

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

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

**FORM 10-Q**

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

**For the Quarterly Period Ended March 31, 2016**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-19065

SANDY SPRING BANCORP, INC.

(Exact name of registrant as specified in its charter)

**Maryland**

**52-1532952**

(State of incorporation)

(I.R.S. Employer Identification Number)

**17801 Georgia Avenue, Olney, Maryland**

**20832**

(Address of principal executive office)

(Zip Code)

**301-774-6400**

(Registrant's telephone number, including area code)

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

Yes  No

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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

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

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

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

Yes    No

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

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

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**SANDY SPRING BANCORP, INC.**

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## Forward-Looking Statements

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

Forward-looking statements reflect our expectation or prediction of future conditions, events or results based on information currently available. These forward-looking statements are subject to significant risks and uncertainties that may cause actual results to differ materially from those in such statements. These risk and uncertainties include, but are not limited to, the risks identified in Item 1A of the Company’s 2015 Annual Report on Form 10-K, Item 1A of Part II of this report and the following:

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

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

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

<i>(Dollars in thousands)</i>	<b>March 31, 2016</b>	December 31, 2015
<b>Assets</b>		
Cash and due from banks	\$ 43,228	\$ 46,956
Federal funds sold	559	472
Interest-bearing deposits with banks	115,609	25,454
Cash and cash equivalents	159,396	72,882
Residential mortgage loans held for sale (at fair value)	27,806	15,457
Investments available-for-sale (at fair value)	704,872	592,049
Investments held-to-maturity -- fair value of \$211,704 at December 31, 2015	-	208,265
Other equity securities	37,529	41,336
Total loans and leases	3,560,688	3,495,370
Less: allowance for loan and lease losses	(41,766)	(40,895)
Net loans and leases	3,518,922	3,454,475
Premises and equipment, net	53,307	53,214
Other real estate owned	2,414	2,742
Accrued interest receivable	13,660	13,443
Goodwill	84,171	84,171
Other intangible assets, net	105	138
Other assets	114,426	117,208
<b>Total assets</b>	<b>\$ 4,716,608</b>	<b>\$ 4,655,380</b>
<b>Liabilities</b>		
Noninterest-bearing deposits	\$ 1,084,746	\$ 1,001,841
Interest-bearing deposits	2,327,562	2,261,889
Total deposits	3,412,308	3,263,730
Securities sold under retail repurchase agreements and federal funds purchased	121,043	109,145
Advances from FHLB	590,000	685,000
Subordinated debentures	35,000	35,000
Accrued interest payable and other liabilities	35,865	38,078
Total liabilities	4,194,216	4,130,953
<b>Stockholders' Equity</b>		
Common stock -- par value \$1.00; shares authorized 50,000,000; shares issued and outstanding 23,827,305 and 24,295,971 at March 31, 2016 and December 31, 2015, respectively	23,827	24,296
Additional paid in capital	163,522	175,588
Retained earnings	330,810	325,840
Accumulated other comprehensive income (loss)	4,233	(1,297)
Total stockholders' equity	522,392	524,427
<b>Total liabilities and stockholders' equity</b>	<b>\$ 4,716,608</b>	<b>\$ 4,655,380</b>



The accompanying notes are an integral part of these statements

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

	Three Months Ended March 31,	
<i>(Dollars in thousands, except per share data)</i>	2016	2015
<b>Interest Income:</b>		
Interest and fees on loans and leases	\$ 36,206	\$ 32,139
Interest on loans held for sale	134	76
Interest on deposits with banks	53	22
Interest and dividends on investment securities:		
Taxable	3,286	3,577
Exempt from federal income taxes	1,973	2,258
Interest on federal funds sold	1	-
Total interest income	41,653	38,072
<b>Interest Expense:</b>		
Interest on deposits	1,837	1,194
Interest on retail repurchase agreements and federal funds purchased	66	50
Interest on advances from FHLB	3,374	3,236
Interest on subordinated debt	254	219
Total interest expense	5,531	4,699
<b>Net interest income</b>	<b>36,122</b>	<b>33,373</b>
Provision for loan and lease losses	1,236	597
Net interest income after provision for loan and lease losses	<b>34,886</b>	<b>32,776</b>
<b>Non-interest Income:</b>		
Investment securities gains	1,769	-
Service charges on deposit accounts	1,903	1,882
Mortgage banking activities	535	1,178
Wealth management income	4,405	4,916
Insurance agency commissions	1,445	1,618
Income from bank owned life insurance	615	713
Visa check fees	1,089	1,057
Other income	1,602	1,795
Total non-interest income	<b>13,363</b>	<b>13,159</b>
<b>Non-interest Expenses:</b>		
Salaries and employee benefits	18,230	17,299
Occupancy expense of premises	3,473	3,489
Equipment expenses	1,664	1,373
Marketing	681	531
Outside data services	1,363	1,261
FDIC insurance	637	631
Amortization of intangible assets	32	107
Litigation expenses	-	200
Other expenses	6,237	4,353
Total non-interest expenses	<b>32,317</b>	<b>29,244</b>
Income before income taxes	15,932	16,691
Income tax expense	5,119	5,466
<b>Net income</b>	<b>\$ 10,813</b>	<b>\$ 11,225</b>

**Net Income Per Share Amounts:**

Basic net income per share	\$	<b>0.45</b>	\$	0.45
Diluted net income per share	\$	<b>0.45</b>	\$	0.45
Dividends declared per common share	\$	<b>0.24</b>	\$	0.22

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

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

The accompanying notes are an integral part of these statements

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

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

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

The accompanying notes are an integral part of these statements

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

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



The accompanying notes are an integral part of these statements

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

### **Notes to the CONDENSED Consolidated Financial Statements - UNAUDITED**

#### **Note 1 – Significant Accounting Policies**

##### **Nature of Operations**

Sandy Spring Bancorp (the “Company”), a Maryland corporation, is the bank holding company for Sandy Spring Bank (the “Bank”). The Bank offers a broad range of commercial banking, retail banking, mortgage and trust services throughout central Maryland, Northern Virginia and the greater Washington D.C. market through its operation of 45 community offices and six financial centers across the region. The Bank also offers a comprehensive menu of insurance and wealth management services through its subsidiaries, Sandy Spring Insurance Corporation and West Financial Services, Inc.

##### **Basis of Presentation**

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“GAAP”) and prevailing practices within the financial services industry for interim financial information and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements and prevailing practices within the banking industry. The following summary of significant accounting policies of the Company is presented to assist the reader in understanding the financial and other data presented in this report. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for any future periods or for the year ending December 31, 2016. In the opinion of management, all adjustments (comprising only normal recurring accruals) necessary for a fair presentation of the results of the interim periods have been included. Certain reclassifications have been made to prior period amounts, as necessary, to conform to the current period presentation. The Company has evaluated subsequent events through the date of the issuance of its financial statements.

These statements should be read in conjunction with the financial statements and accompanying notes included in the Company’s 2015 Annual Report on Form 10-K as filed with the Securities and Exchange Commission (“SEC”) on March 4, 2016. There have been no significant changes to the Company’s accounting policies as disclosed in the 2015 Annual Report on Form 10-K.

##### **Principles of Consolidation**

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

### **Use of Estimates**

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

### **Cash Flows**

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

## **Pending Accounting Pronouncements**

The FASB issued Update No. 2014-09 in May 2014 that provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to customers. The guidance also provides for a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate. This standard may affect an entity's financial statements, business processes and internal control over financial reporting. The guidance is effective for the first interim or annual period beginning after December 15, 2016. The guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. The Company is assessing this guidance to determine its impact on the Company's financial position, results of operations and cash flows.

The FASB issued Update No. 2016-01 in January 2016. This guidance requires entities to measure equity investments at fair value and recognize changes on fair value in net income. The guidance also provides a new measurement alternative for equity investments that don't have readily determinable fair values and don't qualify for the net asset value practical expedient. Entities will have to record changes in instrument –specific credit risk for financial liabilities measured under the fair value option in other comprehensive income, except for certain financial liabilities of consolidated collateralized financing entities. Entities will also have to reassess the realizability of a deferred tax asset related to an available-for-sale debt security in combination with their other deferred tax assets. For public entities, the guidance in this update is effective for the first interim or annual period beginning after December 15, 2017. Early adoption by public entities is permitted as of the beginning of the year of adoption for selected amendments by a cumulative effect adjustment to the balance sheet. The adoption of this standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

The FASB issued Update No. 2016-02 in February 2016. Under this guidance lessees are required to record most leases on their balance sheets but recognize expenses in the income statement. The guidance also eliminates the current real estate-specific provision and changes the guidance on sale-leaseback transactions, initial direct costs and lease executory costs. With respect to lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. All entities will classify leases to determine how to recognize lease-related revenue and expense. In applying this guidance entities will also need to determine whether an arrangement contains a lease or service agreement. Disclosures are required by lessees and lessors to meet the objective of enabling users of financials statements to assess the amount, timing, and uncertainty of cash flows arising from leases. For public entities, this guidance is effective for the first interim or annual period beginning after December 15, 2018. Early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is assessing this guidance to determine its impact on the Company's financial position, results of operations and cash flows.

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

**Note 2 – Investments**

Investments available-for-sale

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

