations (\$208.5 million), or GNMA, FNMA or FHLMC mortgage-backed securities (\$301.0 million). The Company does not intend to sell these securities and has sufficient liquidity to hold these securities for an adequate period of time, which may be maturity, to allow for any anticipated recovery in fair value.

At June 30, 2012, the trust preferred portfolio consisted of one security backed by a single financial institution issuer and one pooled trust preferred security. The fair value of the single issue security was \$1.5 million as determined using broker quotations. The pooled trust preferred security is backed by debt issued by banks and thrifts, which totals \$2.2 million, with a fair value of \$1.8 million. The fair value of this security was determined by a third party valuation specialist due to the limited trading activity for this security in the marketplace.

The specialist used an income valuation approach technique (present value) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. The methodology 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 (.30%), 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 12.6% 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 incurred credit-related other-than-temporary impairment (“OTTI”) of \$8 thousand, which was recognized in earnings for the quarter ended June 30, 2012. For the six months ended June 30, 2012 the OTTI recognized in earnings was \$72 thousand. Non-credit related OTTI on this security, which is not expected to be sold and that the Company has the ability to hold until maturity, was \$0.4 million at June 30, 2012. This non-credit related OTTI was recognized in other comprehensive income (“OCI”) at June 30, 2012.

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
	\$ 422

Cumulative credit losses  
on investment securities,  
through January 1, 2012

Additions for credit  
losses not previously  
recognized

72

Cumulative credit losses  
on investment securities,  
through June 30, 2012

\$

494

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 June 30, 2012

			Continuous Unrealized Losses Existing for:		
	Number of Securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
(Dollars in thousands)					
State and municipal	2	\$ 1,176	\$ 13	\$ -	\$ 13
Mortgage-backed	2	7,073	37	-	37
Corporate debt	1	1,995	5	-	5
Trust preferred	1	1,817	-	415	415
Total	6	\$ 12,061	\$ 55	\$ 415	\$ 470

At December 31, 2011

			Continuous Unrealized Losses Existing for:		
	Number of Securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
(Dollars in thousands)					
State and municipal	1	\$ 397	\$ 2	\$ -	\$ 2
Mortgage-backed	3	5,081	13	-	13
Corporate debt	1	3,326	22	-	22
Trust preferred	1	2,467	-	480	480
Total	6	\$ 11,271	\$ 37	\$ 480	\$ 517

The amortized cost and estimated fair values of investment 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 June 30, 2012		At December 31, 2011	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(In thousands)				
Due in one year or less	\$20,284	\$20,381	\$65,569	\$65,972
Due after one year through five years	37,844	39,045	62,993	64,656
Due after five years through ten years	311,158	324,495	342,813	354,238
Due after ten years	404,086	424,237	446,552	466,335
Total debt securities available for sale	\$773,372	\$808,158	\$917,927	\$951,201

At June 30, 2012 and December 31, 2011, investments available-for-sale with a book value of \$221.2 million and \$255.4 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 June 30, 2012 and December 31, 2011.



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 June 30, 2012				At December 31, 2011			
	Amortized Cost	Gross Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Gains	Gross Unrealized Losses	Estimated Fair Value
(In thousands)								
U.S. government agencies	\$37,576	\$ 37	\$ (140 )	\$37,473	\$54,983	\$ 406	\$ -	\$55,389
State and municipal	126,904	4,883	(277 )	131,510	123,075	5,244	(1 )	128,318
Mortgage-backed	366	47	-	413	407	53	-	460
Total investments held-to-maturity	\$164,846	\$ 4,967	\$ (417 )	\$169,396	\$178,465	\$ 5,703	\$ (1 )	\$184,167

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 June 30, 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	3	\$ 17,435	\$ 140	\$ -	\$ 140
State and municipal	20	20,624	277	-	277
Total	23	\$ 38,059	\$ 417	\$ -	\$ 417

At December 31, 2011					
Continuous Unrealized Losses Existing for:					
(Dollars in thousands)	Number of securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
State and municipal	1	\$ 541	\$ 1	\$ -	\$ 1
Total	1	\$ 541	\$ 1	\$ -	\$ 1

The Company does not intend to sell these securities and has sufficient liquidity to hold these securities for an adequate period of time, which may be maturity, to allow for any anticipated recovery in fair value, and substantiates that the unrealized losses in the held-to-maturity portfolio are considered temporary in nature.

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

	At June 30, 2012		At December 31, 2011	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(In thousands)				
Due in one year or less	\$ 11,939	\$ 12,168	\$ 18,860	\$ 19,203
Due after one year through five years	5,605	5,731	6,937	7,144
Due after five years through ten years	80,110	82,340	98,428	101,008
Due after ten years	67,192	69,157	54,240	56,812
Total debt securities held-to-maturity	\$ 164,846	\$ 169,396	\$ 178,465	\$ 184,167

At June 30, 2012 and December 31, 2011, investments held-to-maturity with a book value of \$130.3 million and \$58.7 million, respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law. The outstanding balance of no single issuer, except for U.S. Agency securities, exceeded ten percent of stockholders' equity at June 30, 2012 and December 31, 2011.

### Equity securities

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

(In thousands)	June 30, 2012	December 31, 2011
Federal Reserve Bank stock	\$ 8,292	\$ 7,530
Federal Home Loan Bank of Atlanta stock	24,724	27,328
Other equities	-	75
Total equity securities	\$ 33,016	\$ 34,933

### Note 4 – Loans and Leases

Outstanding loan balances at June 30, 2012 and December 31, 2011 are net of unearned income including net deferred loan costs of \$2.7 million and \$2.0 million, respectively. The loan portfolio segment balances at the dates indicated are presented in the following table:

(In thousands)	June 30, 2012	December 31, 2011
Residential real estate:		
Residential mortgage	\$ 472,426	\$ 448,662
Residential construction	130,791	108,699
Commercial real estate:		
Commercial owner occupied real estate	579,812	522,076
Commercial investor real estate	443,237	371,948
Commercial acquisition, development and construction	151,620	160,946
Commercial Business	334,040	260,327
Leases	5,618	6,954
Consumer	357,534	360,080
Total loans and leases	\$ 2,475,078	\$ 2,239,692

**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:

(In thousands)	Six Months Ended June 30,	
	2012	2011
Balance at beginning of year	\$ 49,426	\$ 62,135
Provision for loan and lease losses	2,249	2,666
Loan and lease charge-offs	(7,343 )	(10,254 )
Loan and lease recoveries	933	699
Net charge-offs	(6,410 )	(9,555 )
Balance at period end	\$ 45,265	\$ 55,246

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:

(Dollars in thousands)	For the Six Months Ended June 30, 2012									
	Commercial Real Estate						Residential Real Estate			
	Commercial Business	Commercial AD&C	Commercial Investor	Commercial Owner R/E Occupied	Commercial Owner R/E Leasing	Consumer	Residential Mortgage	Residential Construction	Other	
Balance at beginning of year	\$6,727	\$6,664	\$8,248	\$7,329	\$795	\$4,873	\$10,583	\$4,207	\$4,207	\$4,207
Provision (credit)	(1,697 )	(101 )	4,979	160	(236 )	(25 )	284	(1,115 )	284	284
Charge-offs	(354 )	(1,076 )	(3,457 )	(493 )	(6 )	(697 )	(1,193 )	(67 )	(67 )	(67 )
Recoveries	578	59	98	9	4	121	60	4	4	4
Net charge-offs	224	(1,017 )	(3,359 )	(484 )	(2 )	(576 )	(1,133 )	(63 )	(63 )	(63 )
Balance at end of period	\$5,254	\$5,546	\$9,868	\$7,005	\$557	\$4,272	\$9,734	\$3,029	\$3,029	\$3,029
Total loans and leases	\$334,040	\$151,620	\$443,237	\$579,812	\$5,618	\$357,534	\$472,426	\$130,791	\$130,791	\$130,791
Allowance for loans and leases to total loans and leases ratio	1.57 %	3.66 %	2.23 %	1.21 %	9.91 %	1.19 %	2.06 %	2.32 %	2.32 %	2.32 %
Balance of loans specifically evaluated for impairment	\$7,739	\$13,055	\$14,143	\$16,970	na.	\$34	\$4,896	\$741	\$741	\$741
Allowance for loans specifically evaluated	\$753	\$973	\$276	\$1,336	na.	na.	\$1,389	\$159	\$159	\$159



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for impairment

Specific allowance to specific loans ratio	9.73	%	0.00	%	1.95	%	7.87	%	na.	na.	28.37	%	21.46	%	8
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Balance of loans collectively evaluated	\$326,301		\$138,565		\$429,094		\$562,842		\$5,618		\$357,500		\$467,530		\$130,050		\$2
Allowance for loans collectively evaluated	\$4,501		\$4,573		\$9,592		\$5,669		\$557		\$4,272		\$8,345		\$2,870		\$4
Collective allowance to collective loans ratio	1.38	%	3.30	%	2.24	%	1.01	%	9.91	%	1.19	%	1.78	%	2.21	%	1

For the Year Ended December 31, 2011

Commercial Real Estate

Residential Real Estate

	Commercial										Residential					
(Dollars in thousands)	Commercial Business		Commercial AD&C		Commercial Investor		Commercial Owner R/E		Commercial Leasing		Consumer	Residential Mortgage		Residential Construction		
Balance at beginning of year	\$12,870		\$18,241		\$4,793		\$8,177		\$667		\$4,231	\$10,396		\$2,760		
Provision (credit)	(4,252 )		(11,035 )		4,320		(361 )		1,182		3,173	5,144		3,257		
Charge-offs	(2,565 )		(1,780 )		(868 )		(487 )		(1,072)		(2,740 )	(5,178 )		(1,815 )		
Recoveries	674		1,238		3		-		18		209	221		5		
Net charge-offs	(1,891 )		(542 )		(865 )		(487 )		(1,054)		(2,531 )	(4,957 )		(1,810 )		
Balance at end of year	\$6,727		\$6,664		\$8,248		\$7,329		\$795		\$4,873	\$10,583		\$4,207		
Total loans and leases	\$260,327		\$160,946		\$371,948		\$522,076		\$6,954		\$360,080	\$448,662		\$108,699		
Allowance for loans and leases to total loans and leases ratio	2.58	%	4.14	%	2.22	%	1.40	%	11.43	%	1.35	%	2.36	%	3.87	%

Balance of loans specifically evaluated for impairment	\$9,092		\$18,701		\$16,964		\$15,416		na.		\$35		\$5,108		\$2,259		\$
Allowance for loans specifically evaluated for impairment	\$1,037		\$7		\$3,380		\$1,772		na.		na.		\$769		\$826		\$
Specific allowance to specific loans ratio	11.41	%	0.04	%	19.92	%	11.49	%	na.		na.		15.05	%	36.56	%	

Balance of loans collectively evaluated	\$251,235		\$142,245		\$354,984		\$506,660		\$6,954		\$360,045		\$443,554		\$106,440		\$
Allowance for loans collectively evaluated	\$5,690		\$6,657		\$4,868		\$5,557		\$795		\$4,873		\$9,814		\$3,381		\$
Collective allowance to collective loans ratio	2.26	%	4.68	%	1.37	%	1.10	%	11.43	%	1.35	%	2.21	%	3.18	%	

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

(In thousands)	June 30, 2012	December 31, 2011
Impaired loans with a valuation allowance	\$22,669	\$ 36,742
Impaired loans without a valuation allowance	34,908	30,833
Total impaired loans	\$57,577	\$ 67,575
Allowance for loan and lease losses related to impaired loans	\$4,886	\$ 7,791
Allowance for loan and lease losses related to loans collectively evaluated	40,379	41,635
Total allowance for loan and lease losses	\$45,265	\$ 49,426
Average impaired loans for the period	\$62,336	\$ 68,377
Contractual interest income due on impaired loans during the period	\$2,511	\$ 4,973
Interest income on impaired loans recognized on a cash basis	\$666	\$ 1,523
Interest income on impaired loans recognized on an accrual basis	\$224	\$ 325

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:

	At June 30, 2012					Total Recorded Investment in Impaired Loans
	Commercial Real Estate				All Other Loans	
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E		
<b>Impaired loans <i>with</i> a specific allowance</b>						
Non-accruing	\$848	\$-	\$ 996	\$ 5,909	\$221	\$ 7,974
Restructured accruing	1,527	-	-	1,331	3,453	6,311
Restructured non-accruing	198	4,679	179	2,951	377	8,384
Balance	\$2,573	\$4,679	\$ 1,175	\$ 10,191	\$4,051	\$ 22,669
Allowance	\$753	\$973	\$ 276	\$ 1,336	\$1,548	\$ 4,886
<b>Impaired loans <i>without</i> a specific allowance</b>						
Non-accruing	\$1,863	\$5,073	\$ 11,951	\$ 5,751	\$-	\$ 24,638
Restructured accruing	948	-	-	202	824	1,974
Restructured non-accruing	2,355	3,303	1,017	826	795	8,296
Balance	\$5,166	\$8,376	\$ 12,968	\$ 6,779	\$1,619	\$ 34,908
Total impaired loans						
Non-accruing	\$2,711	\$5,073	\$ 12,947	\$ 11,660	\$221	\$ 32,612
Restructured accruing	2,475	-	-	1,533	4,277	8,285
Restructured non-accruing	2,553	7,982	1,196	3,777	1,172	16,680
Balance	\$7,739	\$13,055	\$ 14,143	\$ 16,970	\$5,670	\$ 57,577
Unpaid principal balance in total impaired loans	\$10,102	\$32,652	\$ 17,986	\$ 19,093	\$-	\$ 79,833

	For the Six Months Ended June 30, 2012					Total Recorded Investment in Impaired Loans
	Commercial Real Estate					
	Commercial	Commercial	Commercial	Commercial	All	
(In thousands)	AD&C	Investor	R/E	Owner Occupied	R/E Loans	
Average impaired loans for the period	\$8,630	\$15,353	\$ 15,000	\$ 16,806	\$6,546	\$ 62,336
Contractual interest income due on impaired loans during the period	\$276	\$687	\$ 653	\$ 733	\$162	
Interest income on impaired loans recognized on a cash basis	\$108	\$203	\$ 48	\$ 289	\$18	
Interest income on impaired loans recognized on an accrual basis	\$73	\$-	\$ -	\$ 52	\$99	



	At December 31, 2011					Total Recorded Investment in Impaired Loans
	Commercial Real Estate					
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	
Impaired loans <i>with</i> a specific allowance						
Non-accruing	\$1,110	\$-	\$ 13,812	\$ 4,091	\$1,093	\$ 20,106
Restructured accruing	1,346	-	-	707	3,475	5,528
Restructured non-accruing	307	6,504	628	3,282	387	11,108
Balance	\$2,763	\$6,504	\$ 14,440	\$ 8,080	\$4,955	\$ 36,742
Allowance	\$1,037	\$7	\$ 3,380	\$ 1,772	\$1,595	\$ 7,791
Impaired loans <i>without</i> a specific allowance						
Non-accruing	\$3,416	\$7,798	\$ 1,883	\$ 6,464	\$800	\$ 20,361
Restructured accruing	520	-	-	-	833	1,353
Restructured non-accruing	2,393	4,399	641	872	814	9,119
Balance	\$6,329	\$12,197	\$ 2,524	\$ 7,336	\$2,447	\$ 30,833
Total impaired loans						
Non-accruing	\$4,526	\$7,798	\$ 15,695	\$ 10,555	\$1,893	\$ 40,467
Restructured accruing	1,866	-	-	707	4,308	6,881
Restructured non-accruing	2,700	10,903	1,269	4,154	1,201	20,227
Balance	\$9,092	\$18,701	\$ 16,964	\$ 15,416	\$7,402	\$ 67,575
Unpaid principal balance in total impaired loans	\$11,303	\$37,442	\$ 17,389	\$ 16,466	\$-	\$ 82,600

	For the Year Ended December 31, 2011					Total Recorded Investment in Impaired Loans
	Commercial Real Estate					
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	
Average impaired loans for the period	\$9,800	\$27,005	\$ 11,409	\$ 13,942	\$6,221	\$ 68,377
Contractual interest income due on impaired loans during the period	\$583	\$1,743	\$ 830	\$ 800	\$1,017	
Interest income on impaired loans recognized on a cash basis	\$267	\$487	\$ 93	\$ 471	\$205	
Interest income on impaired loans recognized on an accrual basis	\$114	\$-	\$ -	\$ 45	\$166	

## Credit Quality

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



(In thousands)	December 31, 2011									
	Commercial Real Estate					Residential Real Estate				
	Commercial					Residential				
	Commercial AD&C	Commercial AD&C	Commercial Owner	Commercial Owner	Commercial Owner	Residential Mortgage	Residential Construction	Residential Construction	Residential Construction	Total
Non-performing loans and assets:										
Non-accrual loans and leases	\$7,226	\$18,702	\$16,963	\$14,709	\$853	\$1,786	\$5,722	\$5,719		\$71,680
Loans and leases 90 days past due	-	-	-	-	2	165	167	243		577
Restructured loans and leases	1,866	-	-	707	-	35	3,579	694		6,881
Total non-performing loans and leases	9,092	18,702	16,963	15,416	855	1,986	9,468	6,656		79,138
Other real estate owned	100	-	462	273	-	-	3,395	201		4,431
Total non-performing assets	\$9,192	\$18,702	\$17,425	\$15,689	\$855	\$1,986	\$12,863	\$6,857		\$83,569

(In thousands)	June 30, 2012									
	Commercial Real Estate					Residential Real Estate				
	Commercial					Residential				
	Commercial AD&C	Commercial AD&C	Commercial Owner	Commercial Owner	Commercial Owner	Residential Mortgage	Residential Construction	Residential Construction	Residential Construction	Total
Past due loans and leases										
31-60 days	\$4,466	\$-	\$4,130	\$4,223	\$7	\$1,015	\$5,841	\$712		\$20,394
61-90 days	341	-	247	456	4	80	1,651	896		3,675
> 90 days	70	342	-	-	96	5	91	-		604
Total past due	5,584	342	4,377	4,679	107	1,100	7,583	1,608		24,673
Non-accrual loans and leases	4,583	13,055	13,327	15,146	872	1,651	2,600	4,333		55,567
Current loans	324,580	138,223	425,533	559,987	4,639	354,783	462,243	124,850		2,394,838
Total loans and leases	\$334,040	\$151,620	\$443,237	\$579,812	\$5,618	\$357,534	\$472,426	\$130,791		\$2,475,078

(In thousands)	December 31, 2011									
	Commercial Real Estate					Residential Real Estate				
	Commercial					Residential				
	Commercial AD&C	Commercial AD&C	Commercial Owner	Commercial Owner	Commercial Owner	Residential Mortgage	Residential Construction	Residential Construction	Residential Construction	Total

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Past due loans and leases									
31-60 days	\$1,467	\$717	\$10,723	\$1,677	\$7	\$467	\$5,246	\$1,732	\$22,036
61-90 days	62	-	-	2,537	-	20	1,639	-	4,258
> 90 days	-	-	-	-	2	165	167	243	577
Total past due	1,529	717	10,723	4,214	9	652	7,052	1,975	26,871
Non-accrual loans and leases	7,226	18,702	16,963	14,709	853	1,786	5,722	5,719	71,680
Current loans	251,572	141,527	344,262	503,153	6,092	357,642	435,888	101,005	2,141,141
Total loans and leases	\$260,327	\$160,946	\$371,948	\$522,076	\$6,954	\$360,080	\$448,662	\$108,699	\$2,239,692



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

June 30, 2012

(In thousands)	Commercial Real Estate				Total
	Commercial	Commercial		Commercial	
		AD&C	Investor R/E	Owner Occupied R/E	
Risk Free to Marginally Acceptable	\$295,638	\$132,375	\$393,946	\$530,032	\$1,351,991
Special Mention	12,731	2,366	20,789	25,418	61,304
Substandard	24,325	16,879	28,502	23,263	92,969
Doubtful	1,346	-	-	1,099	2,445
Total	\$334,040	\$151,620	\$443,237	\$579,812	\$1,508,709

December 31, 2011

(In thousands)	Commercial Real Estate				Total
	Commercial	Commercial		Commercial	
		AD&C	Investor R/E	Owner Occupied R/E	
Risk Free to Marginally Acceptable	\$225,048	\$137,181	\$331,095	\$469,309	\$1,162,633
Special Mention	8,551	2,207	9,592	22,103	42,453
Substandard	25,720	21,558	31,261	30,664	109,203
Doubtful	1,008	-	-	-	1,008
Total	\$260,327	\$160,946	\$371,948	\$522,076	\$1,315,297

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, 2012

(In thousands)	Residential Real Estate				Total
	Leasing	Consumer	Residential Mortgage	Residential Construction	
Performing	\$4,650	\$355,845	\$465,491	\$126,458	\$952,444
Non-performing:					
90 days past due	96	5	91	-	192
Non-accruing	872	1,651	2,600	4,333	9,456
Restructured loans and leases	-	33	4,244	-	4,277
Total	\$5,618	\$357,534	\$472,426	\$130,791	\$966,369

December 31, 2011

(In thousands)	Residential Real Estate				Total
	Leasing	Consumer	Residential Mortgage	Residential Construction	
Performing	\$6,099	\$358,094	\$439,194	\$102,043	\$905,430
Non-performing:					
90 days past due	2	165	167	243	577
Non-accruing	853	1,786	5,722	5,719	14,080
Restructured loans and leases	-	35	3,579	694	4,308
Total	\$6,954	\$360,080	\$448,662	\$108,699	\$924,395

During the six months ended June 30, 2012, the Company restructured \$1.7 million in loans. Modifications consisted principally of interest rate concessions. No modifications resulted in the reduction of the recorded investment 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 2012 have specific reserves of \$0.3 million at June 30, 2012. For the year ended December 31, 2011, the Company restructured \$10.3 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 2011 had specific reserves of \$1.9 million thousand at December 31, 2011.

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, 2012					
	Commercial Real Estate				Commercial Owner Occupied R/E	All Other Loans
(In thousands)	Commercial AD&G	Commercial Investor	Commercial R/E	Commercial Owner Occupied R/E		
Troubled debt restructurings						
Restructured accruing	\$ 710	\$ -	\$ -	\$ 1,027	\$ -	\$ 1,737
Restructured non-accruing	-	-	-	-	-	-
Balance	\$ 710	\$ -	\$ -	\$ 1,027	\$ -	\$ 1,737
Specific allowance	\$ 64	\$ -	\$ -	\$ 217	\$ -	\$ 281
Restructured and subsequently defaulted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

	For the Year Ended December 31, 2011					
	Commercial Real Estate				Commercial Owner Occupied R/E	All Other Loans
(In thousands)	Commercial AD&G	Commercial Investor	Commercial R/E	Commercial Owner Occupied R/E		
Troubled debt restructurings						
Restructured accruing	\$1,696	\$ -	\$ -	\$ -	\$3,590	\$5,286
Restructured non-accruing	469	-	1,269	2,475	763	4,976
Balance	\$2,165	\$ -	\$ 1,269	\$ 2,475	\$4,353	\$10,262
Specific allowance	\$254	\$ -	\$ 93	\$ 509	\$1,027	\$1,883
Restructured and subsequently defaulted	\$ -	\$ -	\$ -	\$ -	\$509	\$509

Changes in the accretable yield related to loans acquired with evidence of deteriorated credit quality are as follows:

(in thousands)	Amount
Balance at January 1, 2012	\$ -
CommerceFirst acquisition	754
Accretion recognized to date	(34 )
Net reclassification from accretable to non-accretable	-
Balance at June 30, 2012	\$ 720

#### Other Real Estate owned

Other real estate owned totaled \$9.6 million and \$4.4 million at June 30, 2012 and December 31, 2011. The increase compared to the prior year end was due primarily to balances added as a result of the CommerceFirst acquisition.

# Note 6 – 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:

	At June 30, 2012			Weighted Average Remaining Life	At December 31, 2011			Weighted Average Remaining Life
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
(Dollars in thousands)								
Amortizing intangible assets:								
Core deposit intangibles	\$9,716	\$ (7,270 )	\$ 2,446	1.8 years	\$9,716	\$ (6,575 )	\$ 3,141	2.3 years
Other identifiable intangibles	8,511	(6,940 )	1,571	3.0 years	8,301	(6,708 )	1,593	3.5 years