

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2019

Commission File Number 0-19065

SANDY SPRING BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

52-1532952

(I.R.S. Employer
Identification No.)

17801 Georgia Avenue, Olney,

Maryland

(Address of principal executive offices)

20832

(Zip Code)

301-774-6400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$1.00 per share	SASR	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No*

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 such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit such files). Yes No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting common stock of the registrant held by non-affiliates on June 30, 2019, the last day of the registrant's most recently completed second fiscal quarter, was approximately \$1.21 billion, based on the closing sales price of \$34.88 per share of the registrant's Common Stock on June 28, 2019.

The number of outstanding shares of common stock outstanding as of February 19, 2020.

Common stock, \$1.00 par value – 34,928,509 shares

Documents Incorporated By Reference

Part III: Portions of the definitive proxy statement for the Annual Meeting of Shareholders to be held on June 4, 2020 (the "Proxy Statement").

The registrant is required to file reports pursuant to Section 13 of the Act.

SANDY SPRING BANCORP, INC.

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Forward-Looking Statements

This Annual Report Form 10-K, 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, Inc. and its subsidiaries (the “Company”), may contain statements relating to future events or future results of the Company that are considered “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by the use of words such as “believe,” “expect,” “anticipate,” “plan,” “estimate,” “intend” and “potential,” or words of similar meaning, or future or conditional verbs such as “should,” “could,” or “may.” Forward-looking statements include statements of our goals, intentions and expectations; statements regarding our business plans, prospects, growth and operating strategies; statements regarding the quality of our loan and investment portfolios; and estimates of our risks and future costs and benefits.

Forward-looking statements reflect our expectation or prediction of future conditions, events or results based on information currently available. These forward-looking statements are subject to significant risks and uncertainties that may cause actual results to differ materially from those in such statements. These risks and uncertainties include, but are not limited to, the risks identified in Item 1A of 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;
- failure of the Administration and Congress to agree on spending priorities, which may result in temporary shutdowns of non-essential federal functions, adversely affecting the regional economy;
- competitive factors among financial services companies, including product and pricing pressures and our ability to attract, develop and retain qualified banking professionals;
- acquisition integration risks, including potential deposit attrition, higher than expected costs, customer loss, business disruption and the inability to realize benefits and cost savings from, and limit any unexpected liabilities associated with, any business combinations;
- 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. BUSINESS

General

Sandy Spring Bancorp, Inc. (the "Company") is the bank holding company for Sandy Spring Bank (the "Bank"). The Company is registered as a bank holding company pursuant to the Bank Holding Company Act of 1956, as amended (the "Holding Company Act") and is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Company began operating in 1988 while Sandy Spring Bank traces its origin to 1868, making it among the oldest banking institutions in the region. The bank offers a broad range of commercial and retail banking, mortgage, private banking and trust services at over 50 locations throughout central Maryland, Northern Virginia, and Washington D.C. The Bank is a state chartered bank subject to supervision and regulation by the Federal Reserve and the State of Maryland. The Bank's deposit accounts are insured by the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation (the "FDIC") to the maximum extent permitted by law. The Bank is a member of the Federal Reserve System and is an Equal Housing Lender. The Company, the Bank, and their other subsidiaries are Affirmative Action/Equal Opportunity Employers.

The Company is a community banking organization that focuses its lending and other services on businesses and consumers in the local market area. Through its subsidiaries, Sandy Spring Insurance Corporation, West Financial Services, Inc. and SSB Wealth Management, Inc. (d/b/a Rembert Pendleton Jackson), Sandy Spring Bank offers a comprehensive menu of insurance and investment management services.

On January 1, 2018, the Company completed its acquisition of WashingtonFirst Bankshares, Inc. ("WashingtonFirst"), the former parent company for WashingtonFirst Bank, in a transaction valued at \$447 million. WashingtonFirst was headquartered in Reston, Virginia, and had assets of \$2.1 billion, loans of \$1.7 billion and deposits of \$1.6 billion as of December 31, 2017. The results of operations from the acquisition are included in the Company's consolidated results of operations as of January 1, 2018.

On September 23, 2019, the Company and the Bank entered into a definitive agreement and plan of merger with Revere Bank, pursuant to which Revere Bank will merge with and into the Bank with the Bank as the surviving institution. Revere Bank, headquartered in Rockville, Maryland, has 11 banking offices and more than \$2.8 billion in assets as of December 31, 2019. The Company, the Bank and Revere Bank have received all required regulatory and shareholder approvals necessary to complete the merger. Subject to the satisfaction of customary closing conditions, the Company expects that the merger will be completed in the beginning of the second quarter of 2020.

On February 1, 2020, the Company completed the acquisition of Rembert Pendleton Jackson ("RPJ") a financial planning and investment advisory firm located in Falls Church, Virginia. RPJ was founded in 1974 and currently has more than \$1.3 billion in assets under management.

The Company's and the Bank's principal executive office is located at 17801 Georgia Avenue, Olney, Maryland 20832, and its telephone number is 301-774-6400.

Availability of Information

This report is not part of the proxy materials for the Company's annual meeting of shareholders; it is provided along with the annual proxy statement for convenience of use and as an expense control measure. The Company makes available through the Investor Relations area of the Company website, at www.sandyspringbank.com, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. Access to these reports is provided by means of a link to a third-party vendor that maintains a database of such filings. In general, the Company intends that these reports be available as soon as practicable after they are filed with or furnished to the Securities and Exchange Commission ("SEC"). Technical and other operational obstacles or delays caused by the vendor may delay their availability. The SEC maintains a website (www.sec.gov) where these filings also are available through the SEC's EDGAR system. There is no charge for access to these filings through either the Company's site or the SEC's site.

Market and Economic Overview

Sandy Spring Bank is headquartered in Montgomery County, Maryland and conducts business primarily in Central Maryland, Northern Virginia and Washington D.C. The Bank's business footprint serves Greater Washington, which includes the District of Columbia proper, Northern Virginia and suburban Maryland, one of the country's most economically successful regions. The region's economic strength is due to the region's significant federal government presence and the strong growth in the business and professional services sector. The proximity to numerous armed forces installations in Maryland, including the United States Cyber Command in Ft. Meade, Maryland, together with a strategic location between two of the country's leading ports – the Port of Baltimore and the Port of Norfolk - and its proximity to numerous interstates and railways have provided opportunities for growth in a variety of areas, including logistics and transportation.

The region's unemployment rate has remained below the national average for the last several years. This low unemployment rate is due primarily to the region's highly trained and educated workforce. According to the U.S. Census Bureau, the region is home to six of the top ten most highly educated counties in the nation and five of the top ten most affluent counties, as measured by household income. The Company's geographical location provides access to key neighboring markets such as Philadelphia, New York City, Pittsburgh and the Richmond/Norfolk, Virginia corridor.

The local economy that the Company operates in continued to strengthen and expand throughout 2019. While the economic improvement has resulted in many positive economic trends such as low unemployment, high consumer confidence, increased housing development and stable housing prices, these have been tempered by concerns such as the lack of wage growth, low inflation levels and the strength of the dollar. Volatility in global economic markets, domestic political turmoil and various episodes of geo-political unrest continue to cause a degree of uncertainty in the financial markets. Overall, management continues to be encouraged by the strength of the current economic environment and the prospects for continued growth of the Company.

Loan Products

The Company currently offers a complete menu of loan products primarily in the Company's identified market footprint that are discussed in detail below and on the following pages. These following sections should be read in conjunction with the section "Credit Risk" on page 54 of this report.

Residential Real Estate Loans

The residential real estate category contains loans principally to consumers secured by residential real estate. The Company's residential real estate lending policy requires each loan to have viable repayment sources. Residential real estate loans are evaluated for the adequacy of these repayment sources at the time of approval, based upon measures including credit scores, debt-to-income ratios, and collateral values. Credit risk for residential real estate loans arises from borrowers lacking the ability or willingness to repay the loan or by a shortfall in the value of the residential real estate in relation to the outstanding loan balance in the event of a default and subsequent liquidation of the real estate collateral. The residential real estate portfolio includes both conforming and non-conforming mortgage loans.

Conforming mortgage loans represent loans originated in accordance with underwriting standards set forth by the government-sponsored entities ("GSEs"), including the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), and the Government National Mortgage Association ("Ginnie Mae"), which serve as the primary purchasers of loans sold in the secondary mortgage market by mortgage lenders. These loans are generally collateralized by one-to-four-family residential real estate, have loan-to-collateral value ratios of 80% or less or have mortgage insurance to insure down to 80%, and are made to borrowers in good credit standing. Substantially all fixed-rate conforming loans originated are sold in the secondary mortgage market. For any loans retained by the Company, title insurance insuring the priority of its mortgage lien, as well as fire and extended coverage casualty insurance protecting the properties securing the loans is required. Borrowers may be required to advance funds, with each monthly payment of principal and interest, to a loan escrow account from which the Company makes disbursements for items such as real estate taxes and mortgage insurance premiums. Appraisers approved by the Company appraise the properties securing substantially all of the Company's residential mortgage loans.

Non-conforming mortgage loans represent loans that generally are not saleable in the secondary market to the GSEs for inclusion in conventional mortgage-backed securities due to the credit characteristics of the borrower, the underlying documentation, the loan-to-value ratio, or the size of the loan, among other factors. The Company originates non-conforming loans for its own portfolio and for sale to third-party investors, usually large mortgage companies, under commitments by the mortgage company to purchase the loans subject to compliance with pre-established investor criteria. Non-conforming loans generated for sale include loans that may not be underwritten using customary underwriting standards. These loans typically are held after funding for thirty days or less, and are included in residential mortgages held for sale. The Company may sell both conforming and non-conforming loans on either a servicing released or servicing retained basis.

The Company makes residential real estate development and construction loans generally to provide interim financing on property during the development and construction period. Borrowers include builders, developers and persons who will ultimately occupy the single-family dwelling. Residential real estate development and construction loan funds are disbursed periodically as pre-specified stages of completion are attained based upon site inspections. Interest rates on these loans are usually adjustable. Loans to individuals for the construction of primary personal residences are typically secured by the property under construction, frequently include additional collateral (such as a second mortgage on the borrower's present home), and commonly have maturities of twelve to eighteen months. The Company attempts to obtain the permanent mortgage loan under terms, conditions and documentation standards that permit the sale of the mortgage loan in the secondary mortgage loan market.

Commercial Loans

Included in this category are commercial real estate loans, commercial construction loans and other commercial loans. The Company's commercial loan clients represent a diverse cross-section of small to mid-size local businesses within the Company's market footprint, whose owners and employees are often established Bank customers. Such banking relationships are a natural business for the Company, with its long-standing community roots and extensive experience in serving and lending to this market segment.

Commercial loans are evaluated for the adequacy of repayment sources at the time of approval and are regularly reviewed for any possible deterioration in the ability of the borrower to repay the loan. Collateral generally is required to provide the Company with an additional source of repayment in the event of default by a commercial borrower. The structure of the collateral package, including the type and amount of the collateral, varies from loan to loan depending on the financial strength of the borrower, the amount and terms of the loan, and the collateral available to be pledged by the borrower, but generally may include real estate, accounts receivable, inventory, equipment or other assets. Loans also may be supported by personal guarantees from the principals of the commercial loan borrowers. The financial condition and cash flow of commercial borrowers are closely monitored by the submission of corporate financial statements, personal financial statements and income tax returns. The frequency of submissions of required information depends upon the size and complexity of the credit and the collateral that secures the loan. Credit risk for commercial loans arises from borrowers lacking the ability or willingness to repay the loan, and in the case of secured loans, by a shortfall in the collateral value in relation to the outstanding loan balance in the event of a default and subsequent liquidation of collateral. The Company has no commercial loans to borrowers in similar industries that exceed 10% of total loans.

Included in commercial loans are credits directly originated by the Company and, to a lesser extent, syndicated transactions or loan participations that are originated by other lenders. The Company's commercial lending policy requires each loan, regardless of whether it is directly originated or is purchased, to have viable repayment sources. The risks associated with syndicated loans or purchased participations are similar to those of directly originated commercial loans, although additional risk may arise from the limited ability to control actions of the primary lender. Shared National Credits (SNC), as defined by the banking regulatory agencies, represent syndicated lending arrangements with three or more participating financial institutions and credit exceeding \$100.0 million in the aggregate. At December 31, 2019, the Company had no outstanding SNC purchases or SNC sold.

The Company sells participations in loans it originates to other financial institutions in order to build long-term customer relationships or limit loan concentration. The Company also purchases whole loans and loan participations as part of its asset/liability management strategy. Strict policies are in place governing the degree of risk assumed and volume of loans held. At December 31, 2019, other financial institutions had \$77.2 million in outstanding commercial and commercial real estate loan participations sold by the Company. In addition, the Company had \$96.2 million in outstanding commercial and commercial real estate loan participations purchased from other lenders.

The Company's commercial real estate loans consist of both loans secured by owner occupied properties and non-owner occupied properties where an established banking relationship exists. The commercial real estate categories contain mortgage loans to developers and owners of commercial real estate. Commercial real estate loans are governed by the same lending policies and subject to credit risk as previously described for commercial loans. Commercial real estate loans secured by owner-occupied properties are based upon the borrower's financial condition and the ability of the borrower and the business to repay. Commercial real estate loans secured by non-owner occupied properties involve investment properties for warehouse, retail, and office space with a history of occupancy and cash flow. The Company seeks to reduce the risks associated with commercial mortgage lending by generally lending in its market area, using conservative loan-to-value ratios and obtaining periodic financial statements and tax returns from borrowers to perform loan reviews. It is also the Company's general policy to obtain personal guarantees from the principals of the borrowers and to underwrite the business entity from a cash flow perspective. Interest rate risks are mitigated by using either floating interest rates or by fixing rates for a short period of time, generally less than three years. While loan amortizations may be approved for up to 360 months, each loan generally has a call provision (maturity date) of five to ten years or less.

The Company primarily lends for commercial construction in local markets that are familiar and understandable, works selectively with top-quality builders and developers, and requires substantial equity from its borrowers. The underwriting process is designed to confirm that the project will be economically feasible and financially viable; it is generally evaluated as though the Company will provide permanent financing. The Company's portfolio growth objectives do not include speculative commercial construction projects or projects lacking reasonable proportionate sharing of risk. Development and construction loans are secured by the properties under development or construction, and personal guarantees are typically obtained. Further, to assure that reliance is not placed solely upon the value of the underlying collateral, the Company considers the financial condition and reputation of the borrower and any guarantors, the amount of the borrower's equity in the project, independent appraisals, cost estimates and pre-construction sales information. A risk rating system is used on the commercial loan portfolio to determine any exposures to losses.

Acquisition, development and construction loans ("AD&C loans") to residential builders are generally made for the construction of residential homes for which a binding sales contract exists and the prospective buyers have been pre-qualified for permanent mortgage financing by either third-party lenders (mortgage companies or other financial institutions) or the Company. Loans for the development of residential land are extended when evidence is provided that the lots under development will be or have been sold to builders satisfactory to the Company. These loans are generally extended for a period of time sufficient to allow for the clearing and grading of the land and the installation of water, sewer and roads, which is typically a minimum of eighteen months to three years.

The Company also originates commercial business loans. Commercial term loans are made to provide funds for equipment and general corporate needs. This loan category is designed to support borrowers who have a proven ability to service debt over a term generally not to exceed 84 months. The Company generally requires a first lien position on all collateral and requires guarantees from owners having at least a 10% interest in the involved business. Interest rates on commercial term loans are generally floating or fixed for a term not to exceed seven years. Management monitors industry and collateral concentrations to avoid loan exposures to a large group of similar industries or similar collateral. Commercial business loans are evaluated for historical and projected cash flow attributes, balance sheet strength, and primary and alternate resources of personal guarantors. Commercial term loan documents require borrowers to forward regular financial information on both the business and personal guarantors. Loan covenants require at least annual submission of complete financial information and in certain cases this information is required monthly, quarterly or semi-annually depending on the degree to which the Company desires information resources for monitoring a borrower's financial condition and compliance with loan covenants. Examples of properly margined collateral for loans, as required by bank policy, would be an 80% advance on the lesser of appraisal or recent sales price on commercial property, an 80% or less advance on eligible receivables, a 50% or less advance on eligible inventory and an 80% advance on appraised residential property. Collateral borrowing certificates may be required to monitor certain collateral categories on a monthly or quarterly basis. Loans may require personal guarantees. Key person life insurance may be required as appropriate and as necessary to mitigate the risk of loss of a primary owner or manager. Whenever appropriate and available, the Bank seeks governmental loan guarantees, such as the Small Business Administration loan programs, to reduce risks.

Commercial lines of credit are granted to finance a business borrower's short-term credit needs and/or to finance a percentage of eligible receivables and inventory. In addition to the risks inherent in term loan facilities, line of credit borrowers typically require additional monitoring to protect the lender against increasing loan volumes and diminishing collateral values. Commercial lines of credit are generally revolving in nature and require close scrutiny. The Company generally requires at least an annual out of debt period (for seasonal borrowers) or regular financial information (monthly or quarterly financial statements, borrowing base certificates, etc.) for borrowers with more growth and greater permanent working capital financing needs. Advances against collateral value are limited. Lines of credit and term loans to the same borrowers generally are cross-defaulted and cross-collateralized. Interest rate charges on this group of loans generally float at a factor at or above the prime lending rate.

Consumer Loans

Consumer lending continues to be important to the Company's full-service, community banking business. This category of loans includes primarily home equity loans and lines, installment loans and personal lines of credit.

The home equity category consists mainly of revolving lines of credit to consumers that are secured by residential real estate. Home equity lines of credit and other home equity loans are originated by the Company for typically up to 85% of the appraised value, less the amount of any existing prior liens on the property. While home equity loans have maximum terms of up to twenty years and interest rates are generally fixed, home equity lines of credit have maximum terms of up to ten years for draws and thirty years for repayment, and interest rates are generally adjustable. The Company secures these loans with mortgages on the homes (typically a second mortgage). Purchase money second mortgage loans originated by the Company have maximum terms ranging from ten to thirty years. These loans generally carry a fixed rate of interest for a term of 15 or 20 years. Adjustable rate mortgage ("ARM") loans have a 30 year amortization period with a fixed rate of interest for the first five, seven or ten years, repricing annually thereafter at a predetermined spread to LIBOR. Home equity lines are generally governed by the same lending policies and subject to the same credit risk as described for residential real estate loans.

Other consumer loans include installment loans used by customers to purchase automobiles, boats and recreational vehicles. These consumer loans are generally governed by the same overall lending policies as described for residential real estate loans. Credit risk for consumer loans arises from borrowers lacking the ability or willingness to repay the loan, and in the case of secured loans, by a shortfall in the value of the collateral in relation to the outstanding loan balance in the event of a default and subsequent liquidation of collateral.

Consumer installment loans are generally offered for terms of up to six years at fixed interest rates. Automobile loans can be for up to 100% of the purchase price or the retail value listed by the National Automobile Dealers Association. The terms of the loans are determined by the age and condition of the collateral. Collision insurance policies are required on all these loans, unless the borrower has substantial other assets and income. The Company also makes other consumer loans, which may or may not be secured. The term of the loans usually depends on the collateral. The majority of outstanding unsecured loans usually do not exceed \$50 thousand and have a term of no longer than 36 months.

Deposit Activities

Subject to the Company's Asset/Liability Committee (the "ALCO") policies and current business plan, the Treasury function works closely with the Company's retail deposit operations to accomplish the objectives of maintaining deposit market share within the Company's primary markets and managing funding costs to preserve the net interest margin.

One of the Company's primary objectives as a community bank is to develop long-term, multi-product customer relationships from its comprehensive menu of financial products. To that end, the lead product to develop such relationships is typically a deposit product. The Company relies primarily on core deposit growth to fund long-term loan growth.

Treasury Activities

The Treasury function manages the wholesale segments of the balance sheet, including investments, purchased funds and long-term debt, and is responsible for all facets of interest rate risk management for the Company, which includes the pricing of deposits consistent with conservative interest rate risk and liquidity practices. Management's objective is to achieve the maximum level of consistent earnings over the long term, while minimizing interest rate risk, credit risk and liquidity risk and optimizing capital utilization. In managing the investment portfolio under its stated objectives, the Company invests primarily in U.S. Treasury and Agency securities, U.S. Agency mortgage-backed and asset-backed securities ("MBS"), U.S. Agency collateralized mortgage obligations ("CMO"), municipal bonds and, to a minimal extent, corporate bonds. Treasury strategies and activities are overseen by the Risk Committee of the board of directors, ALCO and the Company's Investment Committee, which reviews all investment and funding transactions. The ALCO activities are summarized and reviewed quarterly with the Company's board of directors.

The primary objective of the investment portfolio is to provide the necessary liquidity consistent with anticipated levels of deposit funding and loan demand with a minimal level of risk. The overall average duration of 3.5 years of the investment portfolio together with the types of investments (98% of the portfolio is rated AA or above) is intended to provide sufficient cash flows to support the Company's lending goals. Liquidity is also provided by secured lines of credit maintained with the Federal Home Loan Bank of Atlanta ("FHLB"), the Federal Reserve, and to a lesser extent, unsecured lines of credit with correspondent banks.

Borrowing Activities

The Company's borrowing activities are achieved through the use of lines of credit to address overnight and short-term funding needs, match-fund loan activity and to lock in attractive rates. Borrowing activities may encompass a variety of sources to raise borrowed funds at competitive rates, including federal funds purchased, FHLB borrowings, retail repurchase agreements and long-term debt. FHLB borrowings typically carry rates at varying spreads from the LIBOR rate or treasury yield curve for the equivalent term because they may be secured with investments or high quality loans. Federal funds purchased, which are generally overnight borrowings, are typically purchased at the Federal Reserve target rate. The Company issued \$175 million in subordinated debt in November 2019. This debt issuance provides capital to support future growth and funding for the anticipated future redemption of higher priced debt that was assumed as part of the WashingtonFirst acquisition. Subordinated debt qualifies for regulatory capital treatment.

Employees

The Company and its subsidiaries employed 932 persons, including executive officers, loan and other banking and trust officers, branch personnel, and others at December 31, 2019. None of the Company's employees is represented by a union or covered under a collective bargaining agreement. Management of the Company considers its employee relations to be excellent.

Competition

The Bank's principal competitors for deposits are other financial institutions, including other banks, credit unions, and savings institutions, located in the Bank's primary market area of central Maryland, Northern Virginia and Washington D.C. Competition among these institutions is based primarily on interest rates and other terms offered, product offerings, service charges imposed on deposit accounts, the quality of services rendered, the convenience of banking facilities, and online and mobile banking functionality. Additional competition for depositors' funds comes from mutual funds, U.S. Government securities, and private issuers of debt obligations and suppliers of other investment alternatives for depositors such as securities firms. Competition from credit unions has intensified in recent years as historical federal limits on membership have been relaxed. Because federal law subsidizes credit unions by giving them a general exemption from federal income taxes, credit unions have a significant cost advantage over banks and savings associations, which are fully subject to federal income taxes. Credit unions may use this advantage to offer rates that are highly competitive with those offered by banks and thrifts.

The banking business in Central Maryland, Northern Virginia and Washington D.C. generally, and the Bank's primary service areas specifically, are highly competitive with respect to both loans and deposits. The Bank competes with many larger banking organizations that have offices over a wide geographic area. These larger institutions have certain inherent advantages, such as the ability to finance wide-ranging advertising campaigns and promotions and to allocate their investment assets to regions offering the highest yield and demand. They also offer services, such as international banking, that are not offered directly by the Bank (but are available indirectly through correspondent institutions), and, by virtue of their larger total capitalization, such banks have substantially higher legal lending limits, which are based on bank capital, than does the Bank. The Bank can arrange loans in excess of its lending limit, or in excess of the level of risk it desires to take, by arranging participations with other banks. The primary factors in competing for loans are interest rates, loan origination fees, and the range of services offered by lenders. Competitors for loan originations include other commercial banks, mortgage bankers, mortgage brokers, savings associations, and insurance companies.

Sandy Spring Insurance Corporation ("SSIC"), a wholly owned subsidiary of the Bank, offers annuities as an alternative to traditional deposit accounts. SSIC operates Sandy Spring Insurance, a general insurance agency located in Annapolis, Maryland, and Neff & Associates, an insurance agency located in Ocean City, Maryland. Both agencies face competition primarily from other insurance agencies and insurance companies. West Financial Services, Inc. ("WFS") located in McLean, Virginia and SSB Wealth Management, Inc. (d/b/a Rembert Pendleton Jackson) located in Falls Church, Virginia, both wholly owned subsidiaries of the Bank, are asset management and financial planning companies. The competition that WFS and Rembert Pendleton Jackson face is primarily from other financial planners, banks, and financial management companies.

In addition to competing with other commercial banks, credit unions and savings associations, commercial banks such as the Bank compete with non-bank institutions for funds. For instance, yields on corporate and government debt and equity securities affect the ability of commercial banks to attract and hold deposits. Mutual funds also provide substantial competition to banks for deposits. Other entities, both governmental and in private industry, raise capital through the issuance and sale of debt and equity securities and indirectly compete with the Bank in the acquisition of deposits.

Monetary Policy

The Company and the Bank are affected by fiscal and monetary policies of the federal government, including those of the Federal Reserve Board, which regulates the national money supply in order to mitigate recessionary and inflationary pressures. Among the techniques available to the Federal Reserve Board are engaging in open market transactions of U.S. Government securities, changing the discount rate and changing reserve requirements against bank deposits. These techniques are used in varying combinations to influence the overall growth of bank loans, investments and deposits. Their use may also affect interest rates charged on loans and paid on deposits. The effect of governmental policies on the earnings of the Company and the Bank cannot be predicted.

Regulation, Supervision, and Governmental Policy

The following is a brief summary of certain statutes and regulations that significantly affect the Company and the Bank. A number of other statutes and regulations may affect the Company and the Bank but are not discussed in the following paragraphs.

Bank Holding Company Regulation

The Company is registered as a bank holding company under the Holding Company Act and, as such, is subject to supervision and regulation by the Federal Reserve. As a bank holding company, the Company is required to furnish to the Federal Reserve annual and quarterly reports of its operations and additional information and reports. The Company is also subject to regular examination by the Federal Reserve.

Under the Holding Company Act, a bank holding company must obtain the prior approval of the Federal Reserve before (1) acquiring direct or indirect ownership or control of any class of voting securities of any bank or bank holding company if, after the acquisition, the bank holding company would directly or indirectly own or control more than 5% of the class; (2) acquiring all or substantially all of the assets of another bank or bank holding company; or (3) merging or consolidating with another bank holding company.

Prior to acquiring control of the Company or the Bank, any company must obtain approval of the Federal Reserve. For purposes of the Holding Company Act, "control" is defined as ownership of 25% or more of any class of voting securities of the Company or the Bank, the ability to control the election of a majority of the directors, or the exercise of a controlling influence over management or policies of the Company or the Bank.

The Holding Company Act also limits the investments and activities of bank holding companies. In general, a bank holding company is prohibited from acquiring direct or indirect ownership or control of more than 5% of the voting shares of a company that is not a bank or a bank holding company or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, providing services for its subsidiaries, non-bank activities that are closely related to banking, and other financially related activities. The activities of the Company are subject to these legal and regulatory limitations under the Holding Company Act and Federal Reserve regulations.

The Change in Bank Control Act and the related regulations of the Federal Reserve require any person or persons acting in concert (except for companies required to make application under the Holding Company Act) to file a written notice with the Federal Reserve before the person or persons acquire control of the Company or the Bank. The Change in Bank Control Act defines "control" as the direct or indirect power to vote 25% or more of any class of voting securities or to direct the management or policies of a bank holding company or an insured bank.

In general, bank holding companies that qualify as financial holding companies under federal banking law may engage in an expanded list of non-bank activities. Non-bank and financially related activities of bank holding companies, including companies that become financial holding companies, also may be subject to regulation and oversight by regulators other than the Federal Reserve. The Company is not a financial holding company, but may choose to become one in the future.

The Federal Reserve has the power to order a holding company or its subsidiaries to terminate any activity, or to terminate its ownership or control of any subsidiary, when it has reasonable cause to believe that the continuation of such activity or such ownership or control constitutes a serious risk to the financial safety, soundness, or stability of any bank subsidiary of that holding company.

The Federal Reserve has adopted guidelines regarding the capital adequacy of bank holding companies, which require bank holding companies to maintain specified minimum ratios of capital to total average assets and capital to risk-weighted assets. See "Regulatory Capital Requirements."

The Federal Reserve has the power to prohibit dividends by bank holding companies if their actions constitute unsafe or unsound practices. The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve's view that a bank holding company should pay cash dividends only to the extent that the company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the company's capital needs, asset quality, and overall financial condition.

Bank Regulation

The Bank is a state chartered bank and trust company subject to supervision by the State of Maryland. As a member of the Federal Reserve System, the Bank is also subject to supervision by the Federal Reserve. Deposits of the Bank are insured by the FDIC to the legal maximum. Deposits, reserves, investments, loans, consumer law compliance, issuance of securities, payment of dividends, establishment of branches, mergers and acquisitions, corporate activities, changes in control, electronic funds transfers, responsiveness to community needs, management practices, compensation policies, and other aspects of operations are subject to regulation by the appropriate federal and state supervisory authorities. In addition, the Bank is subject to numerous federal, state and local laws and regulations which set forth specific restrictions and procedural requirements with respect to extensions of credit (including to insiders), credit practices, disclosure of credit terms and discrimination in credit transactions.

The Federal Reserve regularly examines the operations and condition of the Bank, including, but not limited to, its capital adequacy, reserves, loans, investments, and management practices. These examinations are for the protection of the Bank's depositors and the Deposit Insurance Fund. In addition, the Bank is required to furnish quarterly and annual reports to the Federal Reserve. The Federal Reserve's enforcement authority includes the power to remove officers and directors and the authority to issue cease-and-desist orders to prevent a bank from engaging in unsafe or unsound practices or violating laws or regulations governing its business.

The Federal Reserve has adopted regulations regarding capital adequacy, which require member banks to maintain specified minimum ratios of capital to total average assets and capital to risk-weighted assets. See "Regulatory Capital Requirements." Federal Reserve and State regulations limit the amount of dividends that the Bank may pay to the Company. See "Note 13 – Stockholders' Equity" in the Notes to the Consolidated Financial Statements.

The Bank is subject to restrictions imposed by federal law on extensions of credit to, and certain other transactions with, the Company and other affiliates, and on investments in their stock or other securities. These restrictions prevent the Company and the Bank's other affiliates from borrowing from the Bank unless the loans are secured by specified collateral, and require those transactions to have terms comparable to terms of arms-length transactions with third parties. In addition, secured loans and other transactions and investments by the Bank are generally limited in amount as to the Company and as to any other affiliate to 10% of the Bank's capital and surplus and as to the Company and all other affiliates together to an aggregate of 20% of the Bank's capital and surplus. Certain exemptions to these limitations apply to extensions of credit and other transactions between the Bank and its subsidiaries. These regulations and restrictions may limit the Company's ability to obtain funds from the Bank for its cash needs, including funds for acquisitions and for payment of dividends, interest, and operating expenses.

Under Federal Reserve regulations, banks must adopt and maintain written policies that establish appropriate limits and standards for extensions of credit secured by liens or interests in real estate or are made for the purpose of financing permanent improvements to real estate. These policies must establish loan portfolio diversification standards; prudent underwriting standards, including loan-to-value limits, that are clear and measurable; loan administration procedures; and documentation, approval, and reporting requirements. A bank's real estate lending policy must reflect consideration of the Interagency Guidelines for Real Estate Lending Policies (the "Interagency Guidelines") adopted by the federal bank regulators. The Interagency Guidelines, among other things, call for internal loan-to-value limits for real estate loans that are not in excess of the limits specified in the guidelines. The Interagency Guidelines state, however, that it may be appropriate in individual cases to originate or purchase loans with loan-to-value ratios in excess of the supervisory loan-to-value limits.

Sandy Spring Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. Under the FDIC's risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors, with less risky institutions paying lower assessments. An institution's assessment rate depends upon the category to which it is assigned. Assessment rates currently range from 1.5 to 30 basis points. No institution may pay a dividend if in default of the federal deposit insurance assessment. Deposit insurance assessments are based on total average assets less average tangible equity. The FDIC has authority to increase insurance assessments. Management cannot predict what insurance assessment rates will be in the future.

Regulation of Registered Investment Advisor Subsidiaries.

Our subsidiaries WFS and Rembert Pendleton Jackson are investment advisors registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. In this capacity, WFS and Rembert Pendleton Jackson are subject to oversight and inspections by the SEC. Among other things, registered investment advisors like WFS and Rembert Pendleton Jackson must comply with certain disclosure obligations, advertising and fee restrictions and requirements relating to client suitability and custody of funds and securities. Registered investment advisors are also subject to anti-fraud provisions under both federal and state law.

Regulatory Capital Requirements

The Federal Reserve establishes capital and leverage requirements for the Company and the Bank. Specifically, the Company and the Bank are subject to the following minimum capital requirements: (1) a common equity Tier 1 risk-based capital ratio of 4.5%; (2) a Tier 1 risk-based capital ratio of 6%; (3) a total risk-based capital ratio of 8%; and (4) a leverage ratio of 4%.

The Company's Common Equity Tier 1 capital consists solely of common stock plus related surplus and retained earnings, adjusted for goodwill, intangible assets and the related deferred taxes. Additional Tier 1 capital may include other perpetual instruments historically included in Tier 1 capital, such as non-cumulative perpetual preferred stock, if applicable. Capital rules also permit bank holding companies with less than \$15 billion in total consolidated assets to continue to include trust preferred securities and cumulative perpetual preferred stock issued before May 19, 2010 in Tier 1 capital, but not in Common Equity Tier 1 capital, subject to certain restrictions. Tier 2 capital consists of unsecured instruments that are subordinated to deposits and general creditors and have a minimum original maturity of at least five years, among other requirements, plus instruments that the rule has disqualified from Tier 1 capital treatment.

In addition, in order to avoid restrictions on capital distributions or discretionary bonus payments to executives, a covered banking organization must maintain a "capital conservation buffer" of 2.5 percent on top of its minimum risk-based capital requirements. This buffer must consist solely of Tier 1 Common Equity and the buffer applies to all three measurements: Common Equity Tier 1, Tier 1 capital and total capital.

Supervision and Regulation of Mortgage Banking Operations

The Company's mortgage banking business is subject to the rules and regulations of the U.S. Department of Housing and Urban Development ("HUD"), the Federal Housing Administration ("FHA"), the Veterans' Administration ("VA") and Fannie Mae with respect to originating, processing, selling and servicing mortgage loans. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines, which include provisions for inspections and appraisals, require credit reports on prospective borrowers, and fix maximum loan amounts. Lenders such as the Company are required annually to submit audited financial statements to Fannie Mae, FHA and VA. Each of these regulatory entities has its own financial requirements. The Company's affairs are also subject to examination by the Federal Reserve, Fannie Mae, FHA and VA at all times to assure compliance with the applicable regulations, policies and procedures. Mortgage origination activities are subject to, among others, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act, Fair Housing Act, Fair Credit Reporting Act, the National Flood Insurance Act and the Real Estate Settlement Procedures Act and related regulations that prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs. The Company's mortgage banking operations also are affected by various state and local laws and regulations and the requirements of various private mortgage investors.

Community Reinvestment

Under the Community Reinvestment Act ("CRA"), a financial institution has a continuing and affirmative obligation to help meet the credit needs of the entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, or limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. However, institutions are rated on their performance in meeting the needs of their communities. Performance is tested in three areas: (a) lending, to evaluate the institution's record of making loans in its assessment areas; (b) investment, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and (c) service, to evaluate the institution's delivery of services through its branches, ATMs and other offices. The CRA requires each federal banking agency, in connection with its examination of a financial institution, to assess and assign one of four ratings to the institution's record of meeting the credit needs of the community and to take such record into account in its evaluation of certain applications by the institution, including applications for charters, branches and other deposit facilities, relocations, mergers, consolidations, acquisitions of assets or assumptions of liabilities, and savings and loan holding company acquisitions. The CRA also requires that all institutions make public disclosure of their CRA ratings. The Bank was assigned an "outstanding" rating as a result of its last CRA examination.

Bank Secrecy Act

Under the Bank Secrecy Act (“BSA”), a financial institution is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report cash transactions involving more than \$10,000 to the United States Treasury. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than \$5,000 and which the financial institution knows, suspects, or has reason to suspect involves illegal funds, is designed to evade the requirements of the BSA, or has no lawful purpose. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act, commonly referred to as the "USA Patriot Act" or the "Patriot Act", enacted prohibitions against specified financial transactions and account relationships, as well as enhanced due diligence standards intended to prevent the use of the United States financial system for money laundering and terrorist financing activities. The Patriot Act requires banks and other depository institutions, brokers, dealers and certain other businesses involved in the transfer of money to establish anti-money laundering programs, including employee training and independent audit requirements meeting minimum standards specified by the act, to follow standards for customer identification and maintenance of customer identification records, and to compare customer lists against lists of suspected terrorists, terrorist organizations and money launderers. The Patriot Act also requires federal bank regulators to evaluate the effectiveness of an applicant in combating money laundering in determining whether to approve a proposed bank acquisition.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) established a broad range of corporate governance and accounting measures intended to increase corporate responsibility and protect investors by improving the accuracy and reliability of disclosures under federal securities laws. The Company is subject to Sarbanes-Oxley because it is required to file periodic reports with the SEC under the Securities Exchange Act of 1934. Among other things, Sarbanes-Oxley, its implementing regulations and related Nasdaq Stock Market rules have established membership requirements and additional responsibilities for the Company’s audit committee, imposed restrictions on the relationship between the Company and its outside auditors (including restrictions on the types of non-audit services the auditors may provide to the Company), imposed additional financial statement certification responsibilities for the Company’s chief executive officer and chief financial officer, expanded the disclosure requirements for corporate insiders, required management to evaluate the Company’s disclosure controls and procedures and its internal control over financial reporting, and required the Company’s auditors to issue a report on its internal control over financial reporting.

Regulatory Restructuring Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), enacted in 2010, implemented significant changes to the regulation of depository institutions. The Dodd-Frank Act created the Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve to take over the implementation of federal consumer financial protection and fair lending laws from the depository institution regulators. However, institutions of \$10 billion or fewer in assets continue to be examined for compliance with such laws and regulations by, and to be subject to the primary enforcement authority of, their primary federal regulator. In addition, the Dodd-Frank Act, among other things, requires changes in the way that institutions are assessed for deposit insurance, requires that originators of securitized loans retain a percentage of the risk for the transferred loans, directs the Federal Reserve to regulate pricing of certain debit card interchange fees, and contains a number of reforms related to mortgage originations.

Other Laws and Regulations

Some of the aspects of the lending and deposit business of the Bank that are subject to regulation by the Federal Reserve and the FDIC include reserve requirements and disclosure requirements in connection with personal and mortgage loans and deposit accounts. In addition, the Bank is subject to numerous federal and state laws and regulations that include specific restrictions and procedural requirements with respect to the establishment of branches, investments, interest rates on loans, credit practices, the disclosure of credit terms, and discrimination in credit transactions.

Enforcement Actions

Federal statutes and regulations provide financial institution regulatory agencies with great flexibility to undertake an enforcement action against an institution that fails to comply with regulatory requirements. Possible enforcement actions range from the imposition of a capital plan and capital directive to civil money penalties, cease-and-desist orders, receivership, conservatorship, or the termination of the deposit insurance.

Executive Officers

The following listing sets forth the name, age (as of February 21, 2020), principal position and recent business experience of each executive officer:

R. Louis Caceres, 57, became Executive Vice President of the Bank in 2002. Prior to that, Mr. Caceres was a Senior Vice President of the Bank.

Aaron M. Kaslow, 55, became Executive Vice President, General Counsel and Secretary of the Company and the Bank on July 22, 2019. Prior to that, Mr. Kaslow was the leader of the Financial Institutions practice at the law firm of Kilpatrick Townsend & Stockton LLP.

Philip J. Mantua, CPA, 61, became Executive Vice President and Chief Financial Officer of the Company and the Bank in 2004. Prior to that, Mr. Mantua was Senior Vice President of Managerial Accounting.

Ronda M. McDowell, 55, became an Executive Vice President and Chief Credit Officer of the Bank in 2013. Prior to that, Ms. McDowell served as a Senior Vice President, Loan Administration and Retail Senior Credit Officer of the Bank.

Joseph J. O'Brien, Jr., 56, became Executive Vice President and Chief Banking Officer on January 1, 2011. Mr. O'Brien joined the Bank in July 2007 as Executive Vice President for Commercial Banking.

John D. Sadowski, 56, became Executive Vice President and Chief Information Officer of the Bank on February 1, 2011. Prior to that, Mr. Sadowski served as a Senior Vice President of the Bank.

Daniel J. Schrider, 55, became President of the Company and the Bank effective March 26, 2008 and Chief Executive Officer effective January 1, 2009. Prior to that, Mr. Schrider served as an Executive Vice President and Chief Revenue Officer of the Bank.

Kevin Slane, 60, became Executive Vice President and Chief Risk Officer of the Bank on May 1, 2018. Prior to that, Mr. Slane was the Director of Enterprise Risk Management at Hancock Whitney Bank in the southeast United States.

Item 1A. RISK FACTORS

Investing in the Company's common stock involves risks, including the possibility that the value of the investment could fall substantially and that dividends or other distributions could be reduced or eliminated. Investors should carefully consider the following risk factors before making an investment decision regarding the Company's stock. The risk factors may cause the Company's future earnings to be lower or its financial condition to be less favorable than expected, which could adversely affect the value of, and return on, an investment in the Company. In addition, other risks that the Company is not aware of, or which are not believed to be material, may cause earnings to be lower, or may deteriorate the financial condition of the Company. Consideration should also be given to the other information in this Annual Report on Form 10-K, as well as in the documents incorporated by reference into this Form 10-K.

Risks Related to the Economy, Financial Markets, Interest Rates and Liquidity

Changes in U.S. or regional economic conditions could have an adverse effect on the Company's business, financial condition and results of operations. The Company's business activities and earnings are affected by general business conditions in the United States and in the Company's local market area. These conditions include short-term and long-term interest rates, inflation, unemployment levels, consumer confidence and spending, fluctuations in both debt and equity capital markets, and the strength of the economy in the United States generally and, in particular, the Company's market area. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; or a combination of these or other factors. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and savings habits. Elevated levels of unemployment, declines in the values of real estate, extended federal government shutdowns, or other events that affect

household and/or corporate incomes could impair the ability of the Company's borrowers to repay their loans in accordance with their terms and reduce demand for banking products and services.

The geographic concentration of the Company's operations makes the Company susceptible to downturns in local economic conditions.

The Company's commercial and commercial real estate lending operations are concentrated in central Maryland, Northern Virginia and Washington D.C. The Company's success depends in part upon economic conditions in these markets. Adverse changes in economic conditions in these markets could limit growth in loans and deposits, impair the Company's ability to collect amounts due on loans, increase problem loans and charge-offs and otherwise negatively affect the Company's performance and financial condition. Declines in real estate values could cause some of the Company's residential and commercial real estate loans to be inadequately collateralized, which would expose the Company to a greater risk of loss in the event that the recovery on amounts due on defaulted loans is resolved by selling the real estate collateral.

Changes in interest rates may adversely affect earnings and financial condition.

The Company's net income depends to a great extent upon the level of net interest income. Changes in interest rates can increase or decrease net interest income and net income. Net interest income is the difference between the interest income earned on loans, investments, and other interest-earning assets, and the interest paid on interest-bearing liabilities, such as deposits and borrowings. Net interest income is affected by changes in market interest rates, because different types of assets and liabilities may react differently, and at different times, to market interest rate changes. When interest-bearing liabilities mature or re-price more quickly than interest-earning assets in a period, an increase in market rates of interest could reduce net interest income. Similarly, when interest-earning assets mature or re-price more quickly than interest-bearing liabilities, falling interest rates could reduce net interest income.

Changes in market interest rates are affected by many factors beyond the Company's control, including inflation, unemployment, money supply, international events, and events in world financial markets. The Company attempts to manage its risk from changes in market interest rates by adjusting the rates, maturity, re-pricing, and balances of the different types of interest-earning assets and interest-bearing liabilities, but interest rate risk management techniques are not exact. As a result, a rapid increase or decrease in interest rates could have an adverse effect on the Company's net interest margin and results of operations. Changes in the market interest rates for types of products and services in various markets also may vary significantly from location to location and over time based upon competition and local or regional economic factors. At December 31, 2019, the Company's interest rate sensitivity simulation model projected that net interest income would increase by 3.06% if interest rates immediately rose by 100 basis points. The results of an interest rate sensitivity simulation model depend upon a number of assumptions regarding customer behavior, movement of interest rates and cash flows, any of which may prove to be inaccurate.

The Company may be required to transition from the use of the LIBOR interest rate index in the future.

The Company has certain loans, investment securities and debt obligations whose interest rate is indexed to the London InterBank Offered Rate (LIBOR). The United Kingdom's Financial Conduct Authority, which is responsible for regulating LIBOR, has announced that the publication of LIBOR is not guaranteed beyond 2021 and it appears highly likely that LIBOR will be discontinued or modified by 2021. At this time, no consensus exists as to what reference rate or rates or benchmarks may become acceptable alternatives to LIBOR, although the Alternative Reference Rates Committee (a group of private-market participants convened by the Federal Reserve Board and the Federal Reserve Bank of New York) has identified the Secured Overnight Financing Rate, or SOFR, as the recommend alternative to LIBOR. Uncertainty as to the adoption, market acceptance or availability of SOFR or other alternative reference rates may adversely affect the value of LIBOR-based loans and securities in the Company's portfolio and may impact the availability and cost of hedging instruments and borrowings. The language in the Company's LIBOR-based contracts and financial instruments has developed over time and may have various events that trigger when a successor index to LIBOR would be selected. If a trigger is satisfied, contracts and financial instruments may give the Company or the calculation agent, as applicable, discretion over the selection of the substitute index for the calculation of interest rates. The implementation of a substitute index for the calculation of interest rates under the Company's loan agreements may result in the Company incurring significant expenses in effecting the transition and may result in disputes or litigation with customers over the appropriateness or comparability to LIBOR of the substitute index, any of which could have an adverse effect on the Company's results of operations. The Company continues to develop and implement plans to mitigate the risks associated with the expected discontinuation of LIBOR. In particular, the Company has implemented or is in the process of implementing fallback language for LIBOR-linked loans.

The market price for the Company's stock may be volatile.

The market price for the Company's common stock has fluctuated, ranging between \$30.06 and \$38.13 per share during the 12 months ended December 31, 2019. The overall market and the price of the Company's common stock may experience volatility. There may be a significant impact on the market price for the common stock due to, among other things:

- past and future dividend practice;
- financial condition, performance, creditworthiness and prospects;
- quarterly variations in operating results or the quality of the Company's assets;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to the future financial performance;
- announcements of innovations, new products, strategic developments, significant contracts, acquisitions and other material events by the Company or its competitors;
- the operating and securities price performance of other companies that investors believe are comparable to the Company;
- future sales of the Company's equity or equity-related securities;
- the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing, and developments with respect to financial institutions generally; and
- changes in global financial markets and economies and general market conditions, such as interest or foreign exchange rates, stock, commodity or real estate valuations or volatility or other geopolitical, regulatory or judicial events.

There can be no assurance that a more active or consistent trading market in the Company's common stock will develop. As a result, relatively small trades could have a significant impact on the price of the Company's common stock.

The Company is subject to liquidity risks.

Effective liquidity management is essential for the operation of the Company's business. The Company requires sufficient liquidity to meet customer loan requests, customer deposit maturities/withdrawals, payments on debt obligations as they come due and other cash commitments under both normal operating conditions and other unpredictable circumstances causing industry or general financial market stress. The Company's access to funding sources in amounts adequate to finance its activities on terms that are acceptable to the Company could be impaired by factors that affect the Company specifically or the financial services industry or economy generally. Core deposits and Federal Home Loan Bank advances are the Company's primary source of funding. A significant decrease in core deposits, an inability to renew Federal Home Loan Bank advances, an inability to obtain alternative funding to core deposits or Federal Home Loan Bank advances, or a substantial, unexpected, or prolonged change in the level or cost of liquidity could have a negative effect on the Company's business, financial condition and results of operations.

The Company's investment securities portfolio is subject to credit risk, market risk, and liquidity risk.

The investment securities portfolio has risk factors beyond the Company's control that may significantly influence its fair value. These risk factors include, but are not limited to, rating agency downgrades of the securities, defaults of the issuers of the securities, lack of market pricing of the securities, and instability in the credit markets. Lack of market activity with respect to some securities has, in certain circumstances, required the Company to base its fair market valuation on unobservable inputs. Any changes in these risk factors, in current accounting principles or interpretations of these principles could impact the Company's assessment of fair value. Adjustments for credit losses on investment securities would negatively affect the Company's earnings and regulatory capital ratios.

Credit Risks

The Company's allowance for credit losses may not be adequate to cover its actual credit losses, which could adversely affect the Company's financial condition and results of operations.

The Company maintains an allowance for credit losses in an amount that is believed to be adequate to provide for expected losses inherent in the portfolio. The Company has a proactive program to monitor credit quality and to identify loans that may become non-performing; however, at any time there could be loans in the portfolio that may result in losses, but that have not been identified as non-performing or potential problem credits. The Company may be unable to identify all deteriorating credits prior to them becoming non-performing assets, or to limit losses on those loans that are identified. As a result, future additions to the allowance may be necessary. Additionally, future additions to the allowance may be required based on changes in the loans comprising the portfolio and changes in the financial condition of borrowers, or as a result of assumptions used by management in determining the allowance. Additionally, banking regulators, as an integral part of their supervisory function, periodically review

the adequacy of Company's allowance for credit losses. These regulatory agencies may require an increase in the provision for expected credit losses or to recognize further loan charge-offs based upon their judgments, which may be different from the Company's. Any increase in the allowance for credit losses could have a negative effect on the financial condition and results of operations of the Company.

The Company may not be able to adequately measure and limit its credit risk, which could lead to unexpected losses.

The business of lending is inherently risky, including risks that the principal of or interest on any loan will not be repaid timely or at all or that the value of any collateral supporting the loan will be insufficient to cover the Company's outstanding exposure. These risks may be affected by the strength of the borrower's business sector and local, regional and national market and economic conditions. Many of the Company's loans are made to small to medium-sized businesses that may be less able to withstand competitive, economic and financial pressures than larger borrowers. The Company's risk management practices, such as monitoring the concentration of loans within specific industries and credit approval practices, may not adequately reduce credit risk, and credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of the loan portfolio. A failure to effectively measure and limit the credit risk associated with the Company's loan portfolio could lead to unexpected losses and have a material adverse effect on the Company's business, financial condition and results of operations.

If non-performing assets increase, earnings will be adversely impacted.

Non-performing assets adversely affect net income in various ways. Interest income is not accrued on non-accrual loans or other real estate owned. The Company must record a reserve for expected credit losses, which is established through a current period charge in the form of a provision for expected credit losses, and from time to time must write-down the value of properties in the Company's other real estate owned portfolio to reflect changing market values. Additionally, there are legal fees associated with the resolution of problem assets as well as carrying costs such as taxes, insurance and maintenance related to other real estate owned. Further, the resolution of non-performing assets requires the active involvement of management, which can distract them from more profitable activities. Finally, if the estimate for the recorded allowance for credit losses proves to be incorrect and the allowance is inadequate, the allowance will have to be increased and, as a result, Company earnings would be adversely affected.

The Company's commercial real estate lending activities expose it to increased lending risks and related loan losses.

At December 31, 2019, the Company's commercial real estate loan portfolio totaled \$4.1 billion, or 62% of its total loan portfolio. Commercial real estate loans generally expose a lender to greater risk of non-payment and loss than one-to-four family residential mortgage loans because repayment of the loans often depends on the successful operation of the properties and the income stream of the borrowers. These loans involve larger loan balances to single borrowers or groups of related borrowers compared to one-to-four family residential mortgage loans. To the extent that borrowers have more than one commercial real estate loan outstanding, an adverse development with respect to one loan or one credit relationship could expose the Company to a significantly greater risk of loss compared to an adverse development with respect to a one-to-four family residential real estate loan. Moreover, if loans that are collateralized by commercial real estate become troubled and the value of the real estate has been significantly impaired, then the Company may not be able to recover the full contractual amount of principal and interest that the Company anticipated at the time it originated the loan, which could cause the Company to increase its provision for expected credit losses and would adversely affect the Company's earnings and financial condition.

Imposition of limits by the bank regulators on commercial real estate lending activities could curtail the Company's growth and adversely affect its earnings.

In 2006, the federal banking regulators issued joint guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices," referred to herein as the CRE Guidance. Although the CRE Guidance did not establish specific lending limits, it provides that a bank's commercial real estate lending exposure could receive increased supervisory scrutiny where total non-owner-occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate, and construction and land loans, represent 300% or more of an institution's total risk-based capital, and the outstanding balance of the commercial real estate loan portfolio has increased by 50% or more during the preceding 36 months. Additionally, in December 2015, the federal banking regulators released a new statement on prudent risk management for commercial real estate lending, referred to herein as the 2015 Statement. In the 2015 Statement, the federal banking regulators, among other things, indicate the intent to continue "to pay special attention" to commercial real estate lending activities and concentrations going forward. Taking into account this guidance, if the Federal Reserve, the Bank's primary federal regulator, were to impose restrictions on the amount of commercial real estate loans the Bank can hold in its portfolio, for reasons noted above or otherwise, the Company's earnings would be adversely affected.

At December 31, 2019, the Bank's total non-owner-occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate, and construction and land loans represented 300% of the Bank's total risk-based capital and the growth in the CRE portfolio exceeded 105% over the preceding 36 months, significantly driven by the 2018 acquisition of WashingtonFirst CRE portfolio. Management has established a CRE lending framework to monitor specific exposures and limits by types within the CRE portfolio and takes appropriate actions, as necessary.

The Company's concentration of residential mortgage loans exposes it to increased lending risks.

At December 31, 2019, 17% of the Company's loan portfolio was secured by one-to-four family real estate, a significant majority of which is located in central Maryland, Northern Virginia and Washington, D.C. One-to-four family residential mortgage lending is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. A decline in residential real estate values as a result of a downturn in the housing market could reduce the value of the real estate collateral securing these types of loans. Declines in real estate values could cause some of the Company's residential mortgages to be inadequately collateralized, which would expose the Company to a greater risk of loss if it seeks to recover on defaulted loans by selling the real estate collateral.

The Company may be subject to certain risks related to originating and selling mortgage loans.

When mortgage loans are sold, it is customary to make representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. Whole loan sale agreements require the repurchase or substitution of mortgage loans in the event the Company breaches any of these representations or warranties. In addition, there may be a requirement to repurchase mortgage loans as a result of borrower fraud or in the event of early payment default of the borrower on a mortgage loan. The Company receives a limited number of repurchase and indemnity demands from purchasers as a result of borrower fraud and early payment default of the borrower on mortgage loans. If repurchase and indemnity demands increase materially, the Company's results of operations could be adversely affected.

Any delays in the Company's ability to foreclose on delinquent mortgage loans may negatively impact the Company's business.

The origination of mortgage loans occurs with the expectation that, if the borrower defaults, the ultimate loss would be mitigated by the value of the collateral that secures the mortgage loan. The ability to mitigate the losses on defaulted loans depends upon the ability to promptly foreclose upon the collateral after an appropriate cure period. The length of the foreclosure process depends on state law and other factors, such as the volume of foreclosures and actions taken by the borrower to stop the foreclosure. Any delay in the foreclosure process will adversely affect the Company by increasing the expenses related to carrying such assets, such as taxes, insurance, and other carrying costs, and exposes the Company to losses as a result of potential additional declines in the value of such collateral.

Risks Related to the Company's Trust and Wealth Management Business

The Company's trust and wealth management fees may decrease as a result of poor investment performance, in either relative or absolute terms, which could decrease the Company's revenues and net earnings.

The Company's trust and wealth management businesses derive a significant amount of their revenues from investment management fees based on assets under management. The Company's ability to maintain or increase assets under management is subject to a number of factors, including investors' perception of the Company's past performance, in either relative or absolute terms, general market and economic conditions, and competition from other investment management firms. A decline in the fair value of the assets under management would decrease the Company's trust and wealth management fee income.

Investment performance is one of the most important factors in retaining existing clients and competing for new trust and wealth management clients. Poor investment performance could reduce the Company's revenues and impede the growth of the Company's trust and wealth management business in the following ways: existing clients may withdraw funds from the Company's wealth management business in favor of better performing products or firms; asset-based management fees could decline from a decrease in assets under management; the Company's ability to attract funds from existing and new clients might diminish; and the Company's portfolio managers may depart, to join a competitor or otherwise.

Even when market conditions are generally favorable, the Company's investment performance may be adversely affected by the investment style of its portfolio managers and the particular investments that they make or recommend. To the extent that the Company's future investment performance is perceived to be poor in either relative or absolute terms, the revenues and profitability of the Company's trust and wealth management business will likely be reduced and the Company's ability to attract new clients will likely be impaired.

The Company's investment management contracts are terminable without cause and on relatively short notice by the Company's clients, which makes the Company vulnerable to short-term declines in the performance of the securities under the Company's management.

Like most wealth management businesses, the investment advisory contracts the Company maintains with its clients are typically terminable by the client without cause upon less than 30 days' notice. As a result, even short-term declines in the performance of the accounts that the Company manages, which can result from factors outside the Company's control, such as adverse changes in general market or economic conditions or the poor performance of some of the investments the Company has recommended to its clients, could lead some of the Company's clients to move assets under the Company's management to other investment advisors that have investment product offerings or investment strategies different than the Company's. A decline in assets under management, and a corresponding decline in investment management fees, would adversely affect the Company's results of operations.

The wealth management business is heavily regulated, and the regulators have the ability to limit or restrict the Company's activities and impose fines or suspensions on the conduct of the Company's business.

The wealth management business is highly regulated, primarily at the federal level. The failure of the Company's subsidiaries that are registered investment advisors to comply with applicable laws or regulations could result in fines, suspensions of individual employees or other sanctions including revocation of such subsidiaries' registration as an investment adviser. Changes in the laws or regulations governing the Company's wealth management business could have a material adverse impact on the Company's business, financial condition and results of operations.

Strategic and Other Risks

Combining acquired businesses may be more difficult, costly or time consuming than expected and the anticipated benefits and cost savings of acquisitions may not be realized.

The success of the Company's mergers and acquisitions, including anticipated benefits and cost savings, will depend, in part, on the Company's ability to successfully combine and integrate the acquired business in a manner that permits growth opportunities and does not materially disrupt existing customer relations nor result in decreased revenues due to loss of customers. It is possible that the integration process could result in the loss of key employees, the disruption of either company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with clients, customers, depositors, employees and other constituents or to achieve the anticipated benefits and cost savings of the transaction. The loss of key employees could adversely affect the Company's ability to successfully conduct its business, which could have an adverse effect on the Company's financial results and the value of its common stock. If the Company experiences difficulties with the integration process, the anticipated benefits of a transaction may not be realized fully or at all, or may take longer to realize than expected. As with any merger of financial institutions, there also may be business disruptions that cause the Company to lose customers or cause customers to remove their accounts from the Company and move their business to competing financial institutions. Integration efforts will also divert management attention and resources. These integration matters could have an adverse effect on the Company during this transition period and for an undetermined period after completion of a transaction. It is possible that the potential cost savings could turn out to be more difficult to achieve than anticipated. The cost savings estimates also depend on the ability to combine the businesses in a manner that permits those cost savings to be realized.

The Company depends on its executive officers and key personnel to continue the implementation of its long-term business strategy and could be harmed by the loss of their services.

The Company believes that its continued growth and future success will depend in large part on the skills of its management team and its ability to motivate and retain these individuals and other key personnel. In particular, the Company relies on the leadership of its Chief Executive Officer, Daniel J. Schrider. The loss of service of Mr. Schrider or one or more of the Company's other executive officers or key personnel could reduce the Company's ability to successfully implement its long-term business strategy, its business could suffer and the value of the Company's common stock could be materially adversely affected. Leadership changes will occur from time to time and the Company cannot predict whether significant resignations will occur or whether the Company will be able to recruit additional qualified personnel. The Company believes its management team possesses valuable knowledge about the banking industry and the Company's markets and that their knowledge and relationships would be very difficult to replicate. Although the Company's Chief Executive Officer and certain other executive officers have entered into employment agreements with the Company, it is possible that they may not complete the term of their employment agreements or renew them upon expiration. The Company's success also depends on the experience of its branch managers and lending officers and on their relationships with the customers and communities they serve. The loss of these key personnel could negatively affect the Company's banking operations. The loss of key personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on the Company's business, financial condition and results of operations.

Restrictions on unfriendly acquisitions could prevent a takeover of the Company.

The Company's articles of incorporation and bylaws contain provisions that could discourage takeover attempts that are not approved by the Company's board of directors. The Maryland General Corporation Law also includes provisions that make an acquisition of the Company more difficult. These provisions include supermajority provisions for the approval of certain business combinations and certain provisions relating to meetings of shareholders. The Company's articles of incorporation also authorize the issuance of additional shares by the board of directors without shareholder approval on terms or in circumstances that could deter a future takeover attempt. These provisions may prevent a future takeover attempt in which the shareholders otherwise might receive a substantial premium for their shares over then-current market prices.

Future sales of the Company's common stock or other securities may dilute the value and adversely affect the market price of the Company's common stock.

In many situations, the Company's board of directors has the authority, without any vote of the Company's shareholders, to issue shares of authorized but unissued stock, including shares authorized and unissued under the Company's equity incentive plans. In the future, additional securities may be issued, through public or private offerings, in order to raise additional capital. Any such issuance would dilute the percentage of ownership interest of existing shareholders and may dilute the per share book value of the Company's common stock. In addition, option holders may exercise their options at a time when the Company would otherwise be able to obtain additional equity capital on more favorable terms.

Market competition may decrease the Company's growth or profits.

The Company competes for loans, deposits, and investment dollars with other banks and other financial institutions and enterprises, such as securities firms, insurance companies, savings associations, credit unions, mortgage brokers, and private lenders, many of which have substantially greater resources than possessed by the Company. Credit unions have federal tax exemptions, which may allow them to offer lower rates on loans and higher rates on deposits than taxpaying financial institutions such as commercial banks. In addition, non-depository institution competitors are generally not subject to the extensive regulation applicable to institutions that offer federally insured deposits. Other institutions may have other competitive advantages in particular markets or may be willing to accept lower profit margins on certain products. These differences in resources, regulation, competitive advantages, and business strategy create a competitive landscape that may decrease the Company's net interest margin, increase the Company's operating costs, and may make it harder to compete profitably.

Changes in tax laws may negatively impact the Company's financial performance.

Changes in tax laws contained in the Tax Cuts and Jobs Act, which was enacted in December 2017, include a number of provisions that could continue to have an impact on the banking industry, borrowers and the market for single family residential and multi-family residential real estate. Included in this legislation was a reduction of the corporate income tax rate from 35% to 21%. In addition, other changes included: lower limits on the deductibility of mortgage interest on single family residential mortgages; the elimination of interest deductions for home equity loans; a limitation on deductibility of business interest expense; and a limitation on the deductibility of property taxes and state and local income taxes. Such changes in the tax laws may have an adverse effect on the market for, and valuation of, single family residential properties and multifamily residential properties, and on the demand for such loans in the future. In addition, these changes may have a disproportionate effect on taxpayers in states with high residential home prices and high state and local taxes. If home ownership or multifamily residential property ownership

becomes less attractive, demand for mortgage loans would decrease. The value of the properties securing loans in the Company's portfolio may be adversely impacted as a result of the changing economics of home ownership and multifamily residential ownership, which could require an increase in the Company's provision for expected credit losses. Additionally, certain borrowers could become less able to service their debts as a result of higher tax obligations. These changes could have a material adverse effect on the Company's business, financial condition and results of operations.

Operational Risks

The high volume of transactions processed by the Company exposes the Company to significant operational risks.

The Company relies on the ability of its employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from the Company's operations, including, but not limited to, the risk of fraud by employees or outside persons, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the Company's internal control system and compliance requirements, and business continuation and disaster recovery. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulations, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. A breakdown in the Company's internal control system, improper operation of systems or improper employee actions could result in material financial loss, the imposition of regulatory action, and damage to the Company's reputation.

Failure to keep up with technological change in the financial services industry could have a material adverse effect on the Company's competitive position or profitability.

The financial services industry is undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Company's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company's operations. Many of the Company's competitors have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's risk management framework may not be effective in mitigating risks and/or losses to the Company.

The Company's risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which the Company is subject, including, among others, credit, market, liquidity, interest rate and compliance. The Company's framework also includes financial or other modeling methodologies that involve management assumptions and judgment. The Company's risk management framework may not be effective under all circumstances and may not adequately mitigate any risk or loss to the Company. If the Company's risk management framework is not effective, the Company could suffer unexpected losses and the Company's business, financial condition, or results of operations could be materially and adversely affected. The Company may also be subject to potentially adverse regulatory consequences.

The Company's information systems may experience an interruption or security breach.

The Company relies heavily on communications and information systems to conduct its business. The Company, its customers, and other financial institutions with which the Company interacts, are subject to ongoing, continuous attempts to penetrate key systems by individual hackers, organized criminals, and in some cases, state-sponsored organizations. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company's customer relationship management, general ledger, deposit, loan and other systems, misappropriation of funds, and theft of proprietary Company or customer data. While the Company has policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of the Company's information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of the Company's information systems could damage its reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability.

Security breaches and other disruptions could compromise the Company's information and expose the Company to liability, which would cause its business and reputation to suffer.

In the ordinary course of the Company's business, the Company collects and stores sensitive data, including intellectual property, its proprietary business information and that of the Company's customers, suppliers and business partners, and personally identifiable information of its customers and employees, in the Company's data centers and on its networks. The secure processing, maintenance and transmission of this information is critical to the Company's operations and business strategy. Despite the Company's security measures, the Company's information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise the Company's networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties, disrupt the Company's operations and the services it provides to customers, damage its reputation, and cause a loss of confidence in its products and services, which could adversely affect the Company's business, revenues and competitive position.

The Company is subject to laws regarding the privacy, information security and protection of personal information and any violation of these laws or another incident involving personal, confidential or proprietary information of individuals could damage the Company's reputation and otherwise adversely affect the Company's business, financial condition and earnings. The Company's business requires the collection and retention of large volumes of customer data, including personally identifiable information in various information systems that the Company maintains and in those maintained by third parties with whom the Company contracts to provide data services. The Company also maintains important internal company data such as personally identifiable information about its employees and information relating to its operations. The Company is subject to complex and evolving laws and regulations governing the privacy and protection of personal information of individuals (including customers, employees, suppliers and other third parties). For example, the Company's business is subject to the Gramm-Leach-Bliley Act which, among other things: (i) imposes certain limitations on the Company's ability to share nonpublic personal information about its customers with nonaffiliated third parties; (ii) requires that the Company provide certain disclosures to customers about its information collection, sharing and security practices and afford customers the right to "opt out" of any information sharing by the Company with nonaffiliated third parties (with certain exceptions); and (iii) requires that the Company develop, implement and maintain a written comprehensive information security program containing appropriate safeguards based on the Company's size and complexity, the nature and scope of its activities, and the sensitivity of customer information it processes, as well as plans for responding to data security breaches. Various state and federal laws and regulations impose data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Ensuring that the Company's collection, use, transfer and storage of personal information complies with all applicable laws and regulations can increase costs.

Furthermore, the Company may not be able to ensure that all of its clients, suppliers, counterparties and other third parties have appropriate controls in place to protect the confidentiality of the information that they exchange with the Company, particularly where such information is transmitted by electronic means. If personal, confidential or proprietary information of customers or others were to be mishandled or misused (in situations where, for example, such information was erroneously provided to parties who are not permitted to have the information, or where such information was intercepted or otherwise compromised by third parties), the Company could be exposed to litigation or regulatory sanctions under personal information laws and regulations. Concerns regarding the effectiveness of the Company's measures to safeguard personal information, or even the perception that such measures are inadequate, could cause the Company to lose customers or potential customers for its products and services and thereby reduce its revenues. Accordingly, any failure or perceived failure to comply with applicable privacy or data protection laws and regulations may subject the Company to inquiries, examinations and investigations that could result in requirements to modify or cease certain operations or practices or in significant liabilities, fines or penalties, and could damage the Company's reputation and otherwise adversely affect the Company's business, financial condition and earnings.

Negative public opinion regarding the Company or failure to maintain the Company's reputation in the communities it serves could adversely affect the Company's business and prevent the Company from growing its business.

The Company's reputation within the communities it serves is critical to its success. The Company believes it has set itself apart from its competitors by building strong personal and professional relationships with its customers and being an active member of the communities it serves. As such, the Company strives to enhance its reputation by recruiting, hiring and retaining employees who share the Company's core values of being an integral part of the communities it serves and delivering superior service to its customers. If the Company's reputation is negatively affected by the actions of its employees or otherwise, the Company may be less successful in attracting new talent and customers or may lose existing customers, and its business, financial condition and earnings could be adversely affected. Further, negative public opinion can expose the Company to litigation and regulatory action and delay and impede the Company's efforts to implement its growth strategy, which could further adversely affect its business, financial condition and results of operations.

The reliance of the Company on third-party vendors could expose it to additional cyber risk and liability.

The operation of the Company's business involves outsourcing of certain business functions and reliance on third-party providers, which may result in transmission and maintenance of personal, confidential, and proprietary information to and by such vendors. Although the Company requires third-party providers to maintain certain levels of information security, such providers remain vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious attacks that could ultimately compromise sensitive information possessed by the Company. Although the Company contracts to limit its liability in connection with attacks against third-party providers, the Company remains exposed to risk of loss associated with such vendors.

The Company outsources certain aspects of its data processing to certain third-party providers, which may expose it to additional risk.

The Company outsources certain key aspects of the Company's data processing to certain third-party providers. While the Company has selected these third-party providers carefully, it cannot control their actions. If the Company's third-party providers encounter difficulties, including those that result from their failure to provide services for any reason or their poor performance of services, or if the Company has difficulty in communicating with them, its ability to adequately process and account for customer transactions could be affected, and the Company's business operations could be adversely impacted. Replacing these third-party providers could also entail significant delay and expense.

The Company's third-party providers may be vulnerable to unauthorized access, computer viruses, phishing schemes and other security breaches. Threats to information security also exist in the processing of customer information through various other third-party providers and their personnel. The Company may be required to expend significant additional resources to protect against the threat of such security breaches and computer viruses, or to alleviate problems caused by such security breaches or viruses. To the extent that the activities of the Company's third-party providers or the activities of the Company's customers involve the storage and transmission of confidential information, security breaches and viruses could expose the Company to claims, regulatory scrutiny, litigation and other possible liabilities.

The Company is dependent on its information technology and telecommunications systems; third-party servicers and systems failures, interruptions or breaches of security could have an adverse effect on its financial condition and results of operations.

The Company's business is highly dependent on the successful and uninterrupted functioning of its information technology and telecommunications systems third-party servicers. The Company outsources many of its major systems, such as data processing and deposit processing systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt the Company's operations. Because the Company's information technology and telecommunications systems interface with and depend on third-party systems, it could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of the Company's ability to provide customer service, compromise its ability to operate effectively, damage the Company's reputation, result in a loss of customer business and/or subject the Company to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operations.

In addition, the Company provides its customers the ability to bank remotely, including online over the Internet. The secure transmission of confidential information is a critical element of remote banking. The Company's network could be vulnerable to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches. The Company may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. Further, the Company outsources some of the data processing functions used for remote banking, and accordingly it is dependent on the expertise and performance of its third-party providers. To the extent that the Company's activities, the activities of its customers, or the activities of the Company's third-party service providers involve the storage and transmission of confidential information, security breaches and viruses could expose the Company to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in the Company's systems and could adversely affect its reputation, results of operations and ability to attract and maintain customers and businesses. In addition, a security breach could also subject the Company to additional regulatory scrutiny, expose it to civil litigation and possible financial liability and cause reputational damage.

Risks Related to the Company's Financial Statements

Changes in accounting standards or interpretation of new or existing standards may affect how the Company reports its financial condition and results of operations.

From time to time the Financial Accounting Standards Board ("FASB") and the SEC change accounting regulations and reporting standards that govern the preparation of the Company's financial statements. In addition, the FASB, SEC, bank regulators and the outside independent auditors may revise their previous interpretations regarding existing accounting regulations and the application of these accounting standards. These changes can be difficult to predict and can materially impact how to record and report the Company's financial condition and results of operations. In some cases, there could be a requirement to apply a new or revised accounting standard retroactively, resulting in the restatement of prior period financial statements.

The implementation of the Current Expected Credit Loss accounting standard could require the Company to increase its allowance for credit losses and may have a material adverse effect on its financial condition and results of operations.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 replaces the incurred loss model with an expected loss model, which is referred to as the current expected credit loss model, or CECL. ASU 2016-13 became effective for the Company on January 1, 2020. This standard requires earlier recognition of expected credit losses on loans and certain other instruments, compared to the incurred loss model. At the adoption date, exclusive of the reclassification of \$2.8 million to the allowance for credit losses of amounts related to the previously acquired impaired loans, the estimated impact to retained earnings at transition date is expected to be approximately \$2.0 million based on the expected performance of the economy at the transition date. The change to the CECL framework requires the Company to greatly increase the data the Company must collect and review to determine the appropriate level of the allowance for credit losses. The adoption of CECL may result in greater volatility in the level of the allowance for credit losses, depending on various factors and assumptions applied in the model, such as the forecasted economic conditions in the foreseeable future and loan payment behaviors. Any increase in the allowance for credit losses, or expenses incurred to determine the appropriate level of the allowance for credit losses, may have an adverse effect on the Company's financial condition and results of operations.

Impairment in the carrying value of goodwill and other intangible assets could negatively impact the Company's financial condition and results of operations.

At December 31, 2019, goodwill and other intangible assets totaled \$355.0 million. Goodwill represents the excess purchase price paid over the fair value of the net assets acquired in a business combination. The estimated fair values of the acquired assets and assumed liabilities may be subject to refinement as additional information relative to closing date fair values becomes available and may result in adjustments to goodwill within the first 12 months following the closing date of the acquisition. Goodwill is reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. A significant decline in expected future cash flows, a material change in interest rates, a significant adverse change in the business climate, slower growth rates or a significant or sustained decline in the price of the Company's common stock may necessitate taking charges in the future related to the impairment of goodwill and other intangible assets. The amount of any impairment charge could be significant and could have a material adverse impact on the Company's financial condition and results of operations.

The Company's accounting estimates and risk management processes rely on analytical and forecasting models.

The processes that the Company uses to estimate its expected credit losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on its financial condition and results of operations, depends upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models that the Company uses for interest rate risk and asset-liability management are inadequate, the Company may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models that the Company uses for determining its expected credit losses are inadequate, the allowance for credit losses may not be sufficient to support future charge-offs. If the models that the Company uses to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what the Company could realize upon sale or settlement of such financial instruments. Any such failure in the Company's analytical or forecasting models could have a material adverse effect on its business, financial condition and results of operations.

Regulatory Risks

The Company operates in a highly regulated industry, and compliance with, or changes to, the laws and regulations that govern its operations may adversely affect the Company.

The banking industry is heavily regulated. Banking regulations are primarily intended to protect the federal deposit insurance funds and depositors, not shareholders. Sandy Spring Bank is subject to regulation and supervision by the Board of Governors of the Federal Reserve System and by Maryland banking authorities. Sandy Spring Bancorp is subject to regulation and supervision by the Board of Governors of the Federal Reserve System. Federal and state laws and regulations govern numerous matters affecting the Company and the Bank, including changes in the ownership or control of banks and bank holding companies, maintenance of adequate capital and sound financial condition, permissible types, amounts and terms of loans and investments, permissible nonbanking activities, the level of reserves against deposits and restrictions on dividend payments. These and other restrictions limit the manner in which the Company may conduct business and obtain financing. The laws, rules, regulations, and supervisory guidance and policies applicable to the Company and the Bank are subject to regular modification and change. Such changes may, among other things, increase the cost of doing business, limit the types of financial services and products the Company may offer, or affect the competitive balance between banks and other financial institutions. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties, and/or reputational damage, which could have a material adverse effect on the Company's business, financial condition, or results of operations. The burdens imposed by federal and state regulations put banks at a competitive disadvantage compared to less regulated competitors such as finance companies, mortgage banking companies, and leasing companies.

The Company will become subject to reduced interchange income and increased regulation when total consolidated assets exceed \$10 billion, which could result in increased costs and/or reduced revenues.

As of December 31, 2019, the Company had total consolidated assets of \$8.6 billion. Based on the Company's current total assets and growth strategy, and as a result of its pending acquisition of Revere Bank, the Company expects that its total assets will exceed \$10 billion in the near future. Accordingly, the Company will become subject to certain regulations that apply only to depository institution holding companies or depository institutions with total consolidated assets of \$10 billion or more.

Debit card interchange fee restrictions set forth in Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which is known as the Durbin Amendment, as implemented by regulations of the Federal Reserve, cap the maximum debit interchange fee that a debit card issuer may receive per transaction at the sum of \$0.21 plus five basis points. A debit card issuer that adopts certain fraud prevention procedures may charge an additional \$0.01 per transaction. Debit card issuers with total consolidated assets of less than \$10 billion, which currently includes the Company, are exempt from these interchange fee restrictions. The exemption for small issuers ceases to apply as of July 1 of the year following the calendar year in which the debit card issuer has total consolidated assets of \$10 billion or more at calendar year-end. As a result, if the Company's acquisition of Revere Bank is consummated in 2020, it will become subject to the interchange restrictions of the Durbin Amendment beginning July 1, 2021.

In addition, an insured depository institution with total assets of \$10 billion or more is subject to supervision, examination, and enforcement with respect to consumer protection laws by the Consumer Financial Protection Bureau, or the CFPB. Under its current policies, the CFPB will assert jurisdiction in the first quarter after the call reports of merging insured depository institutions, on a combined basis, show total consolidated assets of \$10 billion or more for four consecutive quarters ended prior to the merger. As a result, the Company will become subject to CFPB supervision, examination and enforcement at the beginning of the quarter following consummation of its acquisition of Revere Bank.

Current law relieves banking organizations with total consolidated assets of less than \$10 billion (and that satisfy certain other conditions) from risk-based capital requirements, restrictions on proprietary trading and investment and sponsorship in hedge funds and private equity funds known as the Volcker Rule, and certain other regulatory requirements. In addition, financial institutions with consolidated assets of less than \$10 billion are entitled to deposit insurance assessment credits when the Deposit Insurance Fund reserve ratio exceeds 1.35%. Once the Company has total consolidated assets of \$10 billion or more, it will no longer qualify for any of the foregoing relief.

The reduction in interchange income and increased regulatory burden resulting from the Company having total consolidated assets of \$10 billion or more could have an adverse effect on the Company's business, financial condition and results of operations.

The Company's ability to pay dividends is limited by law.

The ability to pay dividends to shareholders largely depends on Sandy Spring Bancorp's receipt of dividends from Sandy Spring Bank. The amount of dividends that Sandy Spring Bank may pay to Sandy Spring Bancorp is limited by federal laws and regulations. The ability of Sandy Spring Bank to pay dividends is also subject to its profitability, financial condition and cash flow requirements. There is no assurance that Sandy Spring Bank will be able to pay dividends to Sandy Spring Bancorp in the future. In addition, as a bank holding company, the Company's ability to declare and pay dividends is dependent on federal regulatory considerations, including limits on dividends should the Company not maintain the required capital conservation buffer and guidelines of the Federal Reserve regarding capital adequacy and dividends. It is the policy of the Federal Reserve that bank holding companies should generally pay dividends on common stock only out of earnings, and only if prospective earnings retention is consistent with the organization's expected future needs, asset quality and financial condition. The Company may limit the payment of dividends, even when the legal ability to pay them exists, in order to retain earnings for other uses.

Federal banking agencies periodically conduct examinations of the Company's business, including compliance with laws and regulations; the failure to comply with any supervisory actions to which the Company is or becomes subject as a result of such examinations could adversely affect the Company.

As part of the bank regulatory process, the Federal Reserve and the Maryland Commissioner of Financial Regulation periodically conduct comprehensive examinations of the Company's business, including compliance with laws and regulations. If, as a result of an examination, either of these banking agencies were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, asset sensitivity, risk management or other aspects of any of the Company's operations had become unsatisfactory, or that the Company, the Bank or their respective management were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. The Federal Reserve may enjoin "unsafe or unsound" practices or violations of law, require affirmative actions to correct any conditions resulting from any violation or practice, issue an administrative order that can be judicially enforced, direct an increase in the Company's capital levels, restrict the Company's growth, assess civil monetary penalties against the Company, the Bank or their respective officers or directors, and remove officers and directors. The FDIC also has authority to review the Bank's financial condition, and, if the FDIC were to conclude that the Bank or its directors were engaged in unsafe or unsound practices, that the Bank was in an unsafe or unsound condition to continue operations, or that the Bank or the directors violated applicable law, the FDIC could move to terminate the Bank's deposit insurance. If the Company becomes subject to such regulatory actions, its business, financial condition, earnings and reputation could be adversely affected.

The Company is subject to numerous laws designed to protect consumers, including the Community Reinvestment Act (“CRA”) and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA requires the Federal Reserve to assess the Bank’s performance in meeting the credit needs of the communities it serves, including low and moderate-income neighborhoods. If the Federal Reserve determines that the Bank needs to improve its performance or is in substantial non-compliance with CRA requirements, various adverse regulatory consequences may ensue. In addition, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The CFPB, the U.S. Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. The CFPB was created under the Dodd-Frank Act to centralize responsibility for consumer financial protection with broad rulemaking authority to administer and carry out the purposes and objectives of federal consumer financial laws with respect to all financial institutions that offer financial products and services to consumers. The CFPB is also authorized to prescribe rules applicable to any covered person or service provider, identifying and prohibiting acts or practices that are “unfair, deceptive, or abusive” in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The ongoing broad rulemaking powers of the CFPB have potential to have a significant impact on the operations of financial institutions offering consumer financial products or services.

A successful regulatory challenge to an institution’s performance under the CRA, fair lending laws or regulations, or consumer lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution’s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on the Company’s business, financial condition and results of operations.

The Company faces a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "PATRIOT Act") and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the U.S. Treasury Department to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and engages in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. Federal and state bank regulators also focus on compliance with Bank Secrecy Act and anti-money laundering regulations. If the Company’s policies, procedures and systems are deemed to be deficient or the policies, procedures and systems of the financial institutions that the Company may acquire in the future are deficient, the Company would be subject to liability, including fines and regulatory actions such as restrictions on its ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of its business plan, including its acquisition plans, which would negatively impact the Company’s business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for the Company.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The Company's headquarters is located in Olney, Maryland. As of December 31, 2019, Sandy Spring Bank owned 12 of its full-service community banking centers and leased the remaining locations. See Note 8—Leases to the Notes to the Consolidated Financial Statements for additional information.

Item 3. LEGAL PROCEEDINGS

In the normal course of business, the Company becomes involved in litigation arising from the banking, financial, and other activities it conducts. Management, after consultation with legal counsel, does not anticipate that the ultimate liability, if any, arising out of currently pending legal proceedings will have a material effect on the Company's financial condition, operating results or liquidity.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Stock Listing

Common shares of Sandy Spring Bancorp, Inc. are listed on the NASDAQ Global Select Market under the symbol "SASR". At February 21, 2020 there were approximately 2,100 holders of record of the Company's common stock.

Transfer Agent and Registrar

Computershare Shareholder Services, P.O. Box 30170, College Station, TX 77842-3170

Share Transactions with Employees

Shares issued under the employee stock purchase plan, which was authorized on July 1, 2011, totaled 37,091 in 2019 and 28,996 in 2018, while issuances pursuant to exercises of stock options and grants of restricted stock were 69,869 and 59,248 in the respective years. There were 867 shares issued under the director stock purchase plan in 2019. No shares were issued under this plan in 2018.

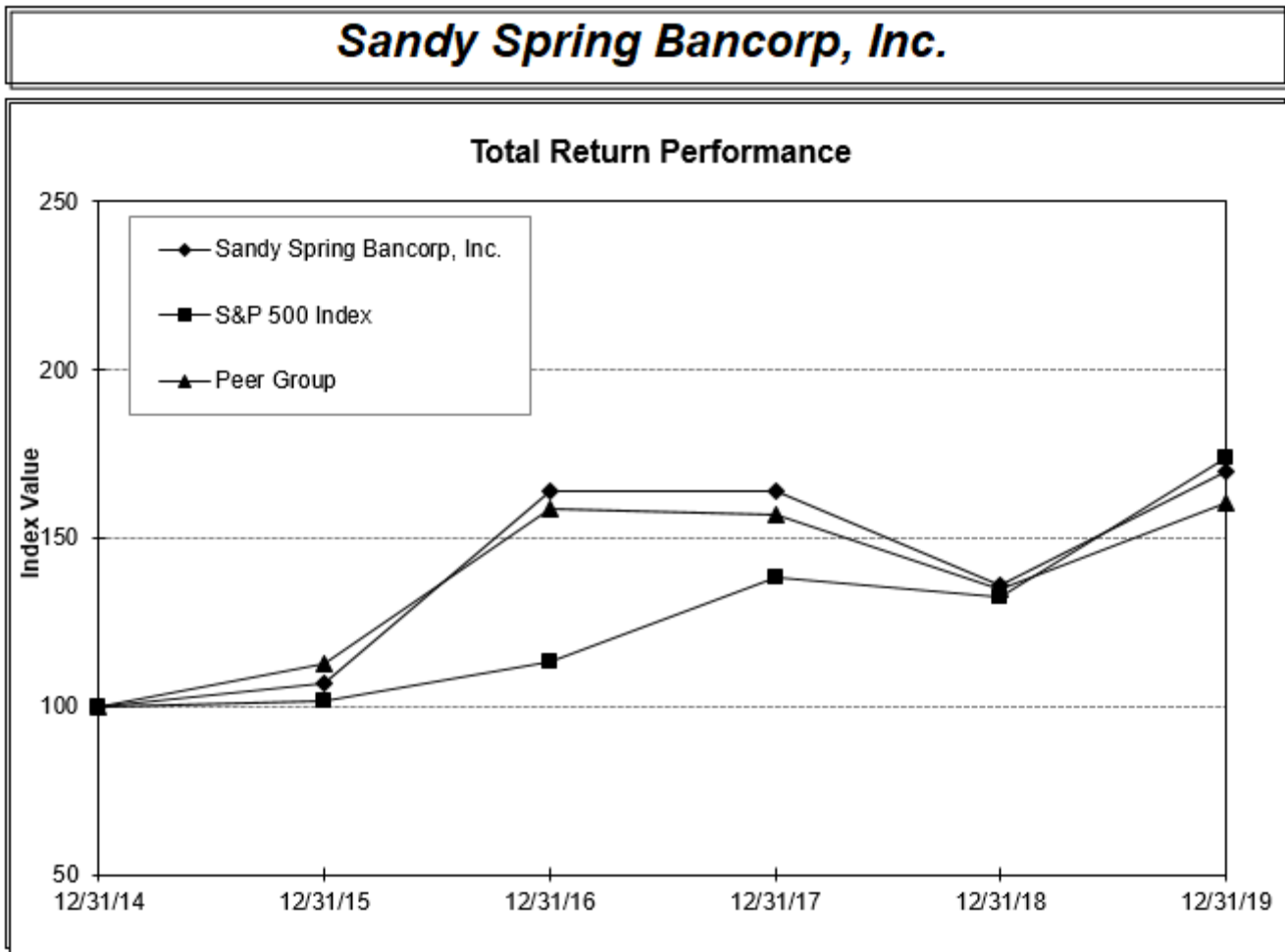
Issuer Purchases of Equity Securities

In December 2018, the Company's board of directors authorized the repurchase of up to 1,800,000 shares of common stock. During 2019, the Company repurchased 668,191 common shares under that program. The Company's previous stock repurchase program expired on August 31, 2017. Under that program the Company repurchased a total of 736,139 common shares.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number that May Yet Be Purchased Under the Plans or Programs
October 1, 2019 through October 31, 2019	N/A	N/A	N/A	N/A
November 1, 2019 through November 30, 2019	166,400	\$35.45	166,400	1,633,600
December 1, 2019 through December 31, 2019	501,791	\$36.64	501,791	1,131,809

Total Return Comparison

The following graph and table show the cumulative total return on the common stock of the Company over the last five years, compared with the cumulative total return of a broad stock market index (the Standard and Poor's 500 Index or "S&P 500"), and a narrower index of Mid-Atlantic bank holding company peers with assets of \$5 billion to \$10 billion. The cumulative total return on the stock or the index equals the total increase in value since December 31, 2014, assuming reinvestment of all dividends paid into the stock or the index. The graph and table were prepared assuming that \$100 was invested on December 31, 2014, in the common stock and the securities included in the indexes.



Index	Period Ending					
	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
Sandy Spring Bancorp, Inc.	100.00	106.91	164.13	164.25	135.81	169.85
S&P 500 Index	100.00	101.38	113.51	138.29	132.23	173.86
Peer Group	100.00	112.80	158.75	157.17	134.63	160.64

The Peer Group Index includes ten publicly traded bank holding companies, other than the Company, headquartered in the Mid-Atlantic region and with assets of \$5 billion to \$10 billion. The companies included in this index are: ConnectOne Bancorp, Inc. (NJ); Eagle Bancorp, Inc. (MD); First Bancorp (NC); First Commonwealth Financial Corporation (PA); Lakeland Bancorp, Inc. (NJ); OceanFirst Financial Corp. (NJ); Park National Corporation (OH); S&T Bancorp, Inc. (PA); TriState Capital Holdings, Inc. (PA); Univest Financial Corporation (PA). Returns are weighted according to the issuer's stock market capitalization at the beginning of each year shown. The Company modified the criteria used to form the Peer Group Index to reflect the Company's asset growth.

Equity Compensation Plans

The following table presents the number of shares available for issuance under the Company's equity compensation plans at December 31, 2019.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	65,279	\$31.34	1,150,417
Equity compensation plans not approved by security holders	-	-	-
Total	65,279	\$31.34	1,150,417

Item 6. SELECTED FINANCIAL DATA

Consolidated Summary of Financial Results

(Dollars in thousands, except per share data)

	2019	2018	2017	2016	2015
Results of Operations:					
Tax-equivalent interest income	\$ 352,615	\$ 328,797	\$ 202,258	\$ 177,267	\$ 164,790
Interest expense	82,561	63,637	26,031	21,004	20,113
Tax-equivalent net interest income	270,054	265,160	176,227	156,236	144,677
Tax-equivalent adjustment	4,746	4,715	7,459	6,711	6,478
Provision for loan losses	4,684	9,023	2,977	5,546	5,371
Net interest income after provision for loan losses	260,624	251,422	165,791	144,006	132,828
Non-interest income	71,322	61,049	51,243	51,042	49,901
Non-interest expense	179,085	179,783	129,099	123,058	115,347
Income before taxes	152,861	132,688	87,935	71,990	67,382
Income tax expense	36,428	31,824	34,726	23,740	22,027
Net income	116,433	100,864	53,209	48,250	45,355
Per Share Data:					
Net income - basic per share	\$ 3.25	\$ 2.82	\$ 2.20	\$ 2.00	\$ 1.84
Net income - diluted per share	3.25	2.82	2.20	2.00	1.84
Dividends declared per common share	1.18	1.10	1.04	0.98	0.90
Book value per common share	32.40	30.06	23.50	22.32	21.58
Dividends declared to diluted net income per common share	36.31 %	39.01 %	47.27 %	49.00 %	48.91 %
Period End Balances:					
Assets	\$ 8,629,002	\$ 8,243,272	\$ 5,446,675	\$ 5,091,383	\$ 4,655,380
Investment securities	1,125,136	1,010,724	775,025	779,648	841,650
Loans	6,705,232	6,571,634	4,314,248	3,927,808	3,495,370
Deposits	6,440,319	5,914,880	3,963,662	3,577,544	3,263,730
Borrowings	936,788	1,213,465	885,192	945,119	829,145
Stockholders' equity	1,132,974	1,067,903	563,816	533,572	524,427
Average Balances:					
Assets	\$ 8,367,139	\$ 7,965,514	\$ 5,239,920	\$ 4,743,375	\$ 4,486,453
Investment securities	979,757	1,018,016	813,601	740,519	883,143
Loans	6,569,069	6,225,498	4,097,988	3,677,662	3,276,610
Deposits	6,266,757	5,689,601	3,849,186	3,460,804	3,184,359
Borrowings	861,926	1,190,930	798,733	717,542	735,474
Stockholders' equity	1,108,310	1,024,795	550,926	527,524	519,671
Performance Ratios:					
Return on average assets	1.39 %	1.27 %	1.02 %	1.02 %	1.01 %
Return on average common equity	10.51	9.84	9.66	9.15	8.73
Yield on average interest-earning assets	4.58	4.47	4.08	3.96	3.91
Rate on average interest-bearing liabilities	1.56	1.24	0.77	0.68	0.70
Net interest spread	3.02	3.23	3.31	3.28	3.21
Net interest margin	3.51	3.60	3.55	3.49	3.44
Efficiency ratio – GAAP ⁽¹⁾	53.20	55.92	58.68	61.35	61.32
Efficiency ratio – Non-GAAP ⁽¹⁾	51.52	50.87	54.59	58.66	61.09
Capital Ratios:					
Tier 1 leverage	9.70 %	9.50 %	9.24 %	10.14 %	10.60 %
Common equity tier 1 capital to risk-weighted assets	11.06	10.90	10.84	11.01	12.17
Tier 1 capital to risk-weighted assets	11.21	11.06	10.84	11.74	13.13
Total regulatory capital to risk-weighted assets	14.85	12.26	11.85	12.80	14.25
Tangible common equity to tangible assets - Non-GAAP ⁽²⁾	9.46	9.21	9.04	9.07	9.66
Average equity to average assets	13.25	12.87	10.51	11.12	11.58
Credit Quality Ratios:					
Allowance for loan losses to loans	0.84 %	0.81 %	1.05 %	1.12 %	1.17 %
Non-performing loans to total loans	0.62	0.55	0.68	0.81	0.99
Non-performing assets to total assets	0.50	0.46	0.58	0.66	0.80
Net charge-offs to average loans	0.03	0.01	0.04	0.06	0.07

(1) See the discussion of the efficiency ratio in the section of Management's Discussion and Analysis of Financial Condition and Results of Operations entitled "Operating Expense Performance."

(2) See the discussion of tangible common equity in the section of Management's Discussion and Analysis of Financial Condition and Results of Operations entitled "Tangible Common Equity."

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Net income for Sandy Spring Bancorp, Inc. and subsidiaries (the "Company") for the year ended December 31, 2019 totaled a record \$116.4 million (\$3.25 per diluted share) compared to \$100.9 million (\$2.82 per diluted share) for the year ended December 31, 2018. The results from 2019 and 2018 included recovered interest income from previously acquired impaired loans of \$1.8 million and \$2.4 million, respectively. The results for 2018 also included the effect of merger expenses totaling \$11.8 million (an after tax impact of \$0.24 per share), which were associated with the acquisition of WashingtonFirst Bankshares, Inc. ("WashingtonFirst"), compared to \$1.3 million for 2019, which are associated with the pending acquisition of Revere Bank that is expected close in the beginning of the second quarter of 2020.

These results reflect the impact of following events:

- Total loans at December 31, 2019 increased 2% compared to December 31, 2018. During this period, the Company experienced 7% growth in total commercial loans as investor real estate loans and owner occupied real estate loans grew by 11% and 7%, respectively. The impact of commercial loan growth was offset by the decline in the mortgage loan portfolio due to the impact of mortgage loan refinance activity driven by the current interest rate environment and the sale of the majority of new mortgage loan production and the decline in consumer loan balances.
- Total deposits grew 9% compared to the end of 2018. Deposit growth reduced the loan-to-deposit ratio to 104% at the end of 2019 compared to 111% at the end of 2018. The year-over-year deposit growth included an 8% increase in noninterest-bearing deposits, a 13% increase in core interest-bearing deposits and a 38% reduction in wholesale deposits.
- The net interest margin was 3.51% in 2019, compared to 3.60% in 2018.
- The provision for loan losses was \$4.7 million for 2019 compared to \$9.0 million for 2018, reflecting the overall improvement in the qualitative credit metrics of the loan portfolio during the previous twelve months in addition to lower loan growth than experienced in the prior year.
- Non-interest income increased 17% to \$71.3 million for 2019, compared to \$61.1 million for 2018. Excluding life insurance mortality proceeds of \$0.6 million and \$1.6 million in 2019 and 2018, respectively, non-interest income increased 19%. This increase was driven by income from mortgage banking activities, which increased 108% from the prior year, to \$14.7 million for the year ended December 31, 2019, as a result of the rise in mortgage lending activity during the year.
- Non-interest expense decreased \$0.7 million to \$179.1 million for 2019 compared to \$179.8 million for the prior year. The prior year included \$11.8 million in merger expenses compared to \$1.3 million for the current year. Excluding merger expenses, non-interest expense rose 6%, driven primarily by increases in salaries and benefits. A portion of the increases in non-interest expense was offset by the significant decrease in FDIC insurance during the year.
- The non-GAAP efficiency ratio was 51.52% for 2019 compared to 50.87% for 2018.
- During the fourth quarter of 2019, the Company repurchased 668,191 shares of common stock at an average price of \$36.34 per share as part of its existing share repurchase program
- The Company successfully issued \$175 million in subordinated debt in November 2019. The debt will provide capital to support future growth in the real estate lending portfolio and fund anticipated future redemptions of existing higher priced funding sources.

The national economy, as well as the Mid-Atlantic region in which the Company operates, continued to exhibit a solid economic performance throughout 2019. Consumer confidence remains high as a result of certain positive economic trends such as reduced lending rates, low unemployment, stable housing prices and solid performance in the financial markets. These positive trends have been tempered by economic concerns over a lack of wage growth, the political environment, trade turmoil and the impact of regional conflict. These factors act to constrain economic activity from time to time on the part of both large and small businesses. Despite the mixed business environment, the Company has experienced consistent growth in focused areas while maintaining strong levels of liquidity, capital and credit quality.

Liquidity continues to remain strong due to borrowing lines with the Federal Home Loan Bank of Atlanta and the Federal Reserve and the size and composition of the investment portfolio. At December 31, 2019, the Bank remained above all “well-capitalized” regulatory requirement levels. Tangible book value per common share increased by 9% to \$22.37 from \$20.45 at December 31, 2018. The Company’s credit quality remained strong as non-performing assets represented 0.50% of total assets at December 31, 2019 compared to 0.46% at December 31, 2018. The ratio of net charge-offs to average loans was 0.03% for 2019, compared to 0.01% for the prior year.

Total assets at December 31, 2019 increased 5% compared to December 31, 2018. Total loans at December 31, 2019, were \$6.7 billion compared to \$6.6 billion at December 31, 2018. During this period, the composition of the portfolio shifted as total commercial loans grew 7% while mortgage loans declined 8% due to the refinance activity and the strategic decision to sell the majority of new mortgage loan production. Consumer loans experienced a 10% decline related to recent mortgage refinancing activity. During this period, total funded commercial loan production was a record \$884 million. Commercial loans originated during the current year had total unfunded commitments of \$479 million as of December 31, 2019.

Customer funding sources at year end 2019, which include deposits plus other short-term borrowings from core customers, increased 8% compared to year end 2018. The increase in customer funding sources was driven by increases in noninterest-bearing demand and money market savings accounts. The Company reduced FHLB borrowings by 39% during the year to assist in the management of the net interest margin. During the fourth quarter of 2019, the Company issued \$175 million in subordinated debt. The proceeds from the debt provides capital for future growth in the real estate lending portfolio, in addition to providing funds to reduce higher priced funding sources.

Stockholders’ equity at December 31, 2019 increased 6% to \$1.13 billion as compared to \$1.07 billion at December 31, 2018. The growth in stockholders’ equity during 2019 was due to net income net of the dividends paid to stockholders. During 2019 the Company repurchased 668,000 shares, resulting in a \$24.3 million reduction in stockholders’ equity.

Net interest income increased 2% to \$265.3 million compared to \$260.4 million in 2018. For the year ended December 31, 2019, the net interest margin was 3.51% compared to 3.60% for the prior year. Net interest income for the year ended December 31, 2019 included \$1.8 million in recovered interest income on acquired credit impaired loans as compared to \$2.4 million in 2018. Excluding these recoveries, the net interest margin would have been 3.48% for the year ended December 31, 2019 compared to 3.58% for the year ended December 31, 2018. The amortization of the fair value adjustments for 2019 was estimated to be 5 basis points on an annual basis compared to a 13 basis point impact for the prior year. Compared to the prior year, average interest-earning assets grew 5% with an increase of 11 basis points in the yield while average interest-bearing liabilities grew 3% with an increase of 32 basis points in the rate paid.

Non-interest income increased 17% in 2019 compared to 2018 driven by the increase in income from mortgage banking activities during 2019, as favorable residential lending rates during the year resulted in a significant increase in mortgage loan originations. After excluding merger expenses from both years, non-interest expenses for the year ended December 31, 2019 increased 6% compared to the prior year due to the increase in compensation costs.

Net income for 2019 included the effect of merger expenses totaling \$1.3 million, which was offset by the \$1.8 million in recovered interest income from previously acquired credit impaired loans. The prior year included \$11.8 million in merger expenses and \$2.4 million of the interest recoveries, which resulted in an after-tax reduction to earnings per share of approximately \$0.19 per share for 2018. Pre-tax, pre-provision income, which adjusts for the merger expenses in both years in addition to the provision for loan losses, increased 4% from 2018 to 2019 to a record \$158.9 million.

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements may reflect different estimates, assumptions, and judgments. Certain policies inherently rely more extensively on the use of estimates, assumptions, and judgments and as such may have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary for assets and liabilities that are required to be recorded at fair value. A decline in the value of assets required to be recorded at fair value may warrant an impairment write-down or valuation allowance to be established. Carrying assets and liabilities at fair value inherently results in greater financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when readily available. Management believes the following accounting policies are the most critical to aid in fully understanding and evaluating the reported financial results:

- Allowance for loan losses;
- Goodwill and other intangible asset impairment;
- Accounting for income taxes;
- Fair value measurements;
- Defined benefit pension plan.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the probable losses that are inherent in the loan portfolio at the balance sheet date. Acquired performing loans have their fair values determined at the date of acquisition. A portion of the fair value is determined based on credit quality. Accordingly, those loans are not included in the total loan portfolio when determining the estimated allowance for probable loan losses. The Company monitors the acquired performing loans to ensure that the remaining portion of the acquisition fair value adjustment is equivalent or exceeds the estimated allowance under the Company's allowance methodology. The allowance is based on the basic principle that a loss be accrued when it is probable that the loss has occurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Management believes that the allowance for loan losses is adequate. However, the determination of the allowance requires significant judgment, and estimates of probable losses in the lending portfolio can vary significantly from the amounts actually observed. While management uses available information to recognize probable losses, future additions or reductions to the allowance may be necessary based on changes in the composition of loans in the portfolio and changes in the financial condition of borrowers as a result of changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, and independent consultants engaged by the Company periodically review the loan portfolio and the allowance. Such reviews may result in additional provisions based on their judgments of information available at the time of each examination.

The Company's allowance for loan losses has two basic components: a general allowance (ASC 450 reserves) reflecting historical losses by loan category, as adjusted by several qualitative factors whose effects are not reflected in historical loss ratios, and specific allowances (ASC 310 reserves) for individually identified impaired loans. Each of these components, and the allowance methodology used to establish them, are described in detail in Note 1 of the Notes to the Consolidated Financial Statements included in this report. The amount of the allowance is reviewed monthly by the Risk Committee of the board of directors and formally approved quarterly by that same committee of the board.

General allowances are based upon historical loss experience by portfolio segment measured over the prior eight quarters and weighted equally. The historical loss experience is supplemented by the inclusion of qualitative risk factors to address various risk characteristics of the Company's loan portfolio including:

- trends in delinquencies and other non-performing loans;
- changes in the risk profile related to large loans in the portfolio;
- changes in the categories of loans comprising the loan portfolio;
- concentrations of loans to specific industry segments;
- changes in economic conditions on both a local, regional and national level;

- changes in the Company’s credit administration and loan portfolio management processes; and
- quality of the Company’s credit risk identification processes.

The general allowance comprised 90% of the total allowance at December 31, 2019 and 2018, respectively. The general allowance is calculated in two parts based on an internal risk classification of loans within each portfolio segment. Allowances on loans considered to be “criticized” and “classified” under regulatory guidance are calculated separately from loans considered to be “pass” rated under the same guidance. This segregation allows the Company to monitor the allowance applicable to higher risk loans separate from the remainder of the portfolio in order to better manage risk and ensure the sufficiency of the allowance for loan losses.

The portion of the allowance representing specific allowances is established on individually impaired loans. As a practical expedient, for collateral dependent loans, the Company measures impairment based on the fair value of the collateral less costs to sell the underlying collateral. For loans on which the Company has not elected to use a practical expedient to measure impairment, the Company will measure impairment based on the present value of expected future cash flows discounted at the loan’s effective interest rate. In determining the cash flows to be included in the discount calculation the Company considers the following factors that combine to estimate the probability and severity of potential losses:

- the borrower’s overall financial condition;
- resources and payment record;
- demonstrated or documented support available from financial guarantors; and
- the adequacy of collateral value and the ultimate realization of that value at liquidation.

The specific allowance accounted for 10% of the total allowance at December 31, 2019 and 2018, respectively. The estimated losses on impaired loans can differ substantially from actual losses.

Goodwill and Other Intangible Asset Impairment

Goodwill represents the excess purchase price paid over the fair value of the net assets acquired in a business combination. Goodwill is not amortized but is assessed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment assessment requires that the fair value of each of the Company’s reporting units be compared to the carrying amount of the reporting unit’s net assets, including goodwill. The Company’s reporting units were identified based upon an analysis of each of its individual operating segments. If the fair values of the reporting units exceed their book values, no write-down of recorded goodwill is required. If the fair value of a reporting unit is less than book value, an expense may be required to write-down the related goodwill to the proper carrying value. The Company assesses for impairment of goodwill as of October 1 of each year using September 30 data and again at any quarter-end if any triggering events occur during a quarter that may affect goodwill. Examples of such events include, but are not limited to, a significant deterioration in future operating results, adverse action by a regulator or a loss of key personnel. Determining the fair value of a reporting unit requires the Company to use a degree of subjectivity.

Under current accounting guidance, the Company has the option to assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Based on the assessment of these qualitative factors, if it is determined that the fair value of a reporting unit is not less than the carrying value, then performing the two-step impairment process, previously required, is unnecessary. However, if it appears that the carrying value exceeds the fair value based on the qualitative assessment, the first step of the two-step process must be performed. The Company has elected this accounting guidance with respect to its Community Banking, Investment Management and Insurance segments. At December 31, 2019 there was no evidence of impairment of goodwill or intangibles in any of the Company’s reporting units.

Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. Examples of such assets include core deposit intangibles, acquired customer lists and other identifiable intangibles. Other intangible assets have finite lives and are reviewed for impairment annually. These assets are amortized over their estimated useful lives on a straight-line or sum-of-the-years basis over varying periods that initially did not exceed 15 years.

Accounting for Income Taxes

The Company accounts for income taxes by recording deferred income taxes that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Management exercises significant judgment in the evaluation of the amount and timing of the recognition of the resulting tax assets and liabilities. The judgments and estimates required for the evaluation are updated based upon changes in business factors and the tax laws. If actual results differ from the assumptions and other considerations used in estimating the amount and timing of tax recognized, there can be no assurance that additional expenses will not be required in future periods. The Company's accounting policy follows the prescribed authoritative guidance that a minimal probability threshold of a tax position must be met before a financial statement benefit is recognized. The Company recognized, when applicable, interest and penalties related to unrecognized tax benefits in other non-interest expenses in the Consolidated Statements of Income. Assessment of uncertain tax positions requires careful consideration of the technical merits of a position based on management's analysis of tax regulations and interpretations. Significant judgment may be involved in applying the applicable reporting and accounting requirements.

Management expects that the Company's adherence to the required accounting guidance may result in volatility in quarterly and annual effective income tax rates due to the requirement that any change in judgment or measurement of a tax position taken in a prior period be recognized as a discrete event in the period in which it occurs. Factors that could impact management's judgment include changes in income, tax laws and regulations, and tax planning strategies.

Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value in accordance with applicable accounting standards. Significant financial instruments measured at fair value on a recurring basis are investment securities available-for-sale, residential mortgages held for sale and commercial loan interest rate swap agreements. Loans where it is probable that the Company will not collect all principal and interest payments according to the contractual terms are considered impaired loans and are measured on a nonrecurring basis.

The Company conducts a quarterly review for all investment securities that have potential impairment to determine whether unrealized losses are other-than-temporary. Valuations for the investment portfolio are determined using quoted market prices, where available. If quoted market prices are not available, valuations are based on pricing models, quotes for similar investment securities, and, where necessary, an income valuation approach based on the present value of expected cash flows. In addition, the Company considers the financial condition of the issuer, the receipt of principal and interest according to the contractual terms and the intent and ability of the Company to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

The above accounting policies with respect to fair value are discussed in further detail in "Note 22-Fair Value" to the Consolidated Financial Statements.

Defined Benefit Pension Plan

The Company has a qualified, noncontributory, defined benefit pension plan. The plan was frozen for existing entrants after December 31, 2007 and all benefit accruals for employees were frozen as of December 31, 2007 based on past service. Future salary increases and additional years of service will no longer affect the defined benefit provided by the plan although additional vesting may continue to occur.

Several factors affect the net periodic benefit cost of the plan, including (1) the size and characteristics of the plan population, (2) the discount rate, (3) the expected long-term rate of return on plan assets and (4) other actuarial assumptions. Pension cost is directly related to the number of employees covered by the plan and other factors including salary, age, years of employment, and the terms of the plan. As a result of the plan freeze, the characteristics of the plan population should not have a materially different effect in future years. The discount rate is used to determine the present value of future benefit obligations. The discount rate is determined by matching the expected cash flows of the plan to a yield curve based on long term, high quality fixed income debt instruments available as of the measurement date, which is December 31 of each year. The discount rate is adjusted each year on the measurement date to reflect current market conditions. The expected long-term rate of return on plan assets is based on a number of factors that include expectations of market performance and the target asset allocation adopted in the plan investment policy. Should actual asset returns deviate from the projected returns, this can affect the benefit plan expense recognized in the financial statements.

Pending Accounting Pronouncements

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

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

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

The Company completed implementation of the guidance and will adopt it in the first quarter of 2020. As a part of the implementation, the Company reconciled historical loan data, determined segmentation of the loan portfolio for application of the CECL calculation, determined the key assumptions, selected calculation methods, and established an internal controls framework. The Company also used the services of an independent third party advisor to validate the conceptual soundness of the proposed methodology framework and of the CECL model. At the adoption date, exclusive of the reclassification of \$2.8 million to the allowance for credit losses of amounts related to the previously acquired impaired loans, the estimated impact to retained earnings at transition date is expected to be approximately \$2.0 million based on the expected performance of the economy at the transition date. Future amounts of provision expense will depend on the size and composition of the loan portfolio, future economic conditions and borrower's payment performance.

Net Interest Income

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

2019 vs. 2018

Net interest income for 2019 was \$265.3 million compared to \$260.4 million for 2018, a 2% increase. On a tax-equivalent basis, net interest income for 2019 was \$270.1 million compared to \$265.2 million for 2018. The net interest income growth during the current year from the prior year reflects the effects of the 11 basis point increase in the yield on interest-earning assets, which grew 5%, which was largely offset by the 32 basis point growth in the rate paid on interest-bearing liabilities. Overall, the net interest margin decreased to 3.51% for 2019 compared to 3.60% for 2018. An analysis of the net interest income performance is presented in the following tables. For the year ended December 31, 2019, net interest income included \$1.8 million in recovered interest income on acquired credit impaired loans compared to \$2.4 million for the prior year. Exclusive of these recoveries the net interest margin would have been 3.48% for the year ended December 31, 2019 compared to 3.58% for the year ended December 31, 2018. Additionally, the amortization of the fair value adjustments in 2019 associated with the acquisition of WashingtonFirst was estimated to be a 5 basis point positive impact on the net interest margin for 2019, compared to a 13 basis point impact for the prior year.

<i>(In thousands)</i>	For the Years Ended,	
	December 31, 2019	December 31, 2018
Net Interest Income Excluding Purchase Accounting Adjustments:		
Net Interest Income	\$ 265,308	\$ 260,445
Accretion of fair value adjustment on pools of homogeneous loans	(1,144)	(3,730)
Accretion of loan fair value adjustment on purchased credit impaired loans	(1,073)	(1,860)
Settlements of purchased credit impaired loans	(1,799)	(2,360)
Accretion of fair value adjustment on certificates of deposits	(533)	(2,056)
Accretion of fair value adjustment on subordinated debentures	(146)	(138)
Net Interest Income Excluding Purchase Accounting Adjustments	<u>\$ 260,613</u>	<u>\$ 250,301</u>

2018 vs. 2017

Net interest income for 2018 was \$260.4 million compared to \$168.8 million for 2017, a 54% increase, due to growth in earning assets coupled with the overall increase in the associated yields on those assets. On a tax-equivalent basis, net interest income for 2018 was \$265.2 million compared to \$176.2 million for 2017. The following table provides an analysis of net interest income performance that reflects the net interest margin that increased to 3.60% for 2018 compared to 3.55% for 2017. Net interest income for the year ended December 31, 2018 included \$2.4 million in recovered interest income on acquired credit impaired loans. This amount compares to interest recoveries of \$1.1 million for 2017. Exclusive of these recoveries the net interest margin would have been 3.58% for the year ended December 31, 2018 compared to 3.53% for the year ended December 31, 2017. The amortization of the fair value adjustments in 2018 associated with the acquisition of WashingtonFirst was estimated to be 13 basis points on an annual basis. This favorable margin effect was partially offset by the impact that the 2018 reduction in the tax rate had on the tax-advantaged securities in the investment portfolio, which adversely affected the margin by 5 basis points. Average interest-earning assets grew 48% in 2018 with an increase of 39 basis points in the yield compared to 2017 while the rate on average interest-bearing liabilities, which grew 51% from 2017, increased 47 basis points. The increase in the margin reflects the result of the proportionate mix of the interest-earning assets and associated yields as compared to the mix of interest-bearing liabilities and their associated rates.

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

Year Ended December 31,

	2019			2018			2017		
	Average	(1)	Annualized	Average	(1)	Annualized	Average	(1)	Annualized
	Balances	Interest	Yield/Rate	Balances	Interest	Yield/Rate	Balances	Interest	Yield/Rate
<i>(Dollars in thousands and tax-equivalent)</i>									
Assets									
Residential mortgage loans	\$ 1,214,625	\$ 46,438	3.82 %	\$ 1,115,869	\$ 41,628	3.73 %	\$ 873,278	\$ 30,648	3.51 %
Residential construction loans	168,797	7,232	4.28	208,741	8,289	3.97	167,664	6,292	3.75
Total mortgage loans	1,383,422	53,670	3.88	1,324,610	49,917	3.77	1,040,942	36,940	3.55
Commercial AD&C loans	677,536	39,241	5.79	609,844	35,058	5.75	298,563	14,844	4.97
Commercial investor real estate loans	2,000,571	99,410	4.97	1,938,633	96,125	4.96	1,040,871	46,558	4.47
Commercial owner occupied real estate loans	1,239,289	60,581	4.89	1,128,836	53,712	4.76	800,879	38,759	4.84
Commercial business loans	772,052	41,300	5.35	694,326	36,499	5.26	457,802	20,585	4.50
Total commercial loans	4,689,448	240,532	5.13	4,371,639	221,394	5.06	2,598,115	120,746	4.65
Consumer loans	496,199	24,391	4.92	529,249	23,568	4.45	458,931	16,934	3.72
Total loans (2)	6,569,069	318,593	4.85	6,225,498	294,879	4.74	4,097,988	174,620	4.26
Loans held for sale	41,905	1,607	3.84	28,225	1,245	4.41	6,855	279	4.06
Taxable securities	768,521	22,873	2.98	736,054	21,362	2.90	517,375	14,372	2.78
Tax-exempt securities (3)	211,236	7,403	3.50	281,962	9,976	3.54	296,226	12,550	4.24
Total investment securities	979,757	30,276	3.09	1,018,016	31,338	3.08	813,601	26,922	3.31
Interest-bearing deposits with banks	108,534	2,129	1.96	74,956	1,304	1.74	37,523	410	1.09
Federal funds sold	572	10	1.76	2,151	31	1.42	2,581	27	1.03
Total interest-earning assets	7,699,837	352,615	4.58	7,348,846	328,797	4.47	4,958,548	202,258	4.08
Less: allowance for loan losses	(53,746)			(48,483)			(44,557)		
Cash and due from banks	65,181			68,183			48,970		
Premises and equipment, net	60,595			61,686			53,947		
Other assets	595,272			535,282			223,012		
Total assets	\$ 8,367,139			\$ 7,965,514			\$ 5,239,920		
Liabilities and Stockholders' Equity									
Interest-bearing demand deposits	\$ 750,606	1,990	0.27 %	\$ 721,759	883	0.12 %	\$ 616,524	507	0.08 %
Regular savings deposits	329,158	415	0.13	376,207	570	0.15	322,856	216	0.07
Money market savings deposits	1,751,989	25,437	1.45	1,541,142	18,719	1.21	1,000,965	5,031	0.50
Time deposits	1,604,996	33,839	2.11	1,290,626	18,967	1.47	651,610	7,502	1.15
Total interest-bearing deposits	4,436,749	61,681	1.39	3,929,734	39,139	1.00	2,591,955	13,256	0.51
Other borrowings	152,088	1,161	0.76	172,888	1,169	0.68	133,356	337	0.25
Advances from FHLB	645,587	16,578	2.57	980,541	21,408	2.18	664,966	12,426	1.87
Subordinated debentures	64,251	3,141	4.89	37,501	1,921	5.13	411	12	2.94
Total interest-bearing liabilities	5,298,675	82,561	1.56	5,120,664	63,637	1.24	3,390,688	26,031	0.77
Noninterest-bearing demand deposits	1,830,008			1,759,867			1,257,231		
Other liabilities	130,146			60,188			41,075		
Stockholders' equity	1,108,310			1,024,795			550,926		
Total liabilities and stockholders' equity	\$ 8,367,139			\$ 7,965,514			\$ 5,239,920		
Net interest income and spread	\$ 270,054		3.02 %	\$ 265,160		3.23 %	\$ 176,227		3.31 %
Less: tax-equivalent adjustment	4,746			4,715			7,459		
Net interest income	\$ 265,308			\$ 260,445			\$ 168,768		
Interest income/earning assets			4.58 %			4.47 %			4.08 %
Interest expense/earning assets			1.07			0.87			0.53
Net interest margin			3.51 %			3.60 %			3.55 %

(1) Tax-equivalent income has been adjusted using the combined marginal federal and state rate of 26.13% for 2019 and 2018, and 39.88% for 2017, respectively. The annualized taxable-equivalent adjustments utilized in the above table to compute yields aggregated to \$4.7 million, \$4.7 million and \$7.5 million in 2019, 2018 and 2017, respectively.

(2) Non-accrual loans are included in the average balances.

(3) Includes only investments that are exempt from federal taxes.

Effect of Volume and Rate Changes on Net Interest Income

The following table analyzes the reasons for the changes from year-to-year in the principal elements that comprise net interest income:

<i>(Dollars in thousands and tax equivalent)</i>	2019 vs. 2018			2018 vs. 2017		
	Increase	Due to Change In Average:*		Increase	Due to Change In Average:*	
	Or (Decrease)	Volume	Rate	Or (Decrease)	Volume	Rate
Interest income from earning assets:						
Residential mortgage loans	\$ 4,810	\$ 3,780	\$ 1,030	\$ 10,980	\$ 8,959	\$ 2,021
Residential construction loans	(1,057)	(1,684)	627	1,997	1,611	386
Commercial AD&C loans	4,183	3,936	247	20,214	17,569	2,645
Commercial investor real estate loans	3,285	3,090	195	49,567	43,978	5,589
Commercial owner occupied real estate loans	6,869	5,370	1,499	14,953	15,604	(651)
Commercial business loans	4,801	4,164	637	15,914	11,993	3,921
Consumer loans	823	(1,543)	2,366	6,634	2,830	3,804
Loans held for sale	362	540	(178)	966	941	25
Taxable securities	1,511	456	1,055	6,990	6,342	648
Tax-exempt securities	(2,573)	(2,434)	(139)	(2,574)	(581)	(1,993)
Interest-bearing deposits with banks	825	653	172	894	558	336
Federal funds sold	(21)	(27)	6	4	(5)	9
Total interest income	<u>23,818</u>	<u>16,301</u>	<u>7,517</u>	<u>126,539</u>	<u>109,799</u>	<u>16,740</u>
Interest expense on funding of earning assets:						
Interest-bearing demand deposits	1,107	34	1,073	376	95	281
Regular savings deposits	(155)	(75)	(80)	354	45	309
Money market savings deposits	6,718	2,737	3,981	13,688	3,769	9,919
Time deposits	14,872	5,335	9,537	11,465	8,931	2,534
Other borrowings	(8)	(144)	136	832	122	710
Advances from FHLB	(4,830)	(8,189)	3,359	8,982	6,656	2,326
Subordinated debentures	1,220	1,314	(94)	1,909	1,893	16
Total interest expense	<u>18,924</u>	<u>1,012</u>	<u>17,912</u>	<u>37,606</u>	<u>21,511</u>	<u>16,095</u>
Net interest income	<u>\$ 4,894</u>	<u>\$ 15,289</u>	<u>\$ (10,395)</u>	<u>\$ 88,933</u>	<u>\$ 88,288</u>	<u>\$ 645</u>

* Variances that are the combined effect of volume and rate, but cannot be separately identified, are allocated to the volume and rate variances based on their respective relative amounts.

Interest Income

2019 vs. 2018

The Company's total tax-equivalent interest income increased 7% during 2019 compared to the prior year driven by the increase in average loans and the increase in their associated yields during the year. In 2019, the average balance of the loan portfolio increased 6% while the average yield increased 11 basis points. The increase in average loan balances was primarily the result of growth in all of the loan portfolio categories with the exception of consumer loans. Interest income for the year ended December 31, 2019, included \$1.8 million in recovered interest income on acquired credit impaired loans. This amount compares to interest recoveries of \$2.4 million for 2018. Exclusive of these recoveries, the yield on loans would have increased 13 basis points for the year ended December 31, 2019 compared to the year ended December 31, 2018.

The average yield on total investment securities remained stable while the average balance of the portfolio decreased 4% in 2019 compared to 2018. The decline in the average balance of the portfolio during the year was the result of the application of funds from the cash flows of the investment portfolio to reduce high rate borrowings rather than purchasing replacement investments, as investment rates declined during the year.

2018 vs. 2017

The Company's total tax-equivalent interest income increased 63% during 2018 compared to the prior year as average loans and investments and their associated yields increased during the year. In 2018, the average balance of the loan portfolio increased 52% and average investments increased 25% compared to the prior year.

The increase in loans was primarily the result of the WashingtonFirst acquisition coupled with the 9% post-acquisition growth of the total loan portfolio. The post-acquisition organic loan growth was the result of greater market presence and the improvement in the regional economy. The yield on average loans increased by 48 basis points compared to the prior year due to higher yields on the entire loan portfolio due to the effect of the rising interest rate environment during 2018 from the multiple rate increases by the Federal Reserve. Interest income for the year ended December 31, 2018 included \$2.4 million in recovered interest income on acquired credit impaired loans. This amount compares to interest recoveries of \$1.1 million for 2017. Exclusive of these recoveries, the yield on loans would have increased 46 basis points for the year ended December 31, 2018 compared to the year ended December 31, 2017.

The average yield on total investment securities decreased 23 basis points while the average balance of the portfolio increased 25% in 2018 compared to 2017. The decrease in the yield on investments was driven by the effect that the reduction in the corporate tax rate had on the tax-advantaged securities in the investment portfolio, which caused a 70 basis point erosion in the yield on tax-exempt securities.

Interest Expense

2019 vs. 2018

Interest expense increased by \$18.9 million or 30% in 2019 compared to 2018. The increase in interest expense was driven by the combination of deposit growth and higher rates paid on deposits. This increase in interest expense was partially offset by a combination of the decline in the interest expense on average FHLB advances, which declined 34%, and the benefit realized from an increase in noninterest-bearing deposits and a reduction in wholesale deposits. Average interest-bearing liabilities grew 3% due to the 13% growth in average interest-bearing deposits while total average borrowings decreased 28% during the year. Average deposit growth was primarily the result of the 14% growth in average money market deposits and 24% growth in average time deposits. The overall increase in the rate paid on deposits increased 39 basis points, and the rate paid on borrowings increased 36 basis points during 2019 compared to the prior year.

2018 vs. 2017

Interest expense increased by \$37.6 million or 144% in 2018 compared to 2017. The increase in interest expense was driven by the combination of post-acquisition deposits and higher rates paid on deposits and borrowed funds. The combined growth in interest-bearing liabilities was primarily due to the acquisition of WashingtonFirst with the remaining growth driven by rate sensitive deposits and borrowings utilized to fund loan growth during the year. Average deposit growth was 48% during 2018 while average borrowed funds grew 49%. Average deposit growth was primarily the result of the 54% growth in average money market deposits and 98% growth in average time deposits. The overall rate paid on deposits increased 49 basis points and the rate paid on borrowings increased 45 basis points during 2018 compared to the prior year.

Interest Rate Performance

2019 vs. 2018

The Company's net interest margin decreased to 3.51% for 2019 compared to 3.60% for 2018 while the net interest spread decreased to 3.02% in 2019 compared to 3.23% in 2018. The decrease in the spread was the result of the increase in the rates paid on interest-bearing liabilities exceeding the increase in the yields earned on interest-earning assets. The decrease in the margin reflects the impact of the 5% growth in average interest-earning assets as that average yield grew 11 basis but was more than offset by the 32 basis point increase in the rates paid on average interest-bearing liabilities which grew 3% during the year. As a result of these changes during the year, interest expense grew 30% while interest income grew 7% which caused compression of the margin during the current year as compared to 2018.

2018 vs. 2017

The Company's net interest margin increased to 3.60% for 2018 compared to 3.55% for 2017 while the net interest spread decreased to 3.23% in 2018 compared to 3.31% in 2017. The decrease in the spread was the result of the increase in the rates paid on interest-bearing liabilities exceeding the increase in the yields earned on interest-earning assets. The increase in the margin reflects the result of the proportionate mix of the interest-earning assets and associated yields as compared to the mix of interest-bearing liabilities and their associated rates.

Non-interest Income

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

<i>(Dollars in thousands)</i>				2019/2018	2019/2018	2018/2017	2018/2017
	2019	2018	2017	\$ Change	% Change	\$ Change	% Change
Securities gains	\$ 77	\$ 190	\$ 1,273	\$ (113)	(59.5) %	\$ (1,083)	(85.1) %
Service charges on deposit accounts	9,692	9,324	8,298	368	3.9	1,026	12.4
Mortgage banking activities	14,711	7,073	2,734	7,638	108.0	4,339	158.7
Wealth management income	22,669	21,284	19,146	1,385	6.5	2,138	11.2
Insurance agency commissions	6,612	6,158	6,231	454	7.4	(73)	(1.2)
Income from bank owned life insurance	3,165	4,327	2,403	(1,162)	(26.9)	1,924	80.1
Visa check fees	5,616	5,567	4,827	49	0.9	740	15.3
Letter of credit fees	389	611	847	(222)	(36.3)	(236)	(27.9)
Extension fees	1,287	873	568	414	47.4	305	53.7
Other income	7,104	5,642	4,916	1,462	25.9	726	14.8
Total non-interest income	<u>\$ 71,322</u>	<u>\$ 61,049</u>	<u>\$ 51,243</u>	<u>\$ 10,273</u>	<u>16.8</u>	<u>\$ 9,806</u>	<u>19.1</u>

2019 vs. 2018

Total non-interest income increased 17% to \$71.3 million for 2019, compared to \$61.0 million for 2018. The year ended December 31, 2019, included gains of \$0.1 million on sales of investment securities compared to \$0.2 million in 2018. Additionally, 2019 included life insurance mortality proceeds of \$0.6 million as compared to \$1.6 million for 2018. Excluding security gains and mortality proceeds from each year, non-interest income increased 19% in 2019 compared to the prior year, primarily driven by increases in mortgage banking activities, wealth management income and fees from customer level commercial loan swaps during the year.

Service charges on deposits increased 4% in 2019 compared to 2018 due to increases in commercial analysis fees and net commercial returned item fees. Wealth management income is comprised of income from trust and estate services and investment management fees earned by West Financial Services, the Company's investment management subsidiary. Trust services fees increased 6% compared to the prior year, due to a combination of estate settlement fees and higher recurring fees. Investment management fees in West Financial Services increased 7% for 2019 compared to 2018, as assets under management grew 16% due to market activity and new client additions. Overall total assets under management grew to \$3.3 billion at December 31, 2019 compared to \$2.8 billion at December 31, 2018. Insurance agency commissions at December 31, 2018 grew 7% compared to the prior year as a result of increased income from commercial lines and physicians liability insurance. Income from bank owned life insurance ("BOLI") decreased 27% in 2019 compared to the prior year primarily as a result of lower mortality proceeds that were received in 2019 compared to 2018. The Company invests in bank owned life insurance products in order to manage the cost of employee benefit plans. At December 31, 2019 BOLI investments totaled \$113.2 million as compared to \$110.8 million at December 31, 2018. These policies are diversified by carrier in accordance with defined policies and practices. The average tax-equivalent yield on these insurance contract assets declined to 3.80% for 2019 compared to 5.32% for the prior year, as death proceeds declined during the current year versus the prior year. Other non-interest income increased 26% during the current year compared to the prior year as a result of fees from customer level commercial loan swaps and fees related to the commercial portfolio.

2018 vs. 2017

Total non-interest income was \$61.0 million for 2018, compared to \$51.2 million for 2017. The year ended December 31, 2018, included gains of \$0.2 million on sales of investment securities compared to \$1.3 million in 2017. Excluding these gains, non-interest income increased 22% compared to the prior year period primarily due to increases in mortgage banking activities, wealth management income and BOLI insurance mortality proceeds. Mortgage lending operations acquired as part of the WashingtonFirst transaction contributed to significant growth in mortgage banking income for the year ended December 31, 2018.

Service charges on deposits increased in 2018 compared to 2017 due to increases in commercial analysis fees, ATM and point of service fees and net commercial returned item fees. Trust services fees increased 7% compared to the prior year, due to a combination of higher recurring and estate settlement fees. Investment management fees in West Financial Services increased 16% for 2018 compared to 2017, due primarily to a 7% increase in assets under management from the WashingtonFirst acquisition and new client additions and to a lesser extent, market activity. Overall total assets under management remained level at \$2.8 billion at December 31, 2018 compared to December 31, 2017. Insurance agency commissions at December 31, 2018 remained level compared to the prior year. Income from BOLI increased 80% in 2018 compared to the prior year as a result of \$1.6 million in mortality proceeds that were received in the first half of 2018. BOLI investments totaled \$110.8 million at December 31, 2018 and \$95.7 million at December 31, 2017 and were well diversified by carrier in accordance with defined policies and practices. The average tax-equivalent yield on these insurance contract assets was 5.32% for 2018 compared to 4.21% for the prior year. The investment yield growth of these products from the prior year was the result of the acquisition of WashingtonFirst. Other non-interest income increased 13% during 2018 compared to the prior year as a result of the growth in credit related fees driven by the increased size of the commercial loan portfolio.

Non-interest Expense

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

<i>(Dollars in thousands)</i>				2019/2018	2019/2018	2018/2017	2018/2017
	2019	2018	2017	\$ Change	% Change	\$ Change	% Change
Salaries and employee benefits	\$ 103,950	\$ 96,998	\$ 73,132	\$ 6,952	7.2 %	\$ 23,866	32.6 %
Occupancy expense of premises	19,470	18,352	13,053	1,118	6.1	5,299	40.6
Equipment expenses	10,720	9,335	7,015	1,385	14.8	2,320	33.1
Marketing	4,456	3,924	3,119	532	13.6	805	25.8
Outside data services	7,567	6,603	5,486	964	14.6	1,117	20.4
FDIC insurance	2,260	5,095	3,305	(2,835)	(55.6)	1,790	54.2
Amortization of intangible assets	1,946	2,162	101	(216)	(10.0)	2,061	N/M
Merger expenses	1,312	11,766	4,252	(10,454)	(88.8)	7,514	176.7
Professional fees	6,978	6,056	4,492	922	15.2	1,564	34.8
Postage and delivery	1,502	1,439	1,179	63	4.4	260	22.1
Communications	2,414	2,610	1,502	(196)	(7.5)	1,108	73.8
Loss on FHLB redemption	-	-	1,275	-	-	(1,275)	(100.0)
Other expenses	16,510	15,443	11,188	1,067	6.9	4,255	38.0
Total non-interest expense	\$ 179,085	\$ 179,783	\$ 129,099	\$ (698)	(0.4)	\$ 50,684	39.3

2019 vs. 2018

Non-interest expenses decreased \$0.7 million to \$179.1 million in 2019 compared to \$179.8 million in 2018. The prior year included \$11.8 million in merger expenses compared to \$1.3 million for the current year. Excluding merger expenses, non-interest expense rose 6% primarily as a result of the increase in salaries and benefit expense.

Salaries and employee benefits, the largest component of non-interest expenses, increased 7% in 2019 due principally to higher salary expense and increased compensation derived from volume based commissions or the achievement of revenue targets. The average number of full-time equivalent employees decreased to 913 in 2019 compared to 922 for 2018. Benefit expense increased 16% during the current year due to the increase to the matching contribution for the employee 401(k) plan and in addition to increases in various employee benefit programs.

Occupancy expenses increased in 2019 compared to 2018 due to an increase in rental expense. Equipment expenses also increased in 2019 compared to 2018 due to an increase in software costs. Marketing expense for 2019 increased 14% compared to 2018 as a result of advertising campaigns initiated during the current year. Outside data services expense increased 15% in 2019 compared to 2018 due to the increased cost of contractual services with volume-based components. FDIC insurance expense decreased 56% in 2019 compared to 2018 as a result of an assessment credit received during the year due to the industry deposit insurance fund reaching stipulated benchmark levels. Merger expenses associated with the pending Revere Bank acquisition totaled \$1.3 million in 2019 as compared to merger expenses of \$11.8 million in the prior year related to the WashingtonFirst acquisition. Amortization of intangibles decreased from the prior year as a result of the decreased amortization of the core deposit intangible that was recognized in the WashingtonFirst acquisition. Other non-interest expenses increased in 2019 compared to 2018, primarily driven by increased professional and consulting fees.

2018 vs. 2017

Non-interest expenses totaled \$179.8 million in 2018 compared to \$129.1 million in 2017. This increase in expenses was driven by merger expenses and the increased costs necessary to operate the larger post-acquisition entity.

Salaries and employee benefits, the largest component of non-interest expenses, increased in 2018 due principally to higher compensation expenses primarily as a result of the increased number of employees. The average number of full-time equivalent employees increased to 922 in 2018 compared to 729 for 2017. The majority of the increase occurred due to the increase in the number of branches and additional loan origination associates related to the acquisition of WahingtonFirst.

Occupancy expenses increased in 2018 compared to 2017 due to increased rental and operations expense from the addition of WashingtonFirst branches. This cost was slightly tempered by savings realized from the consolidation of six branches in mid-2018. Equipment expenses also increased in 2018 compared to 2017 due to the effects of the larger post-acquisition company. Marketing expense for 2018 increased compared to 2017 as a result of increased focused advertising campaigns. Outside data services expense increased in 2018 compared to 2017 due to the increased cost of contractual services with volume-based components. FDIC insurance expense increased in 2018 compared to 2017 due to the increased size of the total asset assessment base. Merger expenses associated with the acquisition of WashingtonFirst totaled \$11.8 million in 2018 as compared to \$4.3 million in the prior year. Amortization of intangibles increased from the prior year as a result of the amortization of the core deposit intangible that was recognized in the acquisition. Other non-interest expenses increased in 2018 compared to 2017 driven by increased professional and consulting fees, communication costs, volume based external fees and franchise taxes. Non-interest expense for the year ended December 31, 2017 included \$1.3 million in prepayment penalties on the early pay-off of high rate FHLB advances. Excluding merger expenses from both years and the prepayment penalties from the prior year, the year-over-year increase in non-interest expense was 36%

Operating Expense Performance

Management views the GAAP efficiency ratio as an important financial measure of expense performance and cost management. The ratio expresses the level of non-interest expenses as a percentage of total revenue (net interest income plus total non-interest income). Lower ratios indicate improved productivity.

Non-GAAP Financial Measures

The Company also uses a traditional efficiency ratio that is a non-GAAP financial measure of operating expense control and efficiency of operations. Management believes that its traditional ratio better focuses attention on the operating performance of the Company over time than does a GAAP ratio, and is highly useful in comparing period-to-period operating performance of the Company's core business operations. It is used by management as part of its assessment of its performance in managing non-interest expenses. However, this measure is supplemental, and is not a substitute for an analysis of performance based on GAAP measures. The reader is cautioned that the non-GAAP efficiency ratio used by the Company may not be comparable to GAAP or non-GAAP efficiency ratios reported by other financial institutions.

In general, the efficiency ratio is non-interest expenses as a percentage of net interest income plus non-interest income. Non-interest expenses used in the calculation of the non-GAAP efficiency ratio exclude merger expenses, goodwill impairment losses, litigation expenses, the amortization of intangibles, and other non-recurring expenses. Income for the non-GAAP ratio includes the favorable effect of tax-exempt income, and excludes securities gains and losses, which may vary widely from period to period without appreciably affecting operating expenses, and non-recurring gains. The measure is different from the GAAP efficiency ratio, which also is presented in this report. The GAAP measure is calculated using non-interest expense and income amounts as shown on the face of the Consolidated Statements of Income. The GAAP and non-GAAP efficiency ratios are reconciled and provided in the following table. The GAAP efficiency ratio improved for 2019 compared to the prior year as a direct result of the increase in net interest income. The non-GAAP efficiency ratio increased in 2019 compared to the prior year as a result of the 6% growth in non-GAAP non-interest expense exceeding the 5% growth in non-GAAP revenue.

In addition, the Company uses pre-tax, pre-provision income, excluding merger and litigation expenses, as a measure of the level of certain recurring income before taxes. Management believes this provides financial statement users with a useful metric of the run-rate of revenues and expenses that is readily comparable to other financial institutions. This measure is calculated by adding (subtracting) the provision (credit) for loan losses, the provision for income taxes, merger expenses and litigation expenses back to net income. This metric increased during 2019 compared to 2018 primarily due to the increase in non-interest income which grew 17% year over year.

GAAP and Non-GAAP Efficiency Ratios

<i>(Dollars in thousands)</i>	Year ended December 31,				
	2019	2018	2017	2016	2015
Pre-tax pre-provision pre-merger expense income:					
Net income	\$ 116,433	\$ 100,864	\$ 53,209	\$ 48,250	\$ 45,355
Plus Non-GAAP adjustments:					
Litigation expenses	-	-	-	-	(3,869)
Merger expenses	1,312	11,766	4,252	-	-
Income taxes	36,428	31,824	34,726	23,740	22,027
Provision for loan losses	4,684	9,023	2,977	5,546	5,371
Pre-tax pre-provision pre-merger income	<u>\$ 158,857</u>	<u>\$ 153,477</u>	<u>\$ 95,164</u>	<u>\$ 77,536</u>	<u>\$ 68,884</u>
Efficiency ratio - GAAP basis:					
Non-interest expense	\$ 179,085	\$ 179,783	\$ 129,099	\$ 123,058	\$ 115,347
Net interest income plus non-interest income	\$ 336,630	\$ 321,494	\$ 220,011	\$ 200,594	\$ 188,100
Efficiency ratio - GAAP basis	53.20%	55.92%	58.68%	61.35%	61.32%
Efficiency ratio - Non-GAAP basis:					
Non-interest expense	\$ 179,085	\$ 179,783	\$ 129,099	\$ 123,058	\$ 115,347
Less Non-GAAP adjustments:					
Amortization of intangible assets	1,946	2,162	101	130	372
Loss on FHLB redemption	-	-	1,275	3,167	-
Litigation expenses	-	-	-	-	(3,869)
Merger expenses	1,312	11,766	4,252	-	-
Non-interest expense - as adjusted	<u>\$ 175,827</u>	<u>\$ 165,855</u>	<u>\$ 123,471</u>	<u>\$ 119,761</u>	<u>\$ 118,844</u>
Net interest income plus non-interest income	\$ 336,630	\$ 321,494	\$ 220,011	\$ 200,594	\$ 188,100
Plus Non-GAAP adjustment:					
Tax-equivalent income	4,746	4,715	7,459	6,711	6,478
Less Non-GAAP adjustments:					
Securities gains	77	190	1,273	1,932	36
Gain on redemption of subordinated debentures	-	-	-	1,200	-
Net interest income plus non-interest income - as adjusted	<u>\$ 341,299</u>	<u>\$ 326,019</u>	<u>\$ 226,197</u>	<u>\$ 204,173</u>	<u>\$ 194,542</u>
Efficiency ratio - Non-GAAP basis	51.52%	50.87%	54.59%	58.66%	61.09%

<i>(Dollars in thousands)</i>	Year ended December 31,	
	2019	2018
Supplemental Non-GAAP Performance Measurements:		
Net income - GAAP	\$ 116,433	\$ 100,864
Plus non-GAAP adjustments:		
Merger expenses - net of tax	969	8,692
Less non-GAAP adjustment:		
Acquisition fair value marks - net of tax	4,241	7,493
Net income - Non-GAAP	<u>\$ 113,161</u>	<u>\$ 102,063</u>
Diluted net income per share - Non-GAAP	\$ 3.16	\$ 2.86
Return on average assets - Non-GAAP	1.35%	1.28%
Return on average common equity - Non-GAAP	10.21%	9.96%

Income Taxes

The Company's income tax expense in 2019 was \$36.4 million, compared to \$31.8 million in 2018 and \$34.7 million in 2017. The resulting effective rates for each year were 24% for 2019, 24% for 2018 and 39% for 2017. The tax expense for 2017 included \$5.5 million in additional income tax expense from the revaluation of deferred tax assets as a result of Tax Cuts and Jobs Act that was enacted at the end of 2017. Exclusive of the impact of the additional tax expense, the effective tax rate for 2017 would have been 33%.

FINANCIAL CONDITION

At December 31, 2019, the Company's total assets amounted to \$8.6 billion compared to \$8.2 billion at December 31, 2018. The year over year growth was mainly attributable to the growth in investment and loan portfolios and, to lesser extent, from the implementation of the requisite lease accounting standard that was implemented in 2019. Total loans at December 31, 2019, were \$6.7 billion compared to \$6.6 billion at December 31, 2018. Total deposits at December 31, 2019 were \$6.4 billion compared to \$5.9 billion at the end of 2018, a 9% increase during the period.

Loans

A comparison of loan portfolio for the years indicated is presented in the following table:

<i>(Dollars in thousands)</i>	December 31,				Year-to-Year Change	
	2019		2018		\$ Change	% Change
	Amount	%	Amount	%		
Residential real estate:						
Residential mortgage	\$ 1,149,327	17.1 %	\$ 1,228,247	18.7 %	\$ (78,920)	(6.4)%
Residential construction	146,279	2.2	186,785	2.8	(40,506)	(21.7)
Commercial real estate:						
Commercial owner occupied real estate	1,288,677	19.2	1,202,903	18.3	85,774	7.1
Commercial investor real estate	2,169,156	32.4	1,958,395	29.8	210,761	10.8
Commercial AD&C	684,010	10.2	681,201	10.4	2,809	0.4
Commercial Business	801,019	11.9	796,264	12.1	4,755	0.6
Consumer	466,764	7.0	517,839	7.9	(51,075)	(9.9)
Total loans	<u>\$ 6,705,232</u>	<u>100.0 %</u>	<u>\$ 6,571,634</u>	<u>100.0 %</u>	<u>\$ 133,598</u>	<u>2.0</u>

Total loans, excluding loans held for sale, increased \$134 million or 2% at December 31, 2019 compared to December 31, 2018. During this period, the Company experienced 7% growth in total commercial loans as investor real estate loans and owner occupied real estate loans grew by 11% and 7%, respectively. Commercial business and AD&C loan portfolios remained relatively stable compared to the prior year. Total funded commercial loan production during 2019 was a record \$884 million. Commercial loans originated during the current year had total unfunded commitments of \$479 million as of December 31, 2019.

The impact of commercial loan growth was offset by the decline in the mortgage loan portfolio due to the impact of the sale of the majority of new mortgage loan production and the decline in consumer loan balances during 2019. As a result of the strategic decision to sell the majority of new mortgage loan production rather than retaining the loans in the portfolio, the resulting normal loan run-off resulted in a 6% decline in the residential mortgage portfolio. Residential construction loans decreased by \$41 million or 22% at December 31, 2019 compared to the balance at December 31, 2018 due to a decline in lending volume as a result of competitive pricing in the market. The consumer loan portfolio decreased 10% at December 31, 2019 compared to December 31, 2018, predominantly in the home equity loan portfolio. The attrition in the home equity portfolio was the by-product of the recent increase in mortgage loan refinancing activity as consumers refinanced their current mortgages and associated home equity loans with lower rate fixed rate products.

Analysis of Loans

The trends in the composition of the loan portfolio over the previous five years are presented in following table:

<i>(Dollars in thousands)</i>	December 31,									
	2019	%	2018	%	2017	%	2016	%	2015	%
Residential real estate:										
Residential mortgage	\$ 1,149,327	17.1 %	\$ 1,228,247	18.7 %	\$ 921,435	21.4 %	\$ 841,692	21.4 %	\$ 796,358	22.8 %
Residential construction	146,279	2.2	186,785	2.8	176,687	4.1	150,229	3.8	129,281	3.7
Commercial real estate:										
Commercial owner occupied	1,288,677	19.2	1,202,903	18.3	857,196	19.9	775,552	19.8	678,027	19.4
Commercial investor	2,169,156	32.4	1,958,395	29.8	1,112,710	25.8	928,113	23.6	719,084	20.6
Commercial AD&C loans	684,010	10.2	681,201	10.4	292,443	6.8	308,279	7.9	255,980	7.3
Commercial business	801,019	11.9	796,264	12.1	497,948	11.5	467,286	11.9	465,765	13.3
Consumer	466,764	7.0	517,839	7.9	455,829	10.5	456,657	11.6	450,875	12.9
Total loans	<u>\$ 6,705,232</u>	<u>100.0 %</u>	<u>\$ 6,571,634</u>	<u>100.0 %</u>	<u>\$ 4,314,248</u>	<u>100.0 %</u>	<u>\$ 3,927,808</u>	<u>100.0 %</u>	<u>\$ 3,495,370</u>	<u>100.0 %</u>

Loan Maturities and Interest Rate Sensitivity

Loan maturities and interest rate characteristics for specific lending portfolios is presented in the following table:

<i>(In thousands)</i>	At December 31, 2019			
	Remaining Maturities of Selected Credits in Years			
	1 or less	Over 1-5	Over 5	Total
Residential construction loans	\$ 126,069	\$ 15,204	\$ 5,006	\$ 146,279
Commercial AD&C loans	599,786	34,460	49,764	684,010
Commercial business loans ⁽¹⁾	504,845	225,269	70,905	801,019
Total	<u>\$ 1,230,700</u>	<u>\$ 274,933</u>	<u>\$ 125,675</u>	<u>\$ 1,631,308</u>
Rate Terms:				
Fixed	\$ 170,112	\$ 199,825	\$ 70,062	\$ 439,999
Variable or adjustable	1,060,588	75,108	55,613	1,191,309
Total	<u>\$ 1,230,700</u>	<u>\$ 274,933</u>	<u>\$ 125,675</u>	<u>\$ 1,631,308</u>

(1) Loans not secured by real estate

Composition of Investment Securities

The composition of investment securities for the periods indicated is presented in the following table:

<i>(Dollars in thousands)</i>	December 31,					
	2019	%	2018	%	2017	%
Available-for-Sale: ⁽¹⁾						
U.S. treasuries and government agencies	\$ 258,495	23.0 %	\$ 296,678	29.4 %	\$ 106,568	13.8 %
State and municipal	233,649	20.8	282,024	27.9	312,253	40.3
Mortgage-backed and asset-backed ⁽²⁾	570,759	50.7	348,515	34.4	300,040	38.7
Corporate debt	9,552	0.8	9,240	0.9	9,432	1.2
Trust preferred	310	-	310	-	1,002	0.1
Marketable equity securities	568	0.1	568	0.1	212	-
Total available-for-sale securities ⁽³⁾	<u>1,073,333</u>	<u>95.4</u>	<u>937,335</u>	<u>92.7</u>	<u>729,507</u>	<u>94.1</u>
Other Equity:						
Other equity securities	51,803	4.6	73,389	7.3	45,518	5.9
Total other equity securities	<u>51,803</u>	<u>4.6</u>	<u>73,389</u>	<u>7.3</u>	<u>45,518</u>	<u>5.9</u>
Total Securities ⁽³⁾	<u>\$ 1,125,136</u>	<u>100.0 %</u>	<u>\$ 1,010,724</u>	<u>100.0 %</u>	<u>\$ 775,025</u>	<u>100.0 %</u>

⁽¹⁾ At estimated fair value.

⁽²⁾ Issued by a U. S. Government Agency or secured by U.S. Government Agency collateral.

⁽³⁾ The outstanding balance of no single issuer, except for U.S. Government Agency securities, exceeded ten percent of stockholders' equity at December 31, 2019, 2018 or 2017.

The investment portfolio consists primarily of U.S. Treasuries, U.S. Agency securities, U.S. Agency mortgage-backed and asset-backed securities and collateralized mortgage obligations and state and municipal securities. The investment portfolio increased to \$1.1 billion at December 31, 2019, from \$1.0 billion at December 31, 2018. The investment portfolio's growth of 11% from December 31, 2018 to December 31, 2019 was the result of cash flows associated with the deposit growth experienced during 2019. In addition to the growth of the portfolio during 2019, the composition of the portfolio migrated from U.S. treasuries and government agencies and state and municipal securities to mortgage-backed and asset backed securities to provide for greater cash flow from investment portfolio. At December 31, 2019, mortgage and asset-backed securities comprised 50% of the investment portfolio compared to 34% at December 31, 2018.

At December 31, 2019, 98% of the investment portfolio was invested in Aa/AA or Aaa/AAA rated securities. The duration of the portfolio decreased to 3.5 years at December 31, 2019 compared to 3.9 years at December 31, 2018 as a result of the declining interest rate environment experienced in 2019. The composition and duration of the investment portfolio has resulted in a portfolio with low credit risk that is expected to provide the liquidity needed to meet lending and other funding demands. The portfolio is monitored on a continuing basis with consideration given to interest rate trends and the structure of the yield curve and with constant assessment of economic projections and analysis.

Maturities and weighted average yields for investment securities available-for-sale at December 31, 2019 are presented in the following table. Amounts appear in the table at amortized cost, without market value adjustments, by stated maturity.

Maturity of Investment Securities

<i>(Dollars in thousands)</i>	Years to Maturity at December 31, 2019									
	Within One Year or Less		After One Year Through Five years		After Five Years Through Ten Years		Over Ten Years		Total	Yield
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield		
Available-for-Sale ⁽¹⁾										
U. S. treasuries										
and government agencies	\$ 69,330	2.68 %	\$ 96,507	2.09 %	\$ -	- %	\$ 94,457	2.60 %	\$ 260,294	2.43 %
State and municipal ⁽²⁾	33,054	4.57	75,432	4.04	73,741	3.67	47,082	4.22	229,309	4.03
Mortgage-backed	822	2.86	6,969	3.07	54,799	2.92	505,783	2.47	568,373	2.52
Corporate debt	-	-	-	-	9,100	5.94	-	-	9,100	5.94
Trust preferred	-	-	-	-	-	-	310	5.27	310	5.27
Total	<u>\$ 103,206</u>	3.28	<u>\$ 178,908</u>	2.95	<u>\$ 137,640</u>	3.52	<u>\$ 647,632</u>	2.62	<u>\$ 1,067,386</u>	2.85

(1) At cost, adjusted for amortization and accretion of purchase premiums and discounts, respectively.

(2) Yields on state and municipal securities have been calculated on a tax-equivalent basis using the applicable federal income tax rate of 21%.

Other Earning Assets

Residential mortgage loans held for sale increased \$31 million to \$54 million at December 31, 2019 compared to \$23 million as of December 31, 2018 due to the increase in volume of originations as a result of the favorable interest rate environment and the strategic decision to sell the majority of the new mortgage loan production in 2019. Interest-bearing deposits with banks increased by \$30 million to \$63 million at December 31, 2019 compared to \$34 million at December 31, 2018 as a result of an increase in daily anticipated funding requirements during the year.

Deposits

The composition of deposits for the periods indicated is presented in the following table:

<i>(Dollars in thousands)</i>	December 31,				Year-to-Year Change	
	2019		2018		\$ Change	% Change
	Amount	%	Amount	%		
Noninterest-bearing deposits	\$ 1,892,052	29.4 %	\$ 1,750,319	29.6 %	\$ 141,733	8.1 %
Interest-bearing deposits:						
Demand	836,433	13.0	703,145	11.9	133,288	19.0
Money market savings	1,839,593	28.5	1,605,024	27.1	234,569	14.6
Regular savings	329,919	5.1	330,231	5.6	(312)	(0.1)
Time deposits of less than \$100,000	463,431	7.2	427,421	7.2	36,010	8.4
Time deposits of \$100,000 or more	1,078,891	16.8	1,098,740	18.6	(19,849)	(1.8)
Total interest-bearing deposits	4,548,267	70.6	4,164,561	70.4	383,706	9.2
Total deposits	\$ 6,440,319	100.0 %	\$ 5,914,880	100.0 %	\$ 525,439	8.9

Deposits and Borrowings

Total deposits at December 31, 2019 were \$6.4 billion compared to \$5.9 billion at December 31, 2018, a 9% increase during the period. Deposit growth reduced the loan-to-deposit ratio to 104% at the end of 2019 compared to 111% at the end of 2018. The increase from year-end 2018 was driven by increases in non-interest bearing demand, interest-bearing demand and money market deposit categories. During 2019, money market accounts grew 15%, demand deposits grew 19%, core time deposits grew 8% and non-interest bearing deposits grew 8%. The increase in the money market deposit products can be attributed to focused deposit gathering efforts during 2019. During the year, money market accounts that established a linked demand deposit relationship were offered at promotional rates. This led to the double digit growth in both of these deposit products. Additionally, demand deposit growth was further supplemented through the initiation of a deposit sweep product offering instituted during 2019. Growth in certificates of deposit less than \$100,000 occurred due to higher rates that were offered as part of the effort to gather deposits during the year. The growth in these categories of core deposits enabled the reduction of brokered deposit relationships and the resulting 2% decline in certificates of deposit greater than \$100,000. Interest-bearing deposits represented 71% of total deposits with the remaining 29% in noninterest-bearing balances at December 31, 2019. At December 31, 2018, interest-bearing deposits represented 70% of total deposits while 30% represented noninterest-bearing deposits.

In addition to the reduction of brokered deposits, total borrowings decreased 23% at December 31, 2019 compared to December 31, 2018. The decrease was the result of utilizing the growth in deposits to reduce the borrowing position of the Company as the rates paid on deposits were more favorable than the rates paid on certain borrowings. During the last quarter of 2019, the Company issued \$175 million in subordinated debt at a 4.25% fixed-to-floating rate. The proceeds from the debt provides capital for future growth in the real estate lending portfolio, in addition to providing funds to reduce higher priced funding sources.

Capital Management

Management monitors historical and projected earnings, dividends and asset growth, as well as risks associated with the various types of on and off-balance sheet assets and liabilities, in order to determine appropriate capital levels. Stockholders' equity at December 31, 2019 was \$1.13 billion compared \$1.07 billion at December 31, 2018. This increase in stockholders' equity was due to net income in 2019, which was partially offset by dividends paid to stockholders during 2019. Additionally, during 2019 the Company repurchased approximately 668,000 shares resulting in a \$24.3 million reduction in stockholders' equity. The ratio of average equity to average assets was 13.25% for the year ended December 31, 2019, as compared to 12.87% for the year ended December 31, 2018.

Bank holding companies and banks are required to maintain capital ratios in accordance with guidelines adopted by the federal bank regulators. These guidelines are commonly known as Risk-Based Capital guidelines. The actual regulatory ratios and required ratios for capital adequacy are summarized for the Company in the following table.

Risk-Based Capital Ratios

	Ratios at December 31,		Minimum Regulatory Requirements
	2019	2018	
Total Capital to risk-weighted assets	14.85%	12.26%	8.00%
Tier 1 Capital to risk-weighted assets	11.21%	11.06%	6.00%
Common Equity Tier 1 Capital to risk-weighted assets	11.06%	10.90%	4.50%
Tier 1 Leverage	9.70%	9.50%	4.00%

Regulatory capital at December 31, 2019 is comprised of tier 1 capital of \$794 million and total qualifying capital of \$1.1 billion. As of December 31, 2019, the most recent notification from the Bank's primary regulator categorized the Bank as a "well-capitalized" institution under the prompt corrective action rules of the Federal Deposit Insurance Act. Designation as a well-capitalized institution under these regulations is not a recommendation or endorsement of the Company or the Bank by federal bank regulators.

The minimum capital level requirements applicable to the Company and the Bank are: (1) a common equity Tier 1 capital ratio of 4.5%; (2) a Tier 1 capital ratio of 6%; (3) a total capital ratio of 8%; and (4) a Tier 1 leverage ratio of 4%. Covered financial institutions must also maintain a "capital conservation buffer" of 2.5% above the regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses to executive officers if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Tangible Common Equity

Tangible equity, tangible assets and tangible book value per share are non-GAAP financial measures calculated using GAAP amounts. Tangible common equity and tangible assets exclude the balances of goodwill and other intangible assets from stockholder's equity and total assets, respectively. Management believes that this non-GAAP financial measure provides information to investors that may be useful in understanding our financial condition. Because not all companies use the same calculation of tangible equity and tangible assets, this presentation may not be comparable to other similarly titled measures calculated by other companies.

Tangible common equity totaled \$782.3 million at December 31, 2019, compared to \$726.7 million at December 31, 2018. At December 31, 2019, the ratio of tangible common equity to tangible assets has increased to 9.46% compared to 9.21% at December 31, 2018. The growth in tangible common equity in 2019 is a direct result of the retention of earnings net of dividend paid during the year. As a result of stock repurchases during 2019, common equity was reduced by \$24 million.

A reconciliation of the non-GAAP ratio of tangible equity to tangible assets and tangible book value per share are provided in the following table.

Tangible Common Equity Ratio – Non-GAAP

	December 31,				
<i>(Dollars in thousands, except per share data)</i>	2019	2018	2017	2016	2015
Tangible common equity ratio:					
Total stockholders' equity	\$ 1,132,974	\$ 1,067,903	\$ 563,816	\$ 533,572	\$ 524,427
Accumulated other comprehensive loss	4,332	15,754	6,857	6,614	1,297
Goodwill	(347,149)	(347,149)	(85,768)	(85,768)	(84,171)
Other intangible assets, net	(7,841)	(9,788)	(580)	(680)	(138)
Tangible common equity	<u>\$ 782,316</u>	<u>\$ 726,720</u>	<u>\$ 484,325</u>	<u>\$ 453,738</u>	<u>\$ 441,415</u>
Total assets	\$ 8,629,002	\$ 8,243,272	\$ 5,446,675	\$ 5,091,383	\$ 4,655,380
Goodwill	(347,149)	(347,149)	(85,768)	(85,768)	(84,171)
Other intangible assets, net	(7,841)	(9,788)	(580)	(680)	(138)
Tangible assets	<u>\$ 8,274,012</u>	<u>\$ 7,886,335</u>	<u>\$ 5,360,327</u>	<u>\$ 5,004,935</u>	<u>\$ 4,571,071</u>
Tangible common equity ratio	9.46%	9.21%	9.04%	9.07%	9.66%
Tangible book value per share	\$22.37	\$20.45	\$20.18	\$18.98	\$18.17

Credit Risk

The fundamental lending business of the Company is based on understanding, measuring and controlling the credit risk inherent in the loan portfolio. The Company's loan portfolio is subject to varying degrees of credit risk. Credit risk entails both general risks, which are inherent in the process of lending, and risk specific to individual borrowers. The Company's credit risk is mitigated through portfolio diversification, which limits exposure to any single customer, industry or collateral type. Typically, each consumer and residential lending product has a generally predictable level of credit losses based on historical loss experience. Residential mortgage and home equity loans and lines generally have the lowest credit loss experience. Loans secured by personal property, such as auto loans, generally experience medium credit losses. Unsecured loan products, such as personal revolving credit, have the highest credit loss experience and for that reason, the Company has chosen not to engage in a significant amount of this type of lending. Credit risk in commercial lending can vary significantly, as losses as a percentage of outstanding loans can shift widely during economic cycles and are particularly sensitive to changing economic conditions. Generally, improving economic conditions result in improved operating results on the part of commercial customers, enhancing their ability to meet their particular debt service requirements. Improvements, if any, in operating cash flows can be offset by the impact of rising interest rates that may occur during improved economic times. Inconsistent economic conditions may have an adverse effect on the operating results of commercial customers, reducing their ability to meet debt service obligations.

Loans acquired with 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. These loans are not considered non-performing for reporting purposes but are managed and monitored in the same manner and using the same techniques and strategies as organically generated loans. In accordance with GAAP, the historical allowance for loan losses related to the acquired loans is not carried over to the Company's financial statements. The following credit related sections should be read in conjunction with the section "Loans Acquired with Deteriorated Credit Quality" in "Note 1 – Significant Accounting Policies" of the Notes to the Consolidated Financial Statements.

Total non-performing loans, which exclude acquired non-performing loans, increased 15% to \$41.3 million at December 31, 2019 compared to \$36.0 million at December 31, 2018. The growth in non-performing loans over the prior year occurred primarily as a result of increases in segments of the loan portfolio secured by real estate. During 2019, non-performing commercial loans increased \$2.6 million while non-performing residential real estate loans increased \$2.5 million. The ratio of non-performing loans to total loans increased to 0.62% at December 31, 2019 from 0.55% at December 31, 2018. The diversification of the lending portfolio among different commercial, residential and consumer product lines along with different market conditions of the D.C. suburbs, Northern Virginia and Baltimore metropolitan area has mitigated some of the risks in the portfolio. The local economic conditions and levels of non-performing loans can be influenced by any volatility being experienced in various sectors of the economy on both a regional and national level. Management monitors the performance within various sectors of the portfolio.

To control and manage credit risk, management has a credit process in place to reasonably ensure that credit standards are maintained along with an in-house loan administration accompanied by oversight and review procedures. The primary purpose of loan underwriting is the evaluation of specific lending risks and involves the analysis of the borrower's ability to service the debt as well as the assessment of the value of the underlying collateral. Oversight and review procedures include the monitoring of portfolio credit quality, early identification of potential problem credits and the proactive management of problem credits. As part of the oversight and review process, the Company maintains an allowance for loan losses (the "allowance").

The allowance represents an estimation of the probable losses that are inherent in the loan portfolio, which excluded the acquired portfolio, as any incurred credit losses have been embedded in the determination of the fair value of the acquired loans. The adequacy of the allowance is determined through careful and ongoing evaluation of the credit portfolio, and involves consideration of a number of factors, as outlined below, to establish an adequate allowance for loan losses. Determination of the allowance is inherently subjective and requires significant estimates, including estimated losses on pools of homogeneous loans based on historical loss experience and consideration of current economic trends, which may be susceptible to significant change. Loans deemed uncollectible are charged-off against the allowance, while recoveries are credited to the allowance. Management adjusts the level of the allowance through the provision for loan losses, which is recorded as a current period operating expense.

The methodology for assessing the appropriateness of the allowance includes: (1) a general allowance that reflects historical losses supplemented by qualitative factors, as adjusted, by credit category, and (2) a specific allowance for impaired credits on an individual or portfolio basis. This methodology is further described in the section entitled "Critical Accounting Policies" and in "Note 1 – Significant Accounting Policies" of the Notes to the Consolidated Financial Statements. The amount of the allowance is reviewed quarterly by the Risk Committee of the board of directors.

The Company recognizes a collateral dependent lending relationship as non-performing when either the loan becomes 90 days delinquent or as a result of factors (such as bankruptcy, interruption of cash flows, etc.) considered at the monthly credit committee meeting. When a commercial loan is placed on non-accrual status, it is considered to be impaired and all accrued but unpaid interest is reversed. Classification as an impaired loan is based on a determination that the Company may not collect all principal and interest payments according to contractual terms. Impaired loans exclude large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment such as residential real estate and consumer loans. Typically, all payments received on non-accrual loans are first applied to the remaining principal balance of the loans. Any additional recoveries are credited to the allowance for loan losses. Integral to the assessment of the allowance process is an evaluation that is performed to determine whether a specific allowance on an impaired loan is warranted and, when losses are confirmed, a charge-off is taken to reduce the loan to its net realizable value. Further collateral deterioration can result in either further specific allowances being established or additional charge-offs. When additional deterioration becomes apparent, an action plan is developed for the particular loan and an appraisal will be obtained depending on the time elapsed since the prior appraisal, the loan balance and/or the result of the internal evaluation. A current appraisal on large loans is usually obtained if the appraisal on file is more than 12 months old and there has been a material change in market conditions, zoning, physical use or the adequacy of the collateral based on an internal evaluation. The Company's policy is to strictly adhere to regulatory appraisal standards. If an appraisal is ordered, no more than a 30 day turnaround is requested from the appraiser, who is selected by Credit Administration from an approved appraiser list. After receipt of the updated appraisal, the assigned credit officer will recommend to the Chief Credit Officer whether a specific allowance or a charge-off should be taken. The Chief Credit Officer has the authority to approve a specific allowance or charge-off between monthly credit committee meetings to ensure that there are no significant time lapses during this process.

The Company's methodology for evaluating whether a loan is impaired begins with risk-rating credits on an individual basis and includes consideration of the borrower's overall financial condition, payment record and available cash resources that may include the sufficiency of collateral value and, in a select few cases, verifiable support from financial guarantors. In measuring impairment, the Company looks primarily to the discounted cash flows of the project itself or to the value of the collateral as the primary sources of repayment of the loan. The Company may consider the existence of guarantees and the financial strength and wherewithal of the guarantors involved in any loan relationship. Guarantees may be considered as a source of repayment based on the guarantor's financial condition and respective payment capacity. Accordingly, absent a verifiable payment capacity, a guarantee alone would not be sufficient to avoid classifying the loan as impaired.

Management has established a credit process that dictates that structured procedures be performed to monitor these loans between the receipt of an original appraisal and the updated appraisal. These procedures include the following:

- An internal evaluation is updated periodically to include borrower financial statements and/or cash flow projections.
- The borrower may be contacted for a meeting to discuss an updated or revised action plan which may include a request for additional collateral.
- Re-verification of the documentation supporting the Company’s position with respect to the collateral securing the loan.
- At the monthly credit committee meeting the loan status is examined and the loan may be downgraded and a specific allowance may be decided upon in advance of the receipt of the appraisal.
- Upon receipt of the updated appraisal (or based on an updated internal financial evaluation) the loan balance is compared to the appraisal and a specific allowance is decided upon for the particular loan, typically for the amount of the difference between the appraisal and the loan balance, net of estimated cost to sell.
- The Company will specifically reserve for or charge-off the excess of the loan amount over the amount of the appraisal net of closing costs. In certain cases the Company may establish a larger reserve due to knowledge of current market conditions or the existence of an offer for the collateral that will facilitate a more timely resolution of the loan.

If an updated appraisal is received subsequent to the preliminary determination of a specific allowance or partial charge-off, and it is less than the initial appraisal used in the initial assessment, an additional specific allowance or charge-off is taken on the related credit. Partially charged-off loans are not written back up based on updated appraisals and always remain on non-accrual with any and all subsequent payments applied to the remaining balance of the loan as principal reductions. No interest income is recognized on loans that have been partially charged-off.

Loans considered to be troubled debt restructurings (“TDRs”) are loans that have their terms restructured (e.g., interest rates, loan maturity date, payment and amortization period, etc.) in circumstances that provide payment relief to a borrower experiencing financial difficulty. All restructured loans are considered impaired loans and may either be in accruing status or non-accruing status. Non-accruing restructured loans may return to accruing status provided doubt has been removed concerning the collectability of principal and interest as evidenced by a sufficient period of payment performance in accordance with the restructured terms. Loans may be removed from the restructured category if the borrower is no longer experiencing financial difficulty, a re-underwriting event took place and the revised loan terms of the subsequent restructuring agreement are considered to be consistent with terms that can be obtained in the credit market for loans with comparable risk.

The Company may extend the maturity of a performing or current loan that may have some inherent weakness associated with the loan. However, the Company generally follows a policy of not extending maturities on non-performing loans under existing terms. Maturity date extensions only occur under revised terms that clearly place the Company in a position to increase the likelihood of or assure full collection of the loan under the contractual terms and /or terms at the time of the extension that may eliminate or mitigate the inherent weakness in the loan. These terms may incorporate, but are not limited to additional assignment of collateral, significant balance curtailments/liquidations and assignments of additional project cash flows. Guarantees may be a consideration in the extension of loan maturities. As a general matter, the Company does not view extension of a loan to be a satisfactory approach to resolving non-performing credits. On an exception basis, certain performing loans that have displayed some inherent weakness in the underlying collateral values, an inability to comply with certain loan covenants which are not affecting the performance of the credit or other identified weakness may be extended.

Collateral values or estimates of discounted cash flows (inclusive of any potential cash flow from guarantees) are evaluated to estimate the probability and severity of potential losses. The actual occurrence and severity of losses involving impaired credits can differ substantially from estimates.

The determination of the allowance requires significant judgment, and estimates of probable losses in the loan portfolio can vary significantly from the amounts actually observed. Historical net charge-offs represent a principal component in the application of the Company's allowance methodology. While management uses available information to recognize probable losses, future additions to the allowance may be necessary based on changes in the credits comprising the portfolio and changes in the financial condition of borrowers, such as may result from changes in economic conditions. In addition, federal and state regulatory agencies, as an integral part of their examination process, and independent consultants engaged by the Bank, periodically review the loan portfolio and the allowance. Such reviews may result in adjustments to the allowance based upon their analysis of the information available at the time of each examination.

The Company makes provisions for loan losses in amounts necessary to maintain the allowance at an appropriate level, as established by use of the allowance methodology previously discussed. The provision for loan losses was \$4.7 million in 2019, \$9.0 million in 2018 and \$3.0 million in 2017. The decrease in the provision for 2019 as compared to 2018 reflects the impact of lower organic growth in the loan portfolio year over year in addition to the impact of an improvement in the qualitative credit metrics of the loan portfolio and the stability of collateral values during the previous twelve months. The provision for 2018 compared to 2017 increased due to the effect of the organic loan growth in the portfolio year over year in addition to the impact of acquired loans being re-underwritten as they reached maturity under their original lending arrangements and ceased to be accounted for as acquired loans.

The Company typically sells a portion of its fixed-rate residential mortgage originations in the secondary mortgage market. Concurrent with such sales, the Company is required to make customary representations and warranties to the purchasers about the mortgage loans and the manner in which they were originated. The related sale agreements grant the purchasers recourse back to the Company, which could require the Company to repurchase loans or to share in any losses incurred by the purchasers. This recourse exposure typically extends for a period of nine to eighteen months after the sale of the loan although the time frame for repurchase requests can extend for an indefinite period. Such transactions could be due to a number of causes including borrower fraud or early payment default. The Company has seen a very limited number of repurchase and indemnity demands from purchasers for such events and routinely monitors its exposure in this regard. The Company maintains a liability of \$0.7 million for probable losses due to repurchases. The Company believes that this reserve is adequate.

The Company periodically engages in whole loan sale transactions of its residential mortgage loans as a part its interest rate risk management strategy. Neither the servicing assets associated with sales during 2018 or prior year periods, nor the income earned by the Company on its loan servicing rights during such periods, was significant. The Company did not engage in any whole loan sales during 2019.

Mortgage loan servicing rights are accounted for at amortized cost and are monitored for impairment on an ongoing basis. At both December 31, 2019, and December 31, 2018, the amortized cost of the Company's mortgage loan servicing rights was \$1.1 million. The Company did not incur any impairment losses during 2019.

Allowance for Loan Losses

The following table presents a five-year history for the allocation of the allowance for losses. The allowance is allocated in the following table to various loan categories based on the methodology used to estimate loan losses; however, the allocation does not restrict the usage of the allowance for any specific loan or lease category.

<i>(In thousands)</i>	December 31,				
	2019	2018	2017	2016	2015
Residential real estate:					
Residential mortgage	\$ 8,803	\$ 8,881	\$ 7,273	\$ 7,261	\$ 6,901
Residential construction	967	1,261	1,243	963	894
Total residential real estate	9,770	10,142	8,516	8,224	7,795
Commercial real estate:					
Commercial investor	18,407	17,603	14,438	12,939	10,440
Commercial owner occupied	6,884	6,307	6,931	7,885	7,984
Commercial AD&C	7,590	5,944	3,839	4,652	4,691
Total commercial real estate	32,881	29,854	25,208	25,476	23,115
Commercial Business	11,395	11,377	9,161	7,539	6,529
Consumer	2,086	2,113	2,372	2,828	3,456
Total allowance	\$ 56,132	\$ 53,486	\$ 45,257	\$ 44,067	\$ 40,895

During 2019, there were no changes in the Company's methodology for assessing the appropriateness of the allowance for loan losses. Variations can occur over time in the estimation of the adequacy of the allowance as a result of the credit performance of borrowers.

At December 31, 2019, total non-performing loans were \$41.3 million, or 0.62% of total loans, compared to \$36.0 million, or 0.55% of total loans, at December 31, 2018. The allowance represented 136% of non-performing loans at December 31, 2019 as compared to 149% at December 31, 2018. While non-performing loans increased during the year, the related reserves for those loans remained relatively stable due to the adequacy of their collateral values. The allowance for loan losses as a percent of total loans was 0.84% at December 31, 2019 as compared to 0.81% at December 31, 2018.

Continued analysis of the actual loss history on problem credits in 2019 and 2018 provided an indication that the coverage of the inherent losses on problem credits was adequate. The Company continues to monitor the impact of economic conditions on its commercial customers, the status of the underlying collateral of non-accruals, inflow in criticized loans and early stage delinquencies. These credit metrics support management's outlook for credit quality performance and supports the assessment of the adequacy of the allowance for loan losses.

The balance of impaired loans was \$24.8 million with specific allowances of \$5.5 million against those loans at December 31, 2019, as compared to \$22.2 million with specific allowances of \$4.9 million, at December 31, 2018.

The Company's borrowers are concentrated in central Maryland, Northern Virginia and in Washington D.C. Commercial and residential mortgages, including home equity loans and lines, represented 88% of total loans at December 31, 2019 and 88% of total loans at December 31, 2018. Certain loan terms may create concentrations of credit risk and increase the Company's exposure to loss. These include terms that permit the deferral of principal payments or payments that are smaller than normal interest accruals (negative amortization); loans with high loan-to-value ratios; loans, such as option adjustable-rate mortgages, that may expose the borrower to future increases in repayments that are in excess of increases that would result solely from increases in market interest rates; and interest-only loans. The Company does not make loans that provide for negative amortization or option adjustable-rate mortgages.

Summary of Loan Loss Experience

The following table presents the activity in the allowance for loan losses for the periods indicated:

<i>(Dollars in thousands)</i>	Year Ended December 31,				
	2019	2018	2017	2016	2015
Balance, January 1	\$ 53,486	\$ 45,257	\$ 44,067	\$ 40,895	\$ 37,802
Provision for loan losses	4,684	9,023	2,977	5,546	5,371
Loan charge-offs:					
Residential real estate:					
Residential mortgage	(690)	(225)	(87)	(1,404)	(614)
Residential construction	-	-	-	-	-
Commercial real estate:					
Commercial investor	-	(131)	-	(197)	(91)
Commercial owner occupied	-	-	(248)	-	(1,043)
Commercial AD&C	-	-	-	(48)	(739)
Commercial business	(1,195)	(449)	(1,538)	(597)	(306)
Leases	-	-	-	-	(4)
Consumer	(783)	(611)	(693)	(888)	(998)
Total charge-offs	<u>(2,668)</u>	<u>(1,416)</u>	<u>(2,566)</u>	<u>(3,134)</u>	<u>(3,795)</u>
Loan recoveries:					
Residential real estate:					
Residential mortgage	138	62	150	358	145
Residential construction	8	15	26	32	51
Commercial real estate:					
Commercial investor	16	87	101	133	20
Commercial owner occupied	-	-	-	5	3
Commercial AD&C	228	62	103	40	580
Commercial business	49	258	94	44	475
Leases	-	-	-	-	-
Consumer	191	138	305	148	243
Total recoveries	<u>630</u>	<u>622</u>	<u>779</u>	<u>760</u>	<u>1,517</u>
Net charge-offs	<u>(2,038)</u>	<u>(794)</u>	<u>(1,787)</u>	<u>(2,374)</u>	<u>(2,278)</u>
Balance, period end	<u>\$ 56,132</u>	<u>\$ 53,486</u>	<u>\$ 45,257</u>	<u>\$ 44,067</u>	<u>\$ 40,895</u>
Net charge-offs to average loans	0.03%	0.01%	0.04%	0.06%	0.07%
Allowance to total loans	0.84%	0.81%	1.05%	1.12%	1.17%

Analysis of Credit Risk

The following table presents information with respect to non-performing assets and 90-day delinquencies for the years indicated:

<i>(Dollars in thousands)</i>	At December 31,				
	2019	2018	2017	2016	2015
Non-accrual loans					
Residential real estate					
Residential mortgage	\$ 12,661	\$ 9,336	\$ 7,196	\$ 7,257	\$ 8,822
Residential construction	-	159	177	195	418
Commercial real estate:					
Commercial investor	8,437	5,355	5,575	8,107	8,368
Commercial owner occupied	4,148	4,234	3,582	4,823	6,340
Commercial AD&C	829	3,306	136	137	194
Commercial business	8,450	7,086	6,703	5,833	3,696
Consumer	4,107	4,107	2,967	2,859	2,193
Total non-accrual loans ⁽¹⁾	<u>38,632</u>	<u>33,583</u>	<u>26,336</u>	<u>29,211</u>	<u>30,031</u>
Loans 90 days past due					
Residential real estate:					
Residential mortgage	-	221	225	232	-
Residential construction	-	-	-	-	-
Commercial real estate:					
Commercial investor	-	-	-	-	-
Commercial owner occupied	-	-	-	-	-
Commercial AD&C	-	-	-	-	-
Commercial business	-	49	-	-	-
Consumer	-	219	-	-	-
Total 90 days past due loans	<u>-</u>	<u>489</u>	<u>225</u>	<u>232</u>	<u>-</u>
Restructured loans (accruing)	2,636	1,942	2,788	2,489	4,467
Total non-performing loans ^{(2), (3)}	<u>41,268</u>	<u>36,014</u>	<u>29,349</u>	<u>31,932</u>	<u>34,498</u>
Other real estate owned, net	1,482	1,584	2,253	1,911	2,742
Total non-performing assets	<u>\$ 42,750</u>	<u>\$ 37,598</u>	<u>\$ 31,602</u>	<u>\$ 33,843</u>	<u>\$ 37,240</u>
Non-performing loans to total loans	0.62%	0.55%	0.68%	0.81%	0.99%
Non-performing assets to total assets	0.50%	0.46%	0.58%	0.66%	0.80%
Allowance for loan losses to non-performing loans	136.02%	148.51%	154.20%	138.00%	118.54%

(1) Gross interest income that would have been recorded in 2019 if non-accrual loans shown above had been current and in accordance with their original terms was \$1.9 million. No interest income was accrued on these loans during the year. Please see Note 1 of the Notes to Consolidated Financial Statements for a description of the Company's policy for placing loans on non-accrual status.

(2) Performing loans considered potential problem loans, as defined and identified by management, amounted to \$7.6 million at December 31, 2019. Although these are loans where known information about the borrowers' possible credit problems causes management to have concerns as to the borrowers' ability to comply with the loan repayment terms, most are current as to payment terms, well collateralized and are not believed to present significant risk of loss. Loans classified for regulatory purposes not included in either non-performing or potential problem loans consist only of "other loans especially mentioned" and do not, in management's opinion, represent or result from trends or uncertainties reasonably expected to materially impact future operating results, liquidity or capital resources, or represent material credits where known information about the borrowers' possible credit problems causes management to have doubts as to the borrowers' ability to comply with the loan repayment terms.

(3) Purchased credit impaired loans are not included in non-performing loans disclosure. As of December 31, 2019 these loans totaled \$13.1 million.

Market Risk Management

The Company's net income is largely dependent on its net interest income. Net interest income is susceptible to interest rate risk to the extent that interest-bearing liabilities mature or re-price on a different basis than interest-earning assets. When interest-bearing liabilities mature or re-price more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when interest-earning assets mature or re-price more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income. Net interest income is also affected by changes in the portion of interest-earning assets that are funded by interest-bearing liabilities rather than by other sources of funds, such as noninterest-bearing deposits and stockholders' equity.

The Company's interest rate risk management goals are (1) to increase net interest income at a growth rate consistent with the growth rate of total assets, and (2) to minimize fluctuations in net interest income as a percentage of interest-earning assets. Management attempts to achieve these goals by balancing, within policy limits, the volume of floating-rate liabilities with a similar volume of floating-rate assets; by keeping the average maturity of fixed-rate asset and liability contracts reasonably matched; by maintaining a pool of administered core deposits; and by adjusting pricing rates to market conditions on a continuing basis.

The Company's board of directors has established a comprehensive interest rate risk management policy, which is administered by management's Asset Liability Management Committee ("ALCO"). The policy establishes limits on risk, which are quantitative measures of the percentage change in net interest income (a measure of net interest income at risk) and the fair value of equity capital (a measure of economic value of equity or "EVE" at risk) resulting from a hypothetical change in U.S. Treasury interest rates for maturities from one day to thirty years. The Company measures the potential adverse impacts that changing interest rates may have on its short-term earnings, long-term value, and liquidity by employing simulation analysis through the use of computer modeling. The simulation model captures optionality factors such as call features and interest rate caps and floors imbedded in investment and loan portfolio contracts. As with any method of gauging interest rate risk, there are certain shortcomings inherent in the interest rate modeling methodology used by the Company. When interest rates change, actual movements in different categories of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from assumptions used in the model. As an example, certain money market deposit accounts are assumed to reprice at 40% of the interest rate change in each of the up rate shock scenarios even though this is not a contractual requirement. As a practical matter, management would likely lag the impact of any upward movement in market rates on these accounts as a mechanism to manage the Bank's net interest margin. Finally, the methodology does not measure or reflect the impact that higher rates may have on adjustable-rate loan customers' ability to service their debts, or the impact of rate changes on demand for loan, lease, and deposit products.

The Company prepares a current base case and eight alternative simulations at least once a quarter and reports the analysis to the board of directors. In addition, more frequent forecasts are produced when interest rates are particularly uncertain or when other business conditions so dictate.

The balance sheet is subject to quarterly testing for eight alternative interest rate shock possibilities to indicate the inherent interest rate risk. Projected interest rates are shocked by +/- 100, 200, 300, and 400 basis points ("bp"), although the Company may elect not to use particular scenarios that it determines are impractical in a current rate environment. It is management's goal to structure the balance sheet so that net interest earnings at risk over a twelve-month period and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels. The Company augments its quarterly interest rate shock analysis with alternative external interest rate scenarios on a monthly basis. These alternative interest rate scenarios may include non-parallel rate ramps and non-parallel yield curve twists.

Measures of net interest income at risk produced by simulation analysis are indicators of an institution's short-term performance in alternative rate environments. These measures are typically based upon a relatively brief period, usually one year. They do not necessarily indicate the long-term prospects or economic value of the institution.

Estimated Changes in Net Interest Income

Change in Interest Rates:	+ 400 bp	+ 300 bp	+ 200 bp	+ 100 bp	- 100 bp	- 200 bp	-300 bp	-400 bp
Policy Limit	23.50%	17.50%	15.00%	10.00%	10.00%	15.00%	17.50%	23.50%
December 31, 2019	11.26%	8.71%	6.06%	3.06%	(3.47%)	N/A	N/A	N/A
December 31, 2018	2.74%	2.29%	2.38%	1.15%	(1.74%)	(3.15%)	N/A	N/A

As shown above, measures of net interest income at risk at December 31, 2019 had improved in every rising interest rate change scenario from December 31, 2018, however this measure declined in the decreasing interest rate scenario. All measures remained well within prescribed policy limits. The significant improvement in the risk position from December 31, 2018 to December 31, 2019 in the rising rate scenarios is driven by the asset sensitivity that exists in the balance sheet. In the decreasing interest rate scenario, while the reduction in the FHLB borrowings during the year produced a positive impact, this was more than offset by effect from the shortened loan durations as interest rate decreased over the preceding twelve months.

The measures of equity value at risk indicate the ongoing economic value of the Company by considering the effects of changes in interest rates on all of the Company's cash flows, and by discounting the cash flows to estimate the present value of assets and liabilities.

Estimated Changes in Economic Value of Equity (EVE)

Change in Interest Rates:	+ 400 bp	+ 300 bp	+ 200 bp	+ 100 bp	- 100 bp	- 200 bp	-300 bp	-400 bp
Policy Limit	35.00%	25.00%	20.00%	10.00%	10.00%	20.00%	25.00%	35.00%
December 31, 2019	(9.13%)	(5.54%)	(2.34%)	(0.06%)	(0.95%)	N/A	N/A	N/A
December 31, 2018	(10.23%)	(7.18%)	(3.61%)	(1.70%)	(0.77%)	(2.80%)	N/A	N/A

The measure of the economic value of equity ("EVE") at risk improved at December 31, 2019 compared to December 31, 2018 in all rising rate interest rate change scenarios and eroded in the declining rate scenario. The primary driver of the improvements in the EVE risk position as rates rose was the result of the impact that lengthened durations and higher market interest rates had on core deposits, in addition to the recent issuance of the subordinated debt. These improvements in the EVE position were partially offset by the decline in the market values of loans and securities as the rise in rates lengthened their respective durations.

Liquidity Management

Liquidity is measured by a financial institution's ability to raise funds through loan repayments, maturing investments, deposit growth, borrowed funds, capital and the sale of highly marketable assets such as investment securities and residential mortgage loans. The Company's liquidity position, considering both internal and external sources available, exceeded anticipated short-term and long-term needs at December 31, 2019. Management considers core deposits, defined to include all deposits other than time deposits of \$100 thousand or more, to be a relatively stable funding source. Core deposits equaled 67% of total interest-earning assets at December 31, 2019. In addition, loan payments, maturities, calls and pay downs of securities, deposit growth and earnings contribute a flow of funds available to meet liquidity requirements. In assessing liquidity, management considers operating requirements, the seasonality of deposit flows, investment, loan and deposit maturities and calls, expected funding of loans and deposit withdrawals, and the market values of available-for-sale investments, so that sufficient funds are available on short notice to meet obligations as they arise and to ensure that the Company is able to pursue new business opportunities.

In addition to factors discussed above that can affect liquidity, the Company's growth, mortgage banking activities and changes in the liquidity of the investment portfolio due to fluctuations in interest rates are also taken into consideration. Under this approach, implemented by the Funds Management Subcommittee of ALCO under formal policy guidelines, the Company's liquidity position is measured weekly, looking forward at thirty day intervals from thirty (30) to three hundred sixty (360) days. The measurement is based upon the projection of funds sold or purchased position, along with ratios and trends developed to measure dependence on purchased funds and core growth. Resulting projections as of December 31, 2019, provides an indication of liquidity versus requirements that the Company utilizes to determine how it will fund loans and other earning assets.

The Company has external sources of funds that can be drawn upon when required. The main sources of external liquidity are available lines of credit with the Federal Home Loan Bank of Atlanta and the Federal Reserve. The line of credit with the Federal Home Loan Bank of Atlanta totaled \$2.4 billion, all of which was available for borrowing based on pledged collateral, with \$513.8 million borrowed against it as of December 31, 2019. The Company also had lines of credit available from the Federal Reserve of \$443.3 million at December 31, 2019 collateralized by portfolio loans. In addition, the Company had unsecured lines of credit with correspondent banks of \$730.0 million at December 31, 2019. Outstanding borrowings against these lines of credit amounted to \$75.0 million. Based upon its liquidity analysis, including external sources of liquidity available, management believes the liquidity position was appropriate at December 31, 2019.

The parent company (“Bancorp”) is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, Bancorp is responsible for paying any dividends declared to its common shareholders and interest and principal on outstanding debt. Bancorp’s primary source of income is dividends received from the Bank. The amount of dividends that the Bank may declare and pay to Bancorp in any calendar year, without the receipt of prior approval from the Federal Reserve, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. Based on this requirement, as of December 31, 2019, the Bank could have declared a dividend of \$167 million to Bancorp. At December 31, 2019, Bancorp had liquid assets of \$90 million.

Arrangements to fund credit products or guarantee financing take the form of loan commitments (including lines of credit on revolving credit structures) and letters of credit. Approvals for these arrangements are obtained in the same manner as loans. Generally, cash flows, collateral value and risk assessment are considered when determining the amount and structure of credit arrangements.

The Company has various contractual obligations that affect its cash flows and liquidity. For information regarding material contractual obligations, please see “Market Risk Management” previously discussed, “Contractual Obligations” below, and “Note 7-Premises and Equipment,” “Note 11-Borrowings,” “Note 15-Pension, Profit Sharing and Other Employee Benefit Plans,” “Note 20-Financial Instruments with Off-balance Sheet Risk and Derivatives,” and “Note 22-Fair Value” of the Notes to the Consolidated Financial Statements.

Off-Balance Sheet Arrangements

With the exception of the Company’s obligations in connection with its irrevocable letters of credit and loan commitments, the Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company’s financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources, that is material to investors. For additional information on off-balance sheet arrangements, please see “Note 20-Financial Instruments with Off-balance Sheet Risk and Derivatives” and “Note 11-Borrowings” of the Notes to the Consolidated Financial Statements, and “Capital Management”.

Contractual Obligations

The Company enters into contractual obligations in the normal course of business. Among these obligations are FHLB advances, operating leases related to branch and administrative facilities and a long-term contract with a data processing provider. Payments required under these obligations, are set forth in the table following as of December 31, 2019.

<i>(In thousands)</i>	Projected Maturity Date or Payment Period ⁽¹⁾				
	Total	Less than 1 year	1-3 Years	3-5 Years	After 5 Years
Retail repurchase agreements	\$ 213,605	\$ 213,605	\$ -	\$ -	\$ -
Advances from FHLB	513,777	134,167	307,110	72,500	-
Certificates of deposit	1,542,322	1,134,309	376,484	31,529	-
Operating lease obligations	92,284	10,741	20,311	18,502	42,730
Purchase obligations ⁽²⁾	16,267	4,809	7,176	4,282	-
Total	<u>\$ 2,378,255</u>	<u>\$ 1,497,631</u>	<u>\$ 711,081</u>	<u>\$ 126,813</u>	<u>\$ 42,730</u>

⁽¹⁾ Assumed a seven year term for purposes of this table.

⁽²⁾ Represents payments required under contract, based on average monthly charges for 2019 with the Company’s current data processing service provider that expires in September 2024.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

The information required by this item is incorporated by reference to Part II, Item 7 of this report.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal Control Over Financial Reporting

As part of the Company's program to comply with Section 404 of the Sarbanes-Oxley Act of 2002, our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019 (the "Assessment"). In making this Assessment, management used the control criteria framework of the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission published in its report entitled Internal Control — Integrated Framework (2013). Management's Assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Based on this assessment, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2019.

The attestation reports by the Company's independent registered public accounting firm, Ernst & Young LLP, on the Company's internal control over financial reporting begins on the following pages.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Sandy Spring Bancorp, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of condition of Sandy Spring Bancorp, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 21, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for loan losses

Description of the Matter As of December 31, 2019, the Company's loan portfolio totaled \$6.7 billion, and the allowance for loan losses ("allowance") was \$56.1 million. As described in Notes 1 and 6 to the consolidated financial statements, the Company estimates an allowance for loan losses representing the probable estimate of losses that may be sustained on outstanding loans at the balance sheet date based on the evaluation of the size and current risk characteristics of the loan portfolio. As stated in Note 1, the Company's methodology for assessing the appropriateness of the allowance includes a general component reflecting historical losses, as adjusted, by loan portfolio segment, and a specific component for impaired loans. The general component is based upon historical loss experience and is supplemented by the inclusion of risk factors to address various risk characteristics of the Company's loan portfolio.

Auditing management's estimate of the allowance involved a high degree of subjectivity due to the nature of the risk factor adjustments that are included in the general component of the Company's allowance. Management's identification and measurement of the risk factors is highly judgmental and could have a significant effect on the allowance.

How We Addressed the Matter in Our Audit We obtained an understanding, evaluated the design and tested the operating effectiveness of the Company's controls over its allowance for loan losses, including management's identification and determination of the risk factors that adjust the general component. We tested controls over the review of the completeness and accuracy of the data used to develop the risk factor adjustments, and management's review and approval of the final risk factor adjustments.

To test the risk factor adjustments, we performed audit procedures that included, among others, evaluating whether the risk factor adjustments were determined in accordance with the Company's established methodology. We evaluated the overall appropriateness of the risk factor adjustments by comparing the general component of the allowance, inclusive of the risk factors, to the Company's loss experience at various points within the credit cycle. We also evaluated Management's identification and measurement of the risk factor adjustments by testing the completeness and accuracy of the third-party and internally available Company-specific data used by management in measuring the risk factor adjustments. For example, we agreed data used to support the risk factor adjustments regarding changes in local, regional and national economic conditions, to independently-obtained third-party data and/or internally available Company-specific data, as appropriate. We also evaluated the overall allowance amount, inclusive of the risk factor adjustments, and whether the amount appropriately reflects losses incurred in the loan portfolio as of the consolidated balance sheet date. For example, we compared certain of the Company's allowance ratios, to the ratios of the Company's peers and evaluated trends in the allowance compared to relevant company-specific trends.

/s/ Ernst & Young

We have served as the Company's auditor since 2013.
Tysons, Virginia
February 21, 2020

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Sandy Spring Bancorp, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Sandy Spring Bancorp, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). In our opinion, Sandy Spring Bancorp, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of condition of the Company as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2019 and the related notes and our report dated February 21, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young

Tysons, Virginia
February 21, 2020

Sandy Spring Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CONDITION

<i>(Dollars in thousands)</i>	December 31, 2019	December 31, 2018
Assets		
Cash and due from banks	\$ 82,469	\$ 67,014
Federal funds sold	208	609
Interest-bearing deposits with banks	<u>63,426</u>	<u>33,858</u>
Cash and cash equivalents	146,103	101,481
Residential mortgage loans held for sale (at fair value)	53,701	22,773
Investments available-for-sale (at fair value)	1,073,333	937,335
Other equity securities	51,803	73,389
Total loans	6,705,232	6,571,634
Less: allowance for loan losses	<u>(56,132)</u>	<u>(53,486)</u>
Net loans	6,649,100	6,518,148
Premises and equipment, net	58,615	61,942
Other real estate owned	1,482	1,584
Accrued interest receivable	23,282	24,609
Goodwill	347,149	347,149
Other intangible assets, net	7,841	9,788
Other assets	<u>216,593</u>	<u>145,074</u>
Total assets	<u>\$ 8,629,002</u>	<u>\$ 8,243,272</u>
Liabilities		
Noninterest-bearing deposits	\$ 1,892,052	\$ 1,750,319
Interest-bearing deposits	<u>4,548,267</u>	<u>4,164,561</u>
Total deposits	6,440,319	5,914,880
Securities sold under retail repurchase agreements and federal funds purchased	213,605	327,429
Advances from FHLB	513,777	848,611
Subordinated debentures	209,406	37,425
Accrued interest payable and other liabilities	<u>118,921</u>	<u>47,024</u>
Total liabilities	<u>7,496,028</u>	<u>7,175,369</u>
Stockholders' Equity		
Common stock -- par value \$1; shares authorized 100,000,000; shares issued and outstanding 34,970,370 and 35,530,734 at December 31, 2019 and 2018, respectively	34,970	35,531
Additional paid in capital	586,622	606,573
Retained earnings	515,714	441,553
Accumulated other comprehensive loss	<u>(4,332)</u>	<u>(15,754)</u>
Total stockholders' equity	<u>1,132,974</u>	<u>1,067,903</u>
Total liabilities and stockholders' equity	<u>\$ 8,629,002</u>	<u>\$ 8,243,272</u>

The accompanying notes are an integral part of these financial statements

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

	Year Ended December 31,		
	2019	2018	2017
<i>(Dollars in thousands, except per share data)</i>			
Interest Income:			
Interest and fees on loans	\$ 316,550	\$ 293,131	\$ 172,091
Interest on loans held for sale	1,607	1,245	279
Interest on deposits with banks	2,129	1,304	410
Interest and dividends on investment securities:			
Taxable	21,739	20,516	13,881
Exempt from federal income taxes	5,834	7,855	8,111
Interest on federal funds sold	10	31	27
Total interest income	<u>347,869</u>	<u>324,082</u>	<u>194,799</u>
Interest Expense:			
Interest on deposits	61,681	39,139	13,256
Interest on retail repurchase agreements and federal funds purchased	1,161	1,169	337
Interest on advances from FHLB	16,578	21,408	12,426
Interest on subordinated debt	3,141	1,921	12
Total interest expense	<u>82,561</u>	<u>63,637</u>	<u>26,031</u>
Net interest income	<u>265,308</u>	<u>260,445</u>	<u>168,768</u>
Provision for loan losses	4,684	9,023	2,977
Net interest income after provision for loan losses	<u>260,624</u>	<u>251,422</u>	<u>165,791</u>
Non-interest Income:			
Investment securities gains	77	190	1,273
Service charges on deposit accounts	9,692	9,324	8,298
Mortgage banking activities	14,711	7,073	2,734
Wealth management income	22,669	21,284	19,146
Insurance agency commissions	6,612	6,158	6,231
Income from bank owned life insurance	3,165	4,327	2,403
Bank card fees	5,616	5,567	4,827
Other income	8,780	7,126	6,331
Total non-interest income	<u>71,322</u>	<u>61,049</u>	<u>51,243</u>
Non-interest Expense:			
Salaries and employee benefits	103,950	96,998	73,132
Occupancy expense of premises	19,470	18,352	13,053
Equipment expenses	10,720	9,335	7,015
Marketing	4,456	3,924	3,119
Outside data services	7,567	6,603	5,486
FDIC insurance	2,260	5,095	3,305
Amortization of intangible assets	1,946	2,162	101
Merger and acquisition expenses	1,312	11,766	4,252
Professional fees and services	6,978	6,056	4,492
Other expenses	20,426	19,492	15,144
Total non-interest expense	<u>179,085</u>	<u>179,783</u>	<u>129,099</u>
Income before income taxes	<u>152,861</u>	<u>132,688</u>	<u>87,935</u>
Income tax expense	36,428	31,824	34,726
Net income	<u>\$ 116,433</u>	<u>\$ 100,864</u>	<u>\$ 53,209</u>
Net Income Per Share Amounts:			
Basic net income per share	\$ 3.25	\$ 2.82	\$ 2.20
Diluted net income per share	\$ 3.25	\$ 2.82	\$ 2.20
Dividends declared per share	\$ 1.18	\$ 1.10	\$ 1.04

The accompanying notes are an integral part of these financial statements

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

<i>(In thousands)</i>	Year Ended December 31,		
	2019	2018	2017
Net income	\$ 116,433	\$ 100,864	\$ 53,209
Other comprehensive income:			
Investments available-for-sale:			
Net change in unrealized gains/(losses) on investments available-for-sale	14,429	(9,925)	(294)
Related income tax expense/ (benefit)	(3,742)	2,600	108
Net investment gains reclassified into earnings	(77)	(190)	(1,273)
Related income tax expense	20	50	504
Net effect on other comprehensive income/(loss)	<u>10,630</u>	<u>(7,465)</u>	<u>(955)</u>
Defined benefit pension plan:			
Recognition of unrealized loss	1,175	135	1,202
Related income tax expense	(383)	(90)	(490)
Net effect on other comprehensive income	<u>792</u>	<u>45</u>	<u>712</u>
Total other comprehensive income/(loss)	<u>11,422</u>	<u>(7,420)</u>	<u>(243)</u>
Comprehensive income	<u>\$ 127,855</u>	<u>\$ 93,444</u>	<u>\$ 52,966</u>

The accompanying notes are an integral part of these financial statements

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

<i>(Dollars in thousands)</i>	Year Ended December 31,		
	2019	2018	2017
Operating activities:			
Net income	\$ 116,433	\$ 100,864	\$ 53,209
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,398	12,516	7,976
Provision for loan losses	4,684	9,023	2,977
Share based compensation expense	3,042	2,645	2,164
Deferred income tax expense	1,719	5,655	6,089
Origination of loans held for sale	(887,216)	(416,337)	(142,877)
Proceeds from sales of loans held for sale	869,294	441,023	149,367
Gains on sales of loans held for sale	(13,006)	(11,699)	(3,403)
(Gain)/loss on sales of other real estate owned	173	200	(68)
Investment securities gains	(77)	(190)	(1,273)
Loss on sales of premises and equipment	269	-	-
Tax benefits associated with share based compensation	92	299	1,809
Net (increase)/decrease in accrued interest receivable	1,327	(2,622)	(891)
Net (increase)/decrease in other assets	(3,664)	5,020	(9,829)
Net decrease in accrued expenses and other liabilities	(5,804)	(2,721)	(1,007)
Other – net	(721)	3,970	5,174
Net cash provided by operating activities	<u>99,943</u>	<u>147,646</u>	<u>69,417</u>
Investing activities:			
Proceeds (purchases) of other equity securities	21,586	(8,784)	576
Purchases of investments available-for-sale	(326,604)	(161,349)	(125,028)
Proceeds from sales of investment available-for-sale	2,926	117,354	2,251
Proceeds from maturities, calls and principal payments of investments available-for-sale	199,652	106,114	123,762
Net increase in loans	(134,012)	(641,521)	(427,773)
Proceeds from the sales of other real estate owned	324	1,151	1,275
Proceeds from sale of loans held for investment	-	59,945	40,031
Acquisition of business activity, net of cash paid	-	32,487	-
Expenditures for premises and equipment	(5,148)	(10,401)	(7,441)
Net cash used in investing activities	<u>(241,276)</u>	<u>(505,004)</u>	<u>(392,347)</u>
Financing activities:			
Net increase in deposits	525,439	340,376	386,118
Net increase/(decrease) in retail repurchase agreements and federal funds purchased	(113,824)	201,184	(5,760)
Proceeds from advances from borrowings	2,298,000	5,477,000	3,965,000
Repayment of advances from borrowings	(2,457,834)	(5,633,579)	(3,989,167)
Retirement of subordinated debt	-	-	(30,000)
Proceeds from issuance of common stock	1,433	1,395	1,200
Stock rendered for payment of withholding taxes	(703)	(760)	(952)
Repurchase of Common Stock	(24,284)	-	-
Dividends paid	(42,272)	(39,277)	(25,134)
Net cash provided by financing activities	<u>185,955</u>	<u>346,339</u>	<u>301,305</u>
Net increase (decrease) in cash and cash equivalents	<u>44,622</u>	<u>(11,019)</u>	<u>(21,625)</u>
Cash and cash equivalents at beginning of year	<u>101,481</u>	<u>112,500</u>	<u>134,125</u>
Cash and cash equivalents at end of year	<u>\$ 146,103</u>	<u>\$ 101,481</u>	<u>\$ 112,500</u>
Supplemental Disclosures:			
Interest payments	\$ 84,448	\$ 60,504	\$ 26,377
Income tax payments	33,795	25,664	31,738
Transfers from loans to residential mortgage loans held for sale	-	60,043	39,744
Transfers from loans to other real estate owned	414	289	1,588

The accompanying notes are an integral part of these financial statements

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
<i>(Dollars in thousands, except per share data)</i>					
Balances at January 1, 2017	\$ 23,901	\$ 165,871	\$ 350,414	\$ (6,614)	\$ 533,572
Net income	-	-	53,209	-	53,209
Other comprehensive loss, net of tax	-	-	-	(243)	(243)
Common stock dividends \$1.04 per share	-	-	(25,134)	-	(25,134)
Stock compensation expense	-	2,164	-	-	2,164
Common stock issued pursuant to:					
Stock option plan - 30,567 shares	31	562	-	-	593
Employee stock purchase plan - 17,578 shares	17	590	-	-	607
Restricted stock - 47,064 shares	47	(999)	-	-	(952)
Balances at December 31, 2017	23,996	168,188	378,489	(6,857)	563,816
Net income	-	-	100,864	-	100,864
Other comprehensive loss, net of tax	-	-	-	(7,420)	(7,420)
Common stock dividends \$1.10 per share	-	-	(39,277)	-	(39,277)
Stock compensation expense	-	2,645	-	-	2,645
Common stock issued pursuant to:					
Acquisition of WashingtonFirst Bankshares Inc. - 11,446,197 shares	11,446	435,194	-	-	446,640
Stock option plan - 20,888 shares	21	420	-	-	441
Employee stock purchase plan - 28,996 shares	29	925	-	-	954
Restricted stock - 38,360 shares	39	(799)	-	-	(760)
Reclassification of tax effects from other comprehensive income	-	-	1,477	(1,477)	-
Balances at December 31, 2018	35,531	606,573	441,553	(15,754)	1,067,903
Net income	-	-	116,433	-	116,433
Other comprehensive income, net of tax	-	-	-	11,422	11,422
Common stock dividends \$1.18 per share	-	-	(42,272)	-	(42,272)
Stock compensation expense	-	3,042	-	-	3,042
Common stock issued pursuant to:					
Stock option plan - 15,080 shares	15	319	-	-	334
Directors stock purchase plan - 867 shares	1	29	-	-	30
Employee stock purchase plan - 37,091 shares	37	1,032	-	-	1,069
Restricted stock - 54,789 shares	54	(757)	-	-	(703)
Purchase of treasury shares	(668)	(23,616)	-	-	(24,284)
Balances at December 31, 2019	<u>\$ 34,970</u>	<u>\$ 586,622</u>	<u>\$ 515,714</u>	<u>\$ (4,332)</u>	<u>\$ 1,132,974</u>

The accompanying notes are an integral part of these financial statements

SANDY SPRING BANCORP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 central Maryland, Northern Virginia, and the greater Washington D.C. market. 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 financial information. 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. The Company has evaluated subsequent events through the date of the issuance of its financial statements.

Principles of Consolidation

The 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 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, 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.

Assets Under Management

Assets held for others under fiduciary and agency relationships are not assets of the Company or its subsidiaries and are not included in the accompanying balance sheets. Trust department income and investment management fees are presented on an accrual basis.

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).

Revenue from Contracts with Customers

The Company’s revenue includes net interest income on financial instruments and non-interest income. Specific categories of revenue are presented in the Consolidated Statements of Income. Most of the Company’s revenue is not within the scope of Accounting Standard Update (ASU) No. 2014-09 – *Revenue from Contracts with Customers*. For revenue within the scope of ASU 2014-09, the Company provides services to customers and has related performance obligations. The revenue from such services is recognized upon satisfaction of all contractual performance obligations. The following discusses key revenue streams within the scope of the new revenue recognition guidance.

Wealth Management Income

West Financial Services, Inc., a subsidiary of the Bank, provides comprehensive investment management and financial planning services. Wealth management income is comprised of income for providing trust, estate and investment management services. Trust services include acting as a trustee for corporate or personal trusts. Investment management services include investment management, record-keeping and reporting of security portfolios. Fees for these services are recognized based on a contractually-agreed fixed percentage applied to net assets under management at the end of each reporting period. The Company does not charge or recognize any performance-based fees.

Insurance Agency Commissions

Sandy Spring Insurance, a subsidiary of the Bank, performs the function of an insurance intermediary by introducing the policyholder and insurer and is compensated by a commission fee for placement of an insurance policy. Sandy Spring Insurance does not provide any captive management services or any claim handling services. Commission fees are set as a percentage of the premium for the insurance policy for which Sandy Spring Insurance is a producer.

Service Charges on Deposit Accounts

Service charges on deposit accounts are earned on depository accounts for consumer and commercial account holders and include fees for account and overdraft services. Account services include fees for event-driven services and periodic account maintenance activities. The obligation for event-driven services is satisfied at the time of the event when service is delivered and revenue recognized as earned. Obligation for maintenance activities is satisfied over the course of each month and revenue recognized at month end. Obligation for overdraft services is satisfied at the time of the overdraft and revenue recognized as earned.

Residential Mortgage Loans Held for Sale

The Company engages in sales of residential mortgage loans originated by the Bank. Loans held for sale are carried at fair value. Fair value is derived from secondary market quotations for similar instruments. The Company measures residential mortgage loans at fair value when the Company first recognizes the loan (i.e., the fair value option), as permitted by current accounting standards. Changes in fair value of these loans are recorded in earnings as a component of mortgage banking activities in non-interest income in the Consolidated Statements of Income. The Company's current practice is to sell the majority of such loans on a servicing released basis. Any retained servicing assets are amortized in proportion to their net servicing fee income over the life of the respective loans. Servicing assets are evaluated for impairment on a periodic basis.

Investments Available-for-Sale

Debt securities not classified as held-to-maturity or trading are classified as securities available-for-sale. Securities available-for-sale are acquired as part of the Company's asset/liability management strategy and may be sold in response to changes in interest rates, loan demand, changes in prepayment risk or other factors. Securities available-for-sale are carried at fair value, with unrealized gains or losses based on the difference between amortized cost and fair value, reported net of deferred tax, as accumulated other comprehensive income (loss), a separate component of stockholders' equity. The carrying values of securities available-for-sale are adjusted for premium amortization and discount accretion. Premium is amortized to the earliest call date and discount accreted to the maturity date using the effective interest method. Realized gains and losses on security sales or maturities, using the specific identification method, are included as a separate component of non-interest income. Related interest and dividends are included in interest income. Declines in the fair value of individual available-for-sale securities below their cost that are other-than-temporary ("OTTI") result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether other-than-temporary impairment has occurred include a downgrading of the security below investment grade by a rating agency or due to potential default, a significant deterioration in the financial condition of the issuer, or a change in management's intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

Other Equity Securities

Other equity securities include Federal Reserve stock, Federal Home Loan Bank of Atlanta stock and other equities that are considered restricted as to marketability and recorded at cost. These securities are carried at cost and evaluated for impairment each reporting period.

Loan Financing Receivables

The Company's financing receivables consist primarily of loans that are stated at their principal balance outstanding net of any unearned income and deferred fees and costs. Loans acquired in business combinations with no evidence of credit deterioration as of the acquisition date are recorded at fair value. Interest income on loans is accrued at the contractual rate based on the principal outstanding. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Loans are considered past due or delinquent when the principal or interest due in accordance with the contractual terms of the loan agreement or any portion thereof remains unpaid after the due date of the scheduled payment. Immaterial shortfalls in payment amounts do not necessarily result in a loan being considered delinquent or past due. If any payments are past due and subsequent payments are resumed without payment of the delinquent amount, the loan shall continue to be considered past due. Whenever any loan is reported delinquent on a principal or interest payment or portion thereof, the amount reported as delinquent is the outstanding principal balance of the loan.

Loans, except for consumer loans, are placed into non-accrual status when any portion of the loan principal or interest becomes 90 days past due. Management may determine that certain circumstances warrant earlier discontinuance of interest accruals on specific loans if an evaluation of other relevant factors (such as bankruptcy, interruption of cash flows, etc.) indicates collection of amounts contractually due is unlikely. These loans are considered, collectively, to be non-performing loans. Consumer installment loans that are not secured by real estate are not placed on non-accrual, but are charged down to their net realizable value when they are four months past due. Loans designated as non-accrual have all previously accrued but unpaid interest reversed. Payments received on non-accrual loans when doubt about the ultimate collectability of the principal no longer exists may have their interest payments recorded as interest income on a cash basis or using the cost-recovery method with all payments applied to reduce the outstanding principal until the loan returns to accrual status. Loans may be returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Large groups of smaller balance homogeneous loans are not individually evaluated for impairment and include lease financing receivables, residential permanent and construction mortgages and consumer installment loans. All other loans are considered non-homogeneous and are evaluated for impairment if they are placed in non-accrual status. Loans are determined to be impaired when, based on available information, it is probable that the Company may not collect all principal and interest payments according to contractual terms. Factors considered in determining whether a loan is impaired include:

- the financial condition of the borrower;
- reliability and sources of the cash flows;
- absorption or vacancy rates; and
- deterioration of related collateral.

The impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate, or as permitted, the impairment may be measured based on a loan's observable market price or the fair value of the collateral less cost to sell. The majority of the Company's impaired loans are considered to be collateral dependent and impairment is measured by determining the fair value of the collateral using third party appraisals conducted at least annually with underlying assumptions that are reviewed by management. Third party appraisals may be obtained on a more frequent basis if deemed necessary. Internal evaluations of collateral value are conducted quarterly to ensure any further deterioration of the collateral value is recognized on a timely basis. The Company may receive updated appraisals which contradict the preliminary determination of fair value used to establish a specific allowance on a loan. In these instances the specific allowance is adjusted to reflect the Company's evaluation of the appraised fair value. In the event a loss was previously confirmed and the loan was charged down to the estimated fair value based on a previous appraisal, the balance of partially charged-off loans are not subsequently increased but could be further decreased depending on the direction of the change in fair value. Payments on fully or partially charged-off loans are accounted for under the cost-recovery method. Under this method, all payments are applied on a cash basis to reduce the entire outstanding principal, then to recognize a recovery of all previously charged-off amounts before interest income may be recognized. Based on the impairment evaluation, if the Company determines an estimable loss exists, a specific allowance will be established for that loan. Once a loss has been confirmed, the loan is charged-down to its estimated net realizable value. Interest income on impaired loans is recognized using the same method as non-accrual loans, with the exception of loans that are considered troubled debt restructurings.

Loans considered to be troubled debt restructurings (“TDRs”) are loans that have their terms restructured (e.g., interest rates, loan maturity date, payment and amortization period, etc.) in circumstances that provide payment relief to a borrower experiencing financial difficulty. All restructured loans are considered impaired loans and may either be in accruing status or non-accruing status. Non-accruing restructured loans may return to accruing status provided doubt has been removed concerning the collectability of principal and interest as evidenced by a sufficient period of payment performance in accordance with the restructured terms. Loans may be removed from the restructured category if the borrower is no longer experiencing financial difficulty, a re-underwriting event took place and the revised loan terms of the subsequent restructuring agreement are considered to be consistent with terms that can be obtained in the credit market for loans with comparable risk.

Management uses relevant information available to make the determination on whether loans are impaired in accordance with GAAP. However, the determination of whether loans are impaired and the measurement of the impairment requires significant judgment, and estimates of losses inherent in the loan portfolio can vary significantly from the amounts actually observed.

Allowance for Loan Losses

The allowance for loan losses (“allowance” or “ALL”) represents an amount which, in management's judgment, is adequate to absorb the probable estimate of losses that may be sustained on outstanding loans at the balance sheet date based on the evaluation of the size and current risk characteristics of the loan portfolio. The allowance is reduced by charge-offs, net of recoveries of previous losses, and is increased or decreased by a provision or credit for loan losses, which is recorded as a current period operating expense. The allowance is based on the basic principle that a loss be accrued when it is probable that the loss has occurred and the amount of the loss can be reasonably estimated.

Determination of the adequacy of the allowance is inherently complex and requires the use of significant and highly subjective estimates. The reasonableness of the allowance is reviewed periodically by the Risk Committee of the board of directors and formally approved quarterly by that same committee of the board.

The Company's methodology for estimating the allowance includes a general component reflecting historical losses, as adjusted, by loan portfolio segment, and a specific component for impaired loans. There were no changes in the Company's allowance policies or methodology from the prior year.

The general component is based upon historical loss experience by each portfolio segment measured, over the prior eight quarters weighted equally. The historical loss experience is supplemented to address various risk characteristics of the Company's loan portfolio including:

- trends in delinquencies and other non-performing loans;
- changes in the risk profile related to large loans in the portfolio;
- changes in the categories of loans comprising the loan portfolio;
- concentrations of loans to specific industry segments;
- changes in economic conditions on both a local and national level;
- changes in the Company's credit administration and loan portfolio management processes; and
- the quality of the Company's credit risk identification processes.

The general component is calculated in two parts based on an internal risk classification of loans within each portfolio segment. Reserves on loans considered to be “classified” under regulatory guidance are calculated separately from loans considered to be “pass” rated under the same guidance. This segregation allows the Company to monitor the allowance component applicable to higher risk loans separate from the remainder of the portfolio in order to better manage risk and reasonably determine the sufficiency of reserves.

Integral to the assessment of the allowance process is an evaluation that is performed to determine whether a specific allowance on an impaired credit is warranted. For the particular loan that may have potential impairment, an appraisal will be ordered depending on the time elapsed since the prior appraisal, the loan balance and/or the result of the internal evaluation. The Company typically relies on current (12 months old or less) third party appraisals of the collateral to assist in measuring impairment. In the cases in which the Company does not rely on a third party appraisal, an internal evaluation is prepared by an approved credit officer. A current appraisal on large loans is usually obtained if the appraisal on file is more than 12 months old and there has been a material change in market conditions, zoning, physical use or the adequacy of the collateral based on an internal evaluation. The Company's policy is to strictly adhere to regulatory appraisal standards. If an appraisal is ordered, no more than a 30 day turnaround is requested from the appraiser, who is selected by Credit Administration from an approved appraiser list. After receipt of the updated appraisal, the assigned credit officer will recommend to the Chief Credit Officer whether a specific allowance or a charge-off should be taken. When losses are confirmed, a charge-off is taken that is at least in the amount of the collateral deficiency as determined by the independent third party appraisal. Any further collateral deterioration results in either further specific reserves being established or additional charge-offs. The Chief Credit Officer has the authority to approve a specific allowance or charge-off between monthly credit committee meetings to ensure that there are no significant time lapses during this process.

The portion of the allowance representing specific allowances is established on individually impaired loans. As a practical expedient, for collateral dependent loans, the Company measures impairment based on the net realizable value of the underlying collateral. For loans on which the Company has not elected to use a practical expedient to measure impairment, the Company will measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate. In determining the cash flows to be included in the discount calculation the Company considers the following factors that combine to estimate the probability and severity of potential losses:

- the borrower's overall financial condition;
- resources and payment record;
- demonstrated or documented support available from financial guarantors; and
- the adequacy of collateral value and the ultimate realization of that value at liquidation.

Management believes it uses relevant information available to make determinations about the allowance and that it has established the existing allowance in accordance with GAAP. However, the determination of the allowance requires significant judgment, and estimates of probable losses in the loan portfolio can vary significantly from the amounts actually observed. While management uses available information to recognize inherent losses, future additions to the allowance may be necessary based on changes in the loans comprising the portfolio and changes in the financial condition of borrowers, such as may result from changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, and independent consultants engaged by the Company, periodically review the loan portfolio and the allowance. Such review may result in additional provisions based on management's judgments of information available at the time of each examination.

Loans Acquired with Deteriorated Credit Quality

Acquired loans with 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 losses related to the acquired loans is not carried over to the Company's financial statements. 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 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 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 addition to the valuation allowance.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization, computed using the straight-line method. Premises and equipment are depreciated over the useful lives of the assets, which generally range from 3 to 10 years for furniture, fixtures and equipment, 3 to 5 years for computer software and hardware, and 10 to 40 years for buildings and building improvements. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful lives of the improvements. The costs of major renewals and betterments are capitalized, while the costs of ordinary maintenance and repairs are included in non-interest expense.

Goodwill and Other Intangible Assets

Goodwill represents the excess purchase price paid over the fair value of the net assets acquired in a business combination. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment testing requires that the fair value of each of the Company's reporting units be compared to the carrying amount of the reporting unit's net assets, including goodwill. The Company's reporting units were identified based upon an analysis of each of its individual operating segments. If the fair values of the reporting units exceed their book values, no write-down of recorded goodwill is required. If the fair value of a reporting unit is less than book value, an expense may be required to write-down the related goodwill to the proper carrying value. Any impairment would be realized through a reduction of goodwill or the intangible and an offsetting charge to non-interest expense. The Company tests for impairment of goodwill as of October 1 of each year, and again at any quarter-end if any triggering events occur during a quarter that may affect goodwill. Examples of such events include, but are not limited to, adverse action by a regulator or a loss of key personnel. Determining the fair value of a reporting unit requires the Company to use a degree of subjectivity.

Current accounting guidance provides the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Company assesses qualitative factors on a quarterly basis. Based on the assessment of these qualitative factors, if it is determined that it is more likely than not that the fair value of a reporting unit is not less than the carrying value, then performing the two-step impairment process, previously required, is unnecessary. However, if it is determined that it is more likely than not that the carrying value exceeds the fair value the first step, described above, of the two-step process must be performed. At December 31, 2019 and 2018 there was no evidence of impairment of goodwill or intangibles in any of the Company's reporting units.

Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. Other intangible assets have finite lives and are reviewed for impairment annually. These assets are amortized over their estimated useful lives either on a straight-line or sum-of-the-years basis over varying periods that initially did not exceed 15 years.

Other Real Estate Owned ("OREO")

OREO is comprised of properties acquired in partial or total satisfaction of problem loans. The properties are recorded at fair value less estimated costs of disposal, on the date acquired or on the date that the Company acquires effective control over the property. Gains or losses arising at the time of acquisition of such properties are charged against the allowance for loan losses. During the holding period OREO continues to be measured at lower of cost or fair value less estimated costs of disposal, and any subsequent declines in value are expensed as incurred. Gains and losses realized from the sale of OREO, as well as valuation adjustments and expenses of operation are included in non-interest expense.

Derivative Financial Instruments

Derivative Loan Commitments

Mortgage loan commitments are derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. Derivative loan commitments are recognized at fair value on the consolidated statements of condition in other assets or other liabilities with changes in their fair values recorded as a component of mortgage banking activities in the consolidated statements of income.

Mortgage loan commitments are issued to borrowers. Subsequent to commitment date, changes in the fair value of the loan commitment are recognized based on changes in the fair value of the underlying mortgage loan due to interest rate changes, changes in the probability the derivative loan commitment will be exercised, and the passage of time. In estimating fair value, a probability is assigned to a loan commitment based on an expectation that it will be exercised and the loan will be funded.

Forward Loan Sale Commitments

Loan sales agreements are evaluated to determine whether they meet the definition of a derivative as facts and circumstances may differ significantly. If agreements qualify, to protect against the price risk inherent in derivative loan commitments, the Company utilizes both “mandatory delivery” and “best efforts” forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. Mandatory delivery contracts are accounted for as derivative instruments. Generally, best efforts contracts also meet the definition of derivative instruments after the loan to the borrower has closed. Accordingly, forward loan sale commitments that economically hedge the closed loan inventory are recognized at fair value on the consolidated statements of condition in other assets or other liabilities with changes in their fair values recorded as a component of mortgage banking activities in the consolidated statements of income. The Company estimates the fair value of its forward loan sales commitments using a methodology similar to that used for derivative loan commitments.

Interest Rate Swap Agreements

The Company enters into interest rate swaps (“swaps”) with loan customers to provide a facility to mitigate the fluctuations in the variable rate on the respective loans. These swaps are matched in exact offsetting terms to swaps that the Company enters into with an outside third party. The swaps are reported at fair value in other assets or other liabilities. The Company’s swaps qualify as derivatives, but are not designated as hedging instruments, thus any net gain or loss resulting from changes in the fair value is recognized in other non-interest income. Further discussion of the Company’s financial derivatives is set forth in Note 20 to the Consolidated Financial Statements.

Off-Balance Sheet Credit Risk

The Company issues financial or standby letters of credit that represent conditional commitments to fund transactions by the Company, typically to guarantee performance of a customer to a third party related to borrowing arrangements. The credit risk associated with issuing letters of credit is essentially the same as occurs when extending loan facilities to borrowers. The Company monitors the exposure to the letters of credit as part of its credit review process. Extensions of letters of credit, if any, would become part of the loan balance outstanding and would be evaluated in accordance with the Company’s credit policies. Potential exposure to loss for unfunded letters of credit if deemed necessary would be recorded in other liabilities.

In the ordinary course of business the Company originates and sells whole loans to a variety of investors. Mortgage loans sold are subject to representations and warranties made to the third party purchasers regarding certain attributes. Subsequent to the sale, if a material underwriting deficiency or documentation defect is determined, the Company may be obligated to repurchase the mortgage loan or reimburse the investor for losses incurred if the deficiency or defect cannot be rectified within a specific period subsequent to discovery. The Company monitors the activity regarding the requirement to repurchase loans and the associated losses incurred. This information is applied to determine an estimated recourse reserve that is recorded in other liabilities.

Valuation of Long-Lived Assets

The Company reviews long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparing the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the cost or the fair value, less costs to sell.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right or from providing more than a trivial benefit to the transferor) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through any agreement to repurchase or redeem them before their maturity or likely cause a holder to return those assets whether through unilateral ability or a price so favorable to the transferee that it is probable that the transferee will require the transferor to repurchase them. A participating interest must be in an entire financial asset and cannot represent an interest in a group of financial assets. Except for compensation paid for services performed, all cash flows from the asset are allocated to the participating interest holders in proportion to their share of ownership. Financial assets obtained or liabilities incurred in a sale are recognized and initially measured at fair value.

Insurance Commissions and Fees

Commission revenue is recognized over the term of the coverage period. The Company also receives contingent commissions from insurance companies as additional incentive for achieving specified premium volume goals and/or the loss experience of the insurance placed by the Company. Contingent commissions from insurance companies are recognized when determinable, which is generally when such commissions are received.

Advertising Costs

Advertising costs are expensed as incurred and included in non-interest expenses.

Net Income per Common Share

The Company calculates earnings per common share under the dual class method, which provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the dual class method. The Company has determined that its outstanding non-vested restricted stock awards are participating securities.

Under the dual class method, basic earnings per common share is computed by dividing net earnings allocated to common stock by the weighted-average number of common shares outstanding during the applicable period, excluding outstanding participating securities. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of outstanding stock options and restricted stock using the treasury stock method.

Income Taxes

Income tax expense is based on the results of operations, adjusted for permanent differences between items of income or expense reported in the financial statements and those reported for tax purposes. Deferred income tax assets and liabilities are determined using the liability method. Under the liability method, deferred income taxes are determined based on the differences between the financial statement carrying amounts and the income tax bases of assets and liabilities and are measured at the enacted tax rates that will be in effect when these differences reverse. The effects of the enactment of the new tax law are accounted for under the existing authoritative guidance.

The Company's policy is to recognize interest and penalties on income taxes in other non-interest expenses. The Company remains subject to examination for income tax returns by the Internal Revenue Service, as well as all of the states where it conducts business, for the years ending after December 31, 2016. There are currently no examinations in process as of December 31, 2019.

Adopted Accounting Pronouncements

The FASB issued Update No. 2016-02, Leases, in February 2016. From the lessee's perspective, the new standard requires a lessee to record a right of use ("ROU") asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. The Company adopted the standard on January 1, 2019 ("adoption date") using modified retrospective approach. The Company elected the transition option to apply the provisions of the new standard only as of the adoption date and did not restate comparative historical periods presented. The Company also elected a package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Company to carry forward the historical lease classification of those leases in existence as of the adoption date.

The standard had a material impact on the Company's Consolidated Statements of Condition, but did not have a material impact on Consolidated Statements of Income. The most significant impact at the adoption date was the recognition of ROU assets and lease liabilities for operating leases which totaled \$77.7 million and \$85.1 million, respectively. Refer to Note 8 for other required disclosures.

NOTE 2 – PENDING ACQUISITION

On September 23, 2019, the Company and Revere Bank (“Revere”) entered into a definitive agreement for the Company to acquire the Maryland-based Revere.

Under the terms of the agreement, Revere shareholders will receive 1.05 shares of Sandy Spring common stock for each share of Revere common stock. Upon closing, Sandy Spring shareholders will own approximately 74% of the combined company and Revere shareholders will own approximately 26% of the combined company. The Company, the Bank and Revere have received all required regulatory and shareholder approvals necessary to complete the merger. Completion of the transaction is subject to the satisfaction of customary closing conditions. The transaction is expected to close in the beginning of the second quarter of 2020.

As of December 31, 2019, Revere had more than \$2.8 billion in assets and operated 11 full-service community banking offices throughout the Washington D.C. metropolitan region.

NOTE 3 – CASH AND DUE FROM BANKS

The Federal Reserve Act requires that banks maintain cash reserve balances with the Federal Reserve Bank based principally on the type and amount of their deposits. At its option, the Company maintains additional balances to compensate for clearing and safekeeping services. The average balance maintained in 2019 was \$105.3 million and in 2018 was \$70.0 million.

NOTE 4 – INVESTMENTS

Investments available-for-sale

The amortized cost and estimated fair values of investments available-for-sale at December 31 are presented in the following table:

(In thousands)	2019				2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. treasuries and government agencies	\$ 260,294	\$ 887	\$ (2,686)	\$ 258,495	\$ 300,338	\$ 370	\$ (4,030)	\$ 296,678
State and municipal	229,309	4,377	(37)	233,649	280,725	2,080	(781)	282,024
Mortgage-backed and asset-backed	568,373	3,268	(882)	570,759	355,267	653	(7,405)	348,515
Corporate debt	9,100	452	-	9,552	9,100	140	-	9,240
Trust preferred	310	-	-	310	310	-	-	310
Total debt securities	1,067,386	8,984	(3,605)	1,072,765	945,740	3,243	(12,216)	936,767
Marketable equity securities	568	-	-	568	568	-	-	568
Total investments available-for-sale	<u>\$ 1,067,954</u>	<u>\$ 8,984</u>	<u>\$ (3,605)</u>	<u>\$ 1,073,333</u>	<u>\$ 946,308</u>	<u>\$ 3,243</u>	<u>\$ (12,216)</u>	<u>\$ 937,335</u>

Any unrealized losses in the U.S. treasuries and government agencies, state and municipal or mortgage-backed and asset-backed securities at December 31, 2019 are the result of changes in interest rates. These declines are considered temporary in nature and will decline over time and recover as these securities approach maturity.

The mortgage-backed and asset backed portfolio at December 31, 2019 is composed entirely of either the most senior tranches of GNMA, FNMA or FHLMC collateralized mortgage obligations (\$153.4 million), GNMA, FNMA or FHLMC mortgage-backed securities (\$347.1 million) and SBA asset-backed securities (\$70.3 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.

Gross unrealized losses and fair values by length of time that individual available-for-sale securities have been in an unrealized loss position at December 31 are presented in the following table:

		2019			
		Continuous Unrealized Losses Existing for:			
<i>(Dollars in thousands)</i>	Number of securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
U.S. treasuries and government agencies	12	\$ 151,132	\$ 2,211	\$ 475	\$ 2,686
State and municipal	3	7,227	37	-	37
Mortgage-backed and asset-backed	35	184,784	508	374	882
Total	50	\$ 343,143	\$ 2,756	\$ 849	\$ 3,605

		2018			
		Continuous Unrealized Losses Existing for:			
<i>(Dollars in thousands)</i>	Number of securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
U.S. treasuries and government agencies	33	\$ 194,135	\$ 452	\$ 3,578	\$ 4,030
State and municipal	80	78,232	569	212	781
Mortgage-backed	110	308,254	1,592	5,813	7,405
Total	223	\$ 580,621	\$ 2,613	\$ 9,603	\$ 12,216

The estimated fair values of debt securities available-for-sale by contractual maturity at December 31 are provided in the following table. The Company has allocated mortgage-backed and asset-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.

		2019				
<i>(In thousands)</i>	One Year or less	One to Five Years	Five to Ten Years	After Ten Years	Total	
U.S. treasuries and government agencies	\$ 69,799	\$ 96,709	\$ -	\$ 91,987	\$ 258,495	
State and municipal	33,311	76,723	75,820	47,795	233,649	
Mortgage-backed and asset-backed	852	7,125	55,226	507,556	570,759	
Corporate debt	-	-	9,552	-	9,552	
Trust preferred	-	-	-	310	310	
Total available-for-sale debt securities	\$ 103,962	\$ 180,557	\$ 140,598	\$ 647,648	\$ 1,072,765	

		2018				
<i>(In thousands)</i>	One Year or less	One to Five Years	Five to Ten Years	After Ten Years	Total	
U.S. treasuries and government agencies	\$ 6,952	\$ 159,223	\$ 50,479	\$ 80,024	\$ 296,678	
State and municipal	56,650	104,597	98,112	22,665	282,024	
Mortgage-backed and asset-backed	145	13,010	52,555	282,805	348,515	
Corporate debt	-	-	9,240	-	9,240	
Trust preferred	-	-	-	310	310	
Total available-for-sale debt securities	\$ 63,747	\$ 276,830	\$ 210,386	\$ 385,804	\$ 936,767	

At December 31, 2019 and 2018, investments available-for-sale with a book value of \$424.8 million and \$477.3 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. government agency securities, exceeded ten percent of stockholders' equity at December 31, 2019 and 2018.

Equity securities

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

<u>(In thousands)</u>	<u>2019</u>	<u>2018</u>
Federal Reserve Bank stock	\$ 22,559	\$ 22,456
Federal Home Loan Bank of Atlanta stock	29,244	50,933
Total equity securities	<u>\$ 51,803</u>	<u>\$ 73,389</u>

Securities gains

Gross realized gains and losses on all investments for the years ended December 31 are presented in the following table:

<u>(In thousands)</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Gross realized gains from sales of investments available-for-sale	\$ 14	\$ 2,519	\$ -
Gross realized losses from sales of investments available-for-sale	(2)	(2,343)	-
Net gains from calls of investments available-for-sale	65	14	32
Gross realized gains from sales of equity securities	-	-	1,241
Net securities gains	<u>\$ 77</u>	<u>\$ 190</u>	<u>\$ 1,273</u>

NOTE 5 – LOANS

The lending business of the Company is based on understanding, measuring and controlling the credit risk inherent in the loan portfolio. The Company's loan portfolio is subject to varying degrees of credit risk. Credit risk entails both general risks, which are inherent in the process of lending, and risk specific to individual borrowers. The Company's credit risk is mitigated through portfolio diversification, which limits exposure to any single customer, industry or collateral type.

Outstanding loan balances at December 31, 2019 and 2018 are net of unearned income including net deferred loan fees of \$1.8 million and \$0.9 million, respectively.

The loan portfolio segment balances at December 31 are presented in the following table:

<u>(In thousands)</u>	<u>2019</u>	<u>2018</u>
Residential real estate:		
Residential mortgage	\$ 1,149,327	\$ 1,228,247
Residential construction	146,279	186,785
Commercial real estate:		
Commercial owner occupied real estate	1,288,677	1,202,903
Commercial investor real estate	2,169,156	1,958,395
Commercial AD&C	684,010	681,201
Commercial Business	801,019	796,264
Consumer	466,764	517,839
Total loans	<u>\$ 6,705,232</u>	<u>\$ 6,571,634</u>

Portfolio Segments

The Company currently manages its credit products and the respective exposure to credit losses (credit risk) by the following specific portfolio segments (classes) which are levels at which the Company develops and documents its systematic methodology to determine the allowance for loan losses attributable to each respective portfolio segment. These segments are:

- **Commercial business loans** – Commercial loans are made to provide funds for equipment and general corporate needs. Repayment of a loan primarily uses the funds obtained from the operation of the borrower's business. Commercial loans also include lines of credit that are utilized to finance a borrower's short-term credit needs and/or to finance a percentage of eligible receivables and inventory.

- **Commercial acquisition, development and construction loans** –Commercial acquisition, development and construction loans are intended to finance the construction of commercial properties and include loans for the acquisition and development of land. Construction loans represent a higher degree of risk than permanent real estate loans and may be affected by a variety of factors such as the borrower’s ability to control costs and adhere to time schedules and the risk that constructed units may not be absorbed by the market within the anticipated time frame or at the anticipated price. The loan commitment on these loans often includes an interest reserve that allows the lender to periodically advance loan funds to pay interest charges on the outstanding balance of the loan.
- **Commercial owner occupied real estate loans** - Commercial owned-occupied real estate loans consist of commercial mortgage loans secured by owner occupied properties where an established banking relationship exists and involves a variety of property types to conduct the borrower’s operations. The primary source of repayment for this type of loan is the cash flow from the business and is based upon the borrower’s financial health and the ability of the borrower and the business to repay.
- **Commercial investor real estate loans** - Commercial investor real estate loans consist of loans secured by non-owner occupied properties where an established banking relationship exists and involves investment properties for warehouse, retail, and office space with a history of occupancy and cash flow. This commercial real estate category contains mortgage loans to the developers and owners of commercial real estate where the borrower intends to operate or sell the property at a profit and use the income stream or proceeds from the sale(s) to repay the loan.
- **Consumer loans** - This category of loans includes primarily home equity loans and lines, installment loans, personal lines of credit and marine loans. The home equity category consists mainly of revolving lines of credit to consumers which are secured by residential real estate. These loans are typically secured with second mortgages on the homes. Other consumer loans include installment loans used by customers to purchase automobiles, boats and recreational vehicles.
- **Residential mortgage loans** – The residential real estate category contains permanent mortgage loans principally to consumers secured by residential real estate. Residential real estate loans are evaluated for the adequacy of repayment sources at the time of approval, based upon measures including credit scores, debt-to-income ratios, and collateral values. Loans may be either conforming or non-conforming.
- **Residential construction loans** - The Company makes residential real estate construction loans generally to provide interim financing on residential property during the construction period. Borrowers are typically individuals who will ultimately occupy the single-family dwelling. Loan funds are disbursed periodically as pre-specified stages of completion are attained based upon site inspections.

The fair value of the financial assets acquired in the Company’s acquisition of WashingtonFirst Bancshares, Inc. (“WashingtonFirst”) on January 1, 2018 (the “acquisition date”) included loans receivable with a gross amortized cost basis of \$1.7 billion. The table below illustrates the fair value adjustments made to the amortized cost basis in order to present a fair value of the loans acquired. Interest and credit fair value adjustments related to loans acquired without evidence of credit quality deterioration are accreted or amortized into interest income over the remaining expected lives of the loans. The specific credit adjustment on acquired credit impaired loans includes accretable and non-accretable components. Of the \$14.5 million specific credit mark on acquired credit impaired loans, approximately \$4.0 million was estimated to be an accretable adjustment recognized over the remaining expected lives of the loans and \$10.5 million was estimated to be non-accretable adjustment.

In conjunction with the WashingtonFirst acquisition, the acquired loan portfolio was accounted for at fair value as follows:

<i>(Dollars in thousands)</i>	January 1, 2018
Gross amortized cost basis at January 1, 2018	\$ 1,697,760
Interest rate fair value adjustment	15,370
Credit fair value adjustment on pools of homogeneous loans	(22,421)
Credit fair value adjustment on purchased credit impaired loans	(14,518)
Fair value of acquired loan portfolio at January 1, 2018	<u>\$ 1,676,191</u>

The following table presents the acquired credit impaired loans receivable as of the acquisition date:

<i>(Dollars in thousands)</i>	January 1, 2018	
Contractual principal and interest at acquisition	\$	49,412
Contractual cash flows not expected to be collected (Nonaccretable yield)		(17,915)
Expected cash flows at acquisition		31,497
Interest component of expected cash flows (Accretable yield)		(3,988)
Fair value of purchased credit impaired loans	\$	<u>27,509</u>

The outstanding balance of purchased credit impaired loans receivable totaled \$41.9 million, \$26.0 million and \$12.7 million at January 1, 2018, December 31, 2018 and December 31, 2019, respectively. The fair value of purchased credit impaired loans was \$9.9 million and \$15.3 million at December 31, 2019 and December 31, 2018, respectively. The decrease in the outstanding amounts of purchased credit impaired loans receivable from the acquisition date through the current period was driven by efforts to resolve the most material credit deteriorated borrowers. During 2018, liquidation of collateral resulted in full pay-off of the outstanding principal balances of \$12.4 million and the related release of accretable and non-accretable adjustments into interest income in the total amounts of \$0.8 million and \$1.3 million, respectively. During the current year, the Company settled additional purchased credit impaired loans with total outstanding balances of \$5.8 million resulting in the related release of accretable and non-accretable adjustments into interest income in the total amounts of \$0.2 million and \$1.6 million, respectively.

Activity for the accretable yield since the acquisition date was as follows:

<i>(Dollars in thousands)</i>	For the Year Ended,	
	December 31, 2019	December 31, 2018
Accretable yield at the beginning of the period	\$ 1,279	\$ -
Addition of accretable yield due to acquisition	-	3,988
Accretion into interest income	(1,073)	(1,860)
Disposals (including maturities, foreclosures, and charge-offs)	(199)	(849)
Accretable yield at the end of the period.	<u>\$ 7</u>	<u>\$ 1,279</u>

Loans to Related Parties

Certain directors and executive officers have loan transactions with the Company. The following schedule summarizes changes in amounts of loans outstanding, both direct and indirect, to these persons during the periods indicated:

<i>(In thousands)</i>	2019	2018	2017
Balance at January 1	\$ 54,208	\$ 36,712	\$ 41,988
Additions	4,737	21,871	6,140
Repayments	(7,578)	(4,375)	(11,416)
Balance at December 31	<u>\$ 51,367</u>	<u>\$ 54,208</u>	<u>\$ 36,712</u>

NOTE 6 – CREDIT QUALITY ASSESSMENT

Allowance for Loan Losses

Credit risk can vary significantly as losses, as a percentage of outstanding loans, can vary widely during economic cycles and are sensitive to changing economic conditions. The amount of loss in any particular type of loan can vary depending on the purpose of the loan and the underlying collateral securing the loan. Collateral securing commercial loans can range from accounts receivable to equipment to improved or unimproved real estate depending on the purpose of the loan. Home mortgage and home equity loans and lines are typically secured by first or second liens on residential real estate. Consumer loans may be secured by personal property, such as auto loans or they may be unsecured loan products.

Management has an internal credit process in place to maintain credit standards. This process along with an in-house loan administration, accompanied by oversight and review procedures, combines to control and manage credit risk. The primary purpose of loan underwriting is the evaluation of specific lending risks that involves the analysis of the borrower's ability to service the debt as well as the assessment of the value of the underlying collateral. Oversight and review procedures include the monitoring of the portfolio credit quality, early identification of potential problem credits and the management of the problem credits. As part of the oversight and review process, the Company maintains an allowance for loan losses (the "allowance") to absorb estimated and probable losses in the loan portfolio. The allowance is based on consistent, periodic review and evaluation of the loan portfolio, along with ongoing, monthly assessments of the probable losses and problem credits in each portfolio. While portions of the allowance are attributed to specific portfolio segments, the entire allowance is available to absorb credit losses inherent in the total loan portfolio.

Summary information on the allowance for loan loss activity for the years ended December 31 is provided in the following table:

<i>(In thousands)</i>	2019	2018	2017
Balance at beginning of year	\$ 53,486	\$ 45,257	\$ 44,067
Provision for loan losses	4,684	9,023	2,977
Loan charge-offs	(2,668)	(1,416)	(2,566)
Loan recoveries	630	622	779
Net charge-offs	(2,038)	(794)	(1,787)
Balance at period end	<u>\$ 56,132</u>	<u>\$ 53,486</u>	<u>\$ 45,257</u>

The following tables provide information on the activity in the allowance for loan losses by the respective loan portfolio segment for the years ended December 31:

<i>(Dollars in thousands)</i>	2019							
	Commercial Real Estate				Residential Real Estate			
	Commercial Business	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Consumer	Residential Mortgage	Residential Construction	Total
Balance at beginning of year	\$ 11,377	\$ 5,944	\$ 17,603	\$ 6,307	\$ 2,113	\$ 8,881	\$ 1,261	\$ 53,486
Provision (credit)	1,164	1,418	788	577	565	474	(302)	4,684
Charge-offs	(1,195)	-	-	-	(783)	(690)	-	(2,668)
Recoveries	49	228	16	-	191	138	8	630
Net (charge-offs)/ recoveries	(1,146)	228	16	-	(592)	(552)	8	(2,038)
Balance at end of period	<u>\$ 11,395</u>	<u>\$ 7,590</u>	<u>\$ 18,407</u>	<u>\$ 6,884</u>	<u>\$ 2,086</u>	<u>\$ 8,803</u>	<u>\$ 967</u>	<u>\$ 56,132</u>
Total loans	\$ 801,019	\$ 684,010	\$ 2,169,156	\$ 1,288,677	\$ 466,764	\$ 1,149,327	\$ 146,279	\$ 6,705,232
Allowance for loans to total loans ratio	1.42%	1.11%	0.85%	0.53%	0.45%	0.77%	0.66%	0.84%
Balance of loans specifically evaluated for impairment	\$ 8,867	\$ 829	\$ 9,212	\$ 4,148	na.	\$ 1,717	\$ -	\$ 24,773
Allowance for loans specifically evaluated for impairment	\$ 3,817	\$ 132	\$ 1,529	\$ 23	na.	\$ -	\$ -	\$ 5,501
Specific allowance to specific loans ratio	43.05%	15.92%	16.60%	0.55%	na.	-	-	22.21%
Balance of loans collectively evaluated	\$ 789,613	\$ 683,181	\$ 2,150,400	\$ 1,284,529	\$ 465,771	\$ 1,147,602	\$ 146,279	\$ 6,667,375
Allowance for loans collectively evaluated	\$ 7,578	\$ 7,458	\$ 16,878	\$ 6,861	\$ 2,086	\$ 8,803	\$ 967	\$ 50,631
Collective allowance to collective loans ratio	0.96%	1.09%	0.78%	0.53%	0.45%	0.77%	0.66%	0.76%
Balance of loans acquired with deteriorated credit quality	\$ 2,539	\$ -	\$ 9,544	\$ -	\$ 993	\$ 8	\$ -	\$ 13,084
Allowance for loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Allowance for loans acquired with deteriorated credit quality ratio	-	-	-	-	-	-	-	-

	2018							
	Commercial Real Estate				Residential Real Estate			
	Commercial Business	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Consumer	Residential Mortgage	Residential Construction	Total
<i>(Dollars in thousands)</i>								
Balance at beginning of year	\$ 8,711	\$ 3,501	\$ 14,970	\$ 7,178	\$ 2,383	\$ 7,268	\$ 1,246	\$ 45,257
Provision (credit)	2,857	2,381	2,677	(871)	203	1,776	-	9,023
Charge-offs	(449)	-	(131)	-	(611)	(225)	-	(1,416)
Recoveries	258	62	87	-	138	62	15	622
Net (charge-offs)/ recoveries	(191)	62	(44)	-	(473)	(163)	15	(794)
Balance at end of period	\$ 11,377	\$ 5,944	\$ 17,603	\$ 6,307	\$ 2,113	\$ 8,881	\$ 1,261	\$ 53,486
Total loans	\$ 796,264	\$ 681,201	\$ 1,958,395	\$ 1,202,903	\$ 517,839	\$ 1,228,247	\$ 186,785	\$ 6,571,634
Allowance for loans total loans ratio	1.43%	0.87%	0.90%	0.52%	0.41%	0.72%	0.68%	0.81%
Balance of loans specifically evaluated for impairment	\$ 7,586	\$ 3,306	\$ 5,355	\$ 4,234	na.	\$ 1,729	\$ -	\$ 22,210
Allowance for loans specifically evaluated for impairment	\$ 3,594	\$ -	\$ 1,207	\$ 123	na.	\$ -	\$ -	\$ 4,924
Specific allowance to specific loans ratio	47.38%	na.	22.54%	2.91%	na.	-	-	22.17%
Balance of loans collectively evaluated	\$ 780,523	\$ 677,895	\$ 1,938,712	\$ 1,196,487	\$ 516,567	\$ 1,226,508	\$ 186,785	\$ 6,523,477
Allowance for loans collectively evaluated	\$ 7,783	\$ 5,944	\$ 16,396	\$ 6,184	\$ 2,113	\$ 8,881	\$ 1,261	\$ 48,562
Collective allowance to collective loans ratio	1.00%	0.88%	0.85%	0.52%	0.41%	0.72%	0.68%	0.74%
Balance of loans acquired with deteriorated credit quality	\$ 8,155	\$ -	\$ 14,328	\$ 2,182	\$ 1,272	\$ 10	\$ -	\$ 25,947
Allowance for loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Allowance for loans acquired with deteriorated credit quality ratio	-	-	-	-	-	-	-	-

The Company's methodology for evaluating whether a loan is impaired begins with risk-rating credits on an individual basis and includes consideration of the borrower's overall financial condition, payment record and available cash resources that may include the collateral value and, in a select few cases, verifiable support from financial guarantors. In measuring impairment, the Company looks primarily to the discounted cash flows of the project itself or to the value of the collateral as the primary sources of repayment of the loan. Collateral values or estimates of discounted cash flows (inclusive of any potential cash flow from guarantees) are evaluated to estimate the probability and severity of potential losses. The actual occurrence and severity of losses involving impaired credits can differ substantially from estimates.

The Company may consider the existence of guarantees and the financial strength and wherewithal of the guarantors involved in any loan relationship. Guarantees may be considered as a source of repayment based on the guarantor's financial condition and respective payment capacity. Accordingly, absent a verifiable payment capacity, a guarantee alone would not be sufficient to avoid classifying the loan as impaired.

Management has established a credit process that dictates that procedures be performed to monitor impaired loans between the receipt of an original appraisal and the updated appraisal. These procedures include the following:

- An internal evaluation is updated quarterly to include borrower financial statements and/or cash flow projections.
- The borrower may be contacted for a meeting to discuss an updated or revised action plan which may include a request for additional collateral.
- Re-verification of the documentation supporting the Company's position with respect to the collateral securing the loan.
- At the monthly credit committee meeting the loan may be downgraded.
- Upon receipt of the updated appraisal or based on an updated internal financial evaluation, the loan balance is compared to the appraisal and a specific allowance is determined for the particular loan, typically for the amount of the difference between the appraisal and the loan balance.
- The Company will specifically reserve for or charge-off the excess of the loan amount over the amount of the appraisal. In certain cases the Company may establish a larger reserve due to knowledge of current market conditions or the existence of an offer for the collateral that will facilitate a more timely resolution of the loan.

The Company generally follows a policy of not extending maturities on non-performing loans under existing terms. Certain performing loans that have displayed some inherent weakness in the underlying collateral values, an inability to comply with certain loan covenants which do not affect the performance of the credit or other identified weakness may have their terms extended on an exception basis. Maturity date extensions only occur under revised terms that place the Company in a better position to fully collect the loan under the contractual terms and /or terms at the time of the extension that may eliminate or mitigate the inherent weakness in the loan. These terms may incorporate, but are not limited to additional assignment of collateral, significant balance curtailments/liquidations and assignments of additional project cash flows. Documented or demonstrated guarantees may be a consideration in the extension of loan maturities. As a general matter, the Company does not view extension of a loan to be a satisfactory approach to resolving non-performing credits.

Loans that have their terms restructured (e.g., interest rates, loan maturity date, payment and amortization period, etc.) in circumstances that provide payment relief or other concessions to a borrower experiencing financial difficulty are considered troubled debt restructured loans. All restructurings that constitute concessions to a troubled borrower are considered impaired loans that may either be in accruing status or non-accruing status. Non-accruing restructured loans may return to accruing status provided there is a sufficient period of payment performance in accordance with the restructure terms. Loans may be removed from the restructured category if the borrower is no longer experiencing financial difficulty, a re-underwriting event took place and the revised loan terms of the subsequent restructuring agreement are considered to be consistent with terms that can be obtained in the credit market for loans with comparable credit risk. At December 31, 2019, restructured loans totaled \$7.9 million, of which \$2.6 million were accruing and \$5.3 million were non-accruing. Commitments to lend additional funds on loans that have been restructured at December 31, 2019 were insignificant. Restructured loans at December 31, 2018 totaled \$7.4 million, of which \$2.0 million were accruing and \$5.4 million were non-accruing. Commitments to lend additional funds on loans that have been restructured at December 31, 2018 were insignificant.

The following table provides summary information regarding impaired loans at December 31 and for the years then ended:

<i>(In thousands)</i>	2019	2018	2017
Impaired loans with a specific allowance	\$ 15,333	\$ 12,876	\$ 11,693
Impaired loans without a specific allowance	9,440	9,334	9,116
Total impaired loans	<u>\$ 24,773</u>	<u>\$ 22,210</u>	<u>\$ 20,809</u>
Allowance for loan losses related to impaired loans	\$ 5,501	\$ 4,924	\$ 4,014
Allowance for loan related to loans collectively evaluated	50,631	48,562	41,243
Total allowance for loan losses	<u>\$ 56,132</u>	<u>\$ 53,486</u>	<u>\$ 45,257</u>
Average impaired loans for the period	\$ 23,365	\$ 20,211	\$ 23,179
Contractual interest income due on impaired loans during the period	\$ 1,947	\$ 2,513	\$ 2,314
Interest income on impaired loans recognized on a cash basis	\$ 465	\$ 506	\$ 754
Interest income on impaired loans recognized on an accrual basis	\$ 169	\$ 138	\$ 169

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 December 31 for the years indicated:

<i>(In thousands)</i>	2019					
	Commercial	Commercial Real Estate			All Other Loans	Total Recorded Investment in Impaired Loans
		Commercial	Commercial	Commercial		
		AD&C	Investor R/E	Owner Occupied R/E		
Impaired loans with a specific allowance						
Non-accruing	\$ 5,608	\$ 829	\$ 5,448	\$ 767	\$ -	\$ 12,652
Restructured accruing	266	-	-	-	-	266
Restructured non-accruing	1,856	-	437	122	-	2,415
Balance	\$ 7,730	\$ 829	\$ 5,885	\$ 889	\$ -	\$ 15,333
Allowance	\$ 3,817	\$ 132	\$ 1,529	\$ 23	\$ -	\$ 5,501
Impaired loans without a specific allowance						
Non-accruing	\$ 114	\$ -	\$ 2,552	\$ 1,522	\$ -	\$ 4,188
Restructured accruing	151	-	775	-	1,444	2,370
Restructured non-accruing	872	-	-	1,737	273	2,882
Balance	\$ 1,137	\$ -	\$ 3,327	\$ 3,259	\$ 1,717	\$ 9,440
Total impaired loans						
Non-accruing	\$ 5,722	\$ 829	\$ 8,000	\$ 2,289	\$ -	\$ 16,840
Restructured accruing	417	-	775	-	1,444	2,636
Restructured non-accruing	2,728	-	437	1,859	273	5,297
Balance	\$ 8,867	\$ 829	\$ 9,212	\$ 4,148	\$ 1,717	\$ 24,773
Unpaid principal balance in total impaired loans	\$ 11,296	\$ 829	\$ 13,805	\$ 6,072	\$ 2,618	\$ 34,620

<i>(In thousands)</i>	2019					
	Commercial	Commercial Real Estate			All Other Loans	Total Recorded Investment in Impaired Loans
		Commercial	Commercial	Commercial		
		AD&C	Investor R/E	Owner Occupied R/E		
Average impaired loans for the period	\$ 7,781	\$ 2,052	\$ 7,565	\$ 4,390	\$ 1,577	\$ 23,365
Contractual interest income due on impaired loans during the period	\$ 648	\$ 127	\$ 786	\$ 258	\$ 128	
Interest income on impaired loans recognized on a cash basis	\$ 221	\$ -	\$ 49	\$ 187	\$ 8	
Interest income on impaired loans recognized on an accrual basis	\$ 62	\$ -	\$ 39	\$ -	\$ 68	

<i>(In thousands)</i>	2018					
	Commercial	Commercial Real Estate			All Other Loans	Total Recorded Investment in Impaired Loans
		Commercial	Commercial	Commercial		
		AD&C	Investor R/E	Owner Occupied R/E		
Impaired loans with a specific allowance						
Non-accruing	\$ 4,126	\$ -	\$ 5,117	\$ 767	\$ -	\$ 10,010
Restructured accruing	328	-	-	-	-	328
Restructured non-accruing	1,766	-	-	772	-	2,538
Balance	<u>\$ 6,220</u>	<u>\$ -</u>	<u>\$ 5,117</u>	<u>\$ 1,539</u>	<u>\$ -</u>	<u>\$ 12,876</u>
Allowance	<u>\$ 3,594</u>	<u>\$ -</u>	<u>\$ 1,207</u>	<u>\$ 123</u>	<u>\$ -</u>	<u>\$ 4,924</u>
Impaired loans without a specific allowance						
Non-accruing	\$ 220	\$ 3,170	\$ 238	\$ 1,216	\$ -	\$ 4,844
Restructured accruing	172	-	-	-	1,442	1,614
Restructured non-accruing	974	136	-	1,479	287	2,876
Balance	<u>\$ 1,366</u>	<u>\$ 3,306</u>	<u>\$ 238</u>	<u>\$ 2,695</u>	<u>\$ 1,729</u>	<u>\$ 9,334</u>
Total impaired loans						
Non-accruing	\$ 4,346	\$ 3,170	\$ 5,355	\$ 1,983	\$ -	\$ 14,854
Restructured accruing	500	-	-	-	1,442	1,942
Restructured non-accruing	2,740	136	-	2,251	287	5,414
Balance	<u>\$ 7,586</u>	<u>\$ 3,306</u>	<u>\$ 5,355</u>	<u>\$ 4,234</u>	<u>\$ 1,729</u>	<u>\$ 22,210</u>
Unpaid principal balance in total impaired loans	<u>\$ 11,056</u>	<u>\$ 4,419</u>	<u>\$ 9,909</u>	<u>\$ 6,656</u>	<u>\$ 3,081</u>	<u>\$ 35,121</u>

<i>(In thousands)</i>	2018					
	Commercial	Commercial Real Estate			All Other Loans	Total Recorded Investment in Impaired Loans
		Commercial	Commercial	Commercial		
		AD&C	Investor R/E	Owner Occupied R/E		
Average impaired loans for the period	\$ 7,685	\$ 770	\$ 5,696	\$ 3,823	\$ 2,237	\$ 20,211
Contractual interest income due on impaired loans during the period	\$ 858	\$ 495	\$ 610	\$ 407	\$ 143	
Interest income on impaired loans recognized on a cash basis	\$ 215	\$ -	\$ 20	\$ 175	\$ 96	
Interest income on impaired loans recognized on an accrual basis	\$ 63	\$ -	\$ -	\$ -	\$ 75	

Credit Quality

The following tables provide information on the credit quality of the loan portfolio by segment at December 31 for the years indicated:

<i>(In thousands)</i>	2019								
	Commercial Real Estate					Residential Real Estate			Total
	Commercial	Commercial				Consumer	Residential Mortgage	Residential Construction	
		AD&C	Investor R/E	Owner					
Occupied R/E									
Non-performing loans and assets:									
Non-accrual loans (1)	\$ 8,450	\$ 829	\$ 8,437	\$ 4,148	\$ 4,107	\$ 12,661	\$ -	\$ 38,632	
Loans 90 days past due	-	-	-	-	-	-	-	-	
Restructured loans	417	-	775	-	364	1,080	-	2,636	
Total non-performing loans	8,867	829	9,212	4,148	4,471	13,741	-	41,268	
Other real estate owned	39	665	409	-	64	305	-	1,482	
Total non-performing assets	\$ 8,906	\$ 1,494	\$ 9,621	\$ 4,148	\$ 4,535	\$ 14,046	\$ -	\$ 42,750	

(1) Includes \$2.9 million of loans acquired from WashingtonFirst and considered performing at the acquisition date.

<i>(In thousands)</i>	2018								
	Commercial Real Estate					Residential Real Estate			Total
	Commercial	Commercial				Consumer	Residential Mortgage	Residential Construction	
		AD&C	Investor R/E	Owner					
Occupied R/E									
Non-performing loans and assets:									
Non-accrual loans (1)	\$ 7,086	\$ 3,306	\$ 5,355	\$ 4,234	\$ 4,107	\$ 9,336	\$ 159	\$ 33,583	
Loans 90 days past due	49	-	-	-	219	221	-	489	
Restructured loans	500	-	-	-	-	1,442	-	1,942	
Total non-performing loans	7,635	3,306	5,355	4,234	4,326	10,999	159	36,014	
Other real estate owned	39	315	409	-	-	821	-	1,584	
Total non-performing assets	\$ 7,674	\$ 3,621	\$ 5,764	\$ 4,234	\$ 4,326	\$ 11,820	\$ 159	\$ 37,598	

(1) Includes \$4.8 million of loans acquired from WashingtonFirst and considered performing at the acquisition date.

<i>(In thousands)</i>	2019								
	Commercial Real Estate					Residential Real Estate			Total
	Commercial	Commercial				Consumer	Residential Mortgage	Residential Construction	
		AD&C	Investor R/E	Owner					
Occupied R/E									
Past due loans									
31-60 days	\$ 908	\$ -	\$ 932	\$ 316	\$ 2,697	\$ 14,853	\$ 280	\$ 19,986	
61-90 days	370	-	-	-	1,517	4,541	1,334	7,762	
> 90 days	-	-	-	-	-	-	-	-	
Total past due	1,278	-	932	316	4,214	19,394	1,614	27,748	
Non-accrual loan (1)	8,450	829	8,437	4,148	4,107	12,661	-	38,632	
Loans acquired with deteriorated credit quality	2,539	-	9,544	-	993	8	-	13,084	
Current loans	788,752	683,181	2,150,243	1,284,213	457,450	1,117,264	144,665	6,625,768	
Total loans	\$ 801,019	\$ 684,010	\$ 2,169,156	\$ 1,288,677	\$ 466,764	\$ 1,149,327	\$ 146,279	\$ 6,705,232	

(1) Includes \$2.9 million of loans acquired from WashingtonFirst and considered performing at the acquisition date.

(In thousands)	Commercial Real Estate					Residential Real Estate			Total
	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial	Consumer	Residential Mortgage	Residential Construction		
				Owner Occupied R/E					
Past due loans									
31-60 days	\$ 2,737	\$ 474	\$ 3,041	\$ 433	\$ 3,871	\$ 8,181	\$ 3,226	\$ 21,963	
61-90 days	-	-	789	-	1,477	2,517	-	4,783	
> 90 days	49	-	-	-	219	221	-	489	
Total past due	2,786	474	3,830	433	5,567	10,919	3,226	27,235	
Non-accrual loans (1)	7,086	3,306	5,355	4,234	4,107	9,336	159	33,583	
Loans acquired with deteriorated credit quality	8,155	-	14,328	2,182	1,272	10	-	25,947	
Current loans	778,237	677,421	1,934,882	1,196,054	506,893	1,207,982	183,400	6,484,869	
Total loans	\$ 796,264	\$ 681,201	\$ 1,958,395	\$ 1,202,903	\$ 517,839	\$ 1,228,247	\$ 186,785	\$ 6,571,634	

(1) Includes \$4.8 million of loans acquired from WashingtonFirst and considered performing at the acquisition date.

Loans are monitored for credit quality on a recurring basis. The credit quality indicators used are dependent on the portfolio segment to which the loan relates. Commercial loans and non-commercial loans have different credit quality indicators as a result of the methods used to monitor each of these loan segments.

The credit quality indicators for commercial loans are developed through review of individual borrowers on an ongoing basis. Each borrower is evaluated at least annually with more frequent evaluation of more severely criticized loans. The indicators represent the rating for loans as of the date presented based on the most recent credit review performed. These credit quality indicators are defined as follows:

Pass - A pass rated credit is not adversely classified because it does not display any of the characteristics for adverse classification.

Special mention - A special mention credit has potential weaknesses that deserve management's close attention. If uncorrected, such weaknesses may result in deterioration of the repayment prospects or collateral position at some future date. Special mention assets are not adversely classified and do not warrant adverse classification.

Substandard - A substandard loan is inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard generally have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. These loans are characterized by the distinct possibility of loss if the deficiencies are not corrected.

Doubtful - A loan that is classified as doubtful has all the weaknesses inherent in a loan classified as substandard with added characteristics that the weaknesses make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions and values.

Loss - Loans classified as a loss are considered uncollectible and of such little value that their continuing to be carried as a loan is not warranted. This classification is not necessarily equivalent to no potential for recovery or salvage value, but rather that it is not appropriate to defer a full write-off even though partial recovery may be effected in the future.

The following tables provide information by credit risk rating indicators for each segment of the commercial loan portfolio at December 31 for the years indicated:

2019					
Commercial Real Estate					
<i>(In thousands)</i>	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Total
Pass	\$ 783,909	\$ 683,181	\$ 2,146,971	\$ 1,278,337	\$ 4,892,398
Special Mention (1)	2,487	-	3,189	2,284	7,960
Substandard (2)	14,623	829	18,996	8,056	42,504
Doubtful	-	-	-	-	-
Total	\$ 801,019	\$ 684,010	\$ 2,169,156	\$ 1,288,677	\$ 4,942,862

(1) Includes \$0.8 million of loans acquired from WashingtonFirst and considered performing at the acquisition date.

(2) Includes \$11.7 million of purchased credit impaired loans acquired from WashingtonFirst and \$6.7 million of loans acquired from WashingtonFirst and considered performing at the acquisition date.

2018					
Commercial Real Estate					
<i>(In thousands)</i>	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Total
Pass	\$ 773,958	\$ 677,574	\$ 1,934,886	\$ 1,189,903	\$ 4,576,321
Special Mention (1)	1,942	321	3,826	2,738	8,827
Substandard (2)	20,364	3,306	19,683	10,262	53,615
Doubtful	-	-	-	-	-
Total	\$ 796,264	\$ 681,201	\$ 1,958,395	\$ 1,202,903	\$ 4,638,763

(1) Includes \$4.2 million of loans acquired from WashingtonFirst and considered performing at the acquisition date.

(2) Includes \$24.3 million of purchased credit impaired loans acquired from WashingtonFirst and \$7.2 million of loans acquired from WashingtonFirst and considered performing at the acquisition date.

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 December 31 for the years indicated:

2019				
Residential Real Estate				
<i>(In thousands)</i>	Consumer	Residential Mortgage	Residential Construction	Total
Performing	\$ 462,293	\$ 1,135,586	\$ 146,279	\$ 1,744,158
Non-performing:				
90 days past due	-	-	-	-
Non-accruing (1)	4,107	12,661	-	16,768
Restructured loans	364	1,080	-	1,444
Total	\$ 466,764	\$ 1,149,327	\$ 146,279	\$ 1,762,370

(1) Includes \$1.2 million of consumer loans acquired from WashingtonFirst and considered performing at the acquisition date.

2018

<i>(In thousands)</i>	Residential Real Estate			
	Consumer	Residential	Residential	Total
		Mortgage	Construction	
Performing	\$ 513,513	\$ 1,217,248	\$ 186,626	\$ 1,917,387
Non-performing:				
90 days past due	219	221	-	440
Non-accruing (1)	4,107	9,336	159	13,602
Restructured loans	-	1,442	-	1,442
Total	\$ 517,839	\$ 1,228,247	\$ 186,785	\$ 1,932,871

(1) Includes \$1.3 million of consumer loans acquired from WashingtonFirst and considered performing at the acquisition date.

During the year ended December 31, 2019, the Company restructured \$2.4 million in loans that were designated as troubled debt restructurings. Modifications consisted principally of interest rate concessions. No modifications resulted in the reduction of the principal in the associated loan balances. Restructured loans are subject to periodic credit reviews to determine the necessity and adequacy of a specific loan loss allowance based on the collectability of the recorded investment in the restructured loan. Loans restructured during 2019 have specific reserves of \$0.4 million at December 31, 2019. For the year ended December 31, 2018, the Company restructured \$1.6 million in loans. Modifications consisted principally of interest rate concessions and no modifications resulted in the reduction of the recorded investment in the associated loan balances. Loans restructured during 2018 had specific reserves of \$0.6 million at December 31, 2018.

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:

<i>(In thousands)</i>	For the Year Ended December 31, 2019					
	Commercial Real Estate					Total
	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	
Troubled debt restructurings						
Restructured accruing	\$ 170	\$ -	\$ 775	\$ -	\$ 364	\$ 1,309
Restructured non-accruing	261	-	789	-	-	1,050
Balance	\$ 431	\$ -	\$ 1,564	\$ -	\$ 364	\$ 2,359
Specific allowance	\$ 196	\$ -	\$ 205	\$ -	\$ -	\$ 401
Restructured and subsequently defaulted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>(In thousands)</i>	For the Year Ended December 31, 2018					
	Commercial Real Estate					Total
	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	
Troubled debt restructurings						
Restructured accruing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restructured non-accruing	1,464	-	-	158	-	1,622
Balance	\$ 1,464	\$ -	\$ -	\$ 158	\$ -	\$ 1,622
Specific allowance	\$ 563	\$ -	\$ -	\$ -	\$ -	\$ 563
Restructured and subsequently defaulted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Other Real Estate Owned

Other real estate owned totaled \$1.5 million and \$1.6 million at December 31, 2019 and 2018, respectively. At December 31, 2019, \$0.4 million of the other real estate owned was comprised of consumer mortgage loans. There were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process as of December 31, 2019.

NOTE 7 – PREMISES AND EQUIPMENT

Presented in the following table are the components of premises and equipment at December 31:

<i>(In thousands)</i>	2019	2018
Land	\$ 10,160	\$ 10,160
Buildings and leasehold improvements	70,812	69,620
Equipment	46,471	44,802
Total premises and equipment	127,443	124,582
Less: accumulated depreciation and amortization	(68,828)	(62,640)
Net premises and equipment	\$ 58,615	\$ 61,942

Depreciation and amortization expense for premises and equipment amounted to \$7.2 million, \$7.2 million, and \$5.3 million for each of the years ended December 31, 2019, 2018 and 2017, respectively.

NOTE 8 – LEASES

The Company leases real estate properties for its network of bank branches, financial centers and corporate offices. All of the Company's leases are currently classified as operating. Most lease agreements include one or more options to renew, with renewal terms that can extend the original lease term from one to twenty years or more. The Company does not sublease any of its leased real estate properties.

As of December 31, 2019, right of use ("ROU") assets and lease liabilities totaled \$69.3 million and \$76.9 million, respectively. For the year ended December 31, 2019, the Company recognized total operating lease expense in the amount of \$11.3 million. Cash paid for amounts included in the measurement of lease liabilities for the year ended December 31, 2019 was \$8.7 million and is included in net cash provided by operating activities in the Consolidated Statements of Cash Flows. The Company had one branch location that commenced operations during the current year. The associated new ROU asset obtained in exchange for lease obligations totaled \$0.4 million.

As of December 31, 2019, the maturities of the Company's operating lease liabilities were as follows:

<i>(In thousands)</i>	Amount
Maturity:	
One year	\$ 10,741
Two years	10,316
Three years	9,995
Four years	10,100
Five years	8,402
Thereafter	42,730
Total undiscounted lease payments	92,284
Less: Present value discount	(15,413)
Lease Liability	\$ 76,871

As of December 31, 2019, the weighted average remaining lease term was 10.4 years and the weighted average operating discount rate used to determine the operating lease liability was 3.28%.

The Company had no additional operating or finance leases that have not yet commenced operations at December 31, 2019. The Company does not have any lease arrangements with any of its related parties as of December 31, 2019.

NOTE 9 – GOODWILL AND OTHER INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization of intangible assets and goodwill are presented at December 31 in the following table:

<i>(Dollars in thousands)</i>	2019			Weighted Average Remaining Life	2018			Weighted Average Remaining Life
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
	Amortizing intangible assets:							
Core deposit intangibles	\$ 10,678	\$ (3,689)	\$ 6,989	8.0 years	\$ 10,678	\$ (1,941)	\$ 8,737	9.0 years
Other identifiable intangibles	\$ 1,478	\$ (626)	\$ 852	9.7 years	\$ 1,478	\$ (427)	\$ 1,051	10.6 years
Total amortizing intangible assets	<u>\$ 12,156</u>	<u>\$ (4,315)</u>	<u>\$ 7,841</u>		<u>\$ 12,156</u>	<u>\$ (2,368)</u>	<u>\$ 9,788</u>	
Goodwill			<u>\$ 347,149</u>		<u>\$ 347,149</u>		<u>\$ 347,149</u>	

The following table presents the net carrying amount of goodwill by segment for the periods indicated:

<i>(In thousands)</i>	Community		Investment	Total
	Banking	Insurance	Management	
Balance December 31, 2017	\$ 69,991	\$ 6,788	\$ 8,989	\$ 85,768
Acquisition of WashingtonFirst Bankshares Inc.	261,182	-	199	261,381
Balance December 31, 2018	331,173	6,788	9,188	347,149
No Activity	-	-	-	-
Balance December 31, 2019	<u>\$ 331,173</u>	<u>\$ 6,788</u>	<u>\$ 9,188</u>	<u>\$ 347,149</u>

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

<i>(In thousands)</i>	Amount
2020	\$ 1,717
2021	1,507
2022	1,295
2023	1,082
Thereafter	2,240
Total amortizing intangible assets	<u>\$ 7,841</u>

NOTE 10 – DEPOSITS

The following table presents the composition of deposits at December 31 for the years indicated:

<i>(In thousands)</i>	2019	2018
Noninterest-bearing deposits	\$ 1,892,052	\$ 1,750,319
Interest-bearing deposits:		
Demand	836,433	703,145
Money market savings	1,839,593	1,605,024
Regular savings	329,919	330,231
Time deposits of less than \$100,000	463,431	427,421
Time deposits of \$100,000 or more	1,078,891	1,098,740
Total interest-bearing deposits	<u>4,548,267</u>	<u>4,164,561</u>
Total deposits	<u>\$ 6,440,319</u>	<u>\$ 5,914,880</u>

Demand deposit overdrafts reclassified as loan balances were \$1.4 million and \$2.7 million at December 31, 2019 and 2018, respectively. Overdraft charge-offs and recoveries are reflected in the allowance for loan losses.

The following table presents the maturity schedule for time deposits maturing within years ending December 31:

<u>(In thousands)</u>	<u>Amount</u>
2020	\$ 1,134,309
2021	268,813
2022	107,671
2023	19,644
Thereafter	<u>11,885</u>
Total time deposits	<u><u>\$ 1,542,322</u></u>

The Company's time deposits of \$100,000 or more represented 16.8% of total deposits at December 31, 2019 and are presented by maturity in the following table:

<u>(In thousands)</u>	<u>Months to Maturity</u>				<u>Total</u>
	<u>3 or Less</u>	<u>Over 3 to 6</u>	<u>Over 6 to 12</u>	<u>Over 12</u>	
Time deposits--\$100 thousand or more	\$ 211,627	\$ 195,579	\$ 400,833	\$ 270,852	\$ 1,078,891

Interest expense on time deposits of \$100,000 or more amounted to \$23.9 million, \$12.5 million, and \$4.5 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Deposits received in the ordinary course of business from the directors and officers of the Company amounted to \$29.9 million and \$31.6 million for the years ended December 31, 2019 and 2018, respectively.

NOTE 11 – BORROWINGS

Information relating to retail repurchase agreements and other short-term borrowings is presented in the following table at and for the years ending December 31:

<u>(Dollars in thousands)</u>	<u>2019</u>		<u>2018</u>		<u>2017</u>	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Retail repurchase agreements	\$ 138,605	0.58 %	\$ 137,429	0.51 %	\$ 119,359	0.24 %
Federal funds purchased	75,000	1.62	-	-	-	-
Average for the Year:						
Retail repurchase agreements	\$ 134,070	0.54 %	\$ 142,938	0.34 %	\$ 133,356	0.25 %
Federal funds purchased	17,373	2.43	-	-	-	-
Maximum Month-end Balance:						
Retail repurchase agreements	\$ 152,685		\$ 154,435		\$ 147,459	
Federal funds purchased	75,000		-		-	

The Company pledges U.S. Agencies and Corporate securities, based upon their market values, as collateral for 102.5% of the principal and accrued interest of its retail repurchase agreements.

At December 31, 2018, the Company had additional short term daily rate credit borrowing with FHLB with the total outstanding amount of \$190.0 million and a yield of 2.65%. The Company fully paid off this short-term borrowing on January 2, 2019.

At December 31, 2019, the Company had an available line of credit with the Federal Home Loan Bank of Atlanta (the "FHLB") under which its borrowings are limited to \$2.4 billion based on pledged collateral at prevailing market interest rates with \$513.8 million borrowed against it at December 31, 2019. At December 31, 2018, lines of credit totaled \$2.2 billion based on pledged collateral with \$1.0 billion borrowed against the line. Under a blanket lien, the Company has pledged qualifying residential mortgage loans amounting to \$1.0 billion, commercial real estate loans amounting to \$1.9 billion, home equity lines of credit ("HELOC") amounting to \$266.8 million and multifamily loans amounting to \$109.7 million at December 31, 2019 as collateral under the borrowing agreement with the FHLB. At December 31, 2018 the Company had pledged collateral of qualifying mortgage loans of \$1.1 billion, commercial real estate loans of \$1.8 billion, HELOC loans of \$312.7 million and multifamily loans of \$127.6 million under the FHLB borrowing agreement. The Company also had lines of credit available from the Federal Reserve and correspondent banks of \$463.3 million and \$274.9 million at December 31, 2019 and 2018, respectively, collateralized by loans. In addition, the Company had unsecured lines of credit with correspondent banks of \$730.0 million and \$590.0 million at December 31, 2019 and 2018. At December 31, 2019 the total outstanding borrowings against these unsecured lines of credit was \$75.0 million.

Advances from FHLB and the respective maturity schedule at December 31 for the years indicated consisted of the following:

<i>(Dollars in thousands)</i>	2019		2018	
	Amounts	Weighted	Amounts	Weighted
		Average		Average
	Rate	Rate		Rate
Maturity:				
One year	\$ 134,167	2.13 %	\$ 625,969	2.46 %
Two years	230,445	2.39	42,500	2.12
Three years	76,665	2.37	80,816	3.08
Four years	72,500	3.12	26,826	2.90
Five years	-	-	72,500	3.12
After five years	-	-	-	-
Total advances from FHLB	<u>\$ 513,777</u>	<u>2.42</u>	<u>\$ 848,611</u>	<u>2.57</u>

NOTE 12 – SUBORDINATED DEBT

On November 5, 2019, the Company completed an offering of \$175.0 million aggregate principal amount Fixed to Floating Rate Subordinated Notes due in 2029. The notes bear a fixed interest rate of 4.25% per year through November 14, 2024. Beginning November 15, 2024, the interest rate will become a floating rate equal to three month LIBOR, or an alternative benchmark rate as determined pursuant to the terms of the indenture for the notes in the event LIBOR has been discontinued by November 15, 2024, plus 262 basis points through the remaining maturity or early redemption date of the notes. The interest will be paid in arrears semi-annually during the fixed rate period and quarterly during the floating rate period. The Company incurred \$2.9 million of debt issuance costs which are being amortized through the contractual life of the debt. The entire amount of subordinated debt is considered Tier 2 capital under current regulatory guidelines.

In conjunction with the acquisition of WashingtonFirst, the Company assumed \$25.0 million in non-callable subordinated debt and \$10.3 million in callable junior subordinated debt securities. The associated purchase premiums at acquisition were \$2.2 million and \$0.1 million, respectively. The premiums are amortized over the contractual life of each obligation.

The subordinated debt has a maturity of ten years, is due in full on October 15, 2025, is non-callable and currently bears a fixed interest rate of 6.00% per annum, payable quarterly, subject to a reset after 5 years (on October 5, 2020) at 3 month LIBOR plus 467 basis points. The entire amount of subordinated debt is considered Tier 2 capital under current regulatory guidelines.

In 2003, Alliance Bankshares Corporation, which was acquired by WashingtonFirst in 2012, issued \$10.3 million of junior subordinated debt securities to Alliance Virginia Capital Trust I, of which Alliance Bankshares Corporation owned all of the common securities. The trust used the proceeds from the issuance of its underlying common securities and preferred securities, which were sold to third parties, to purchase the debt securities. These debt securities are the trust's only assets and the interest payments from the debentures finance the distributions paid on the preferred securities. The obligations under the debt securities were assumed by the Company at the date of acquisition. The debt securities are due on September 8, 2033 and are callable at any time, without penalty. The interest rate associated with the debt securities is three month LIBOR plus 3.15% subject to quarterly interest rate adjustments. The interest rate as of December 31, 2019 was 5.06%. Under the indenture governing the debt securities, the Company has the right to defer payments of interest for up to twenty consecutive quarterly periods. During any such extension period, distributions on the trust's preferred securities will also be deferred, and the Company's ability to pay dividends on its common stock will be restricted. The trust's preferred securities are mandatorily redeemable upon maturity of the debt securities, or upon earlier redemption as provided in the indenture. If the debt securities are redeemed prior to maturity, the redemption price will be the principal amount and any accrued but unpaid interest. The Company unconditionally guarantees payment of accrued and unpaid distributions required to be paid on the trust securities subject to certain exceptions, the redemption price with respect to any trust securities called for redemption and amounts due if the trust is liquidated or terminated. As of December 31, 2019, the Company was current on all interest payments. Under current regulatory guidelines the trust preferred securities are considered to be Tier 1 capital. Subsequent to December 31, 2019, the Company called the debt securities for redemption.

The following table provides information on subordinated debentures for the period indicated:

<i>(In thousands)</i>	2019	2018
Subordinated debt	\$ 200,000	\$ 25,000
Add: Purchase accounting premium	1,894	2,023
Less: Debt issuance costs	(2,885)	-
Trust preferred capital notes	10,310	10,310
Add: Purchase accounting premium	87	92
Total subordinated debentures	<u><u>\$ 209,406</u></u>	<u><u>\$ 37,425</u></u>

NOTE 13 – STOCKHOLDERS' EQUITY

The Company's Articles of Incorporation authorize 100,000,000 shares of capital stock (par value \$1.00 per share). Issued shares have been classified as common stock. The Articles of Incorporation provide that remaining unissued shares may later be designated as either common or preferred stock.

The Company has a director stock purchase plan (the "Director Plan") which commenced on May 1, 2004. Under the Director Plan, members of the board of directors may elect to use a portion (minimum 50%) of their annual retainer fee to purchase shares of Company stock. The Company has reserved 45,000 authorized but unissued shares of common stock for purchase under the plan. Purchases are made at the fair market value of the stock on the purchase date. At December 31, 2019, there were 24,424 shares available for issuance under the plan.

The Company has an employee stock purchase plan (the "Purchase Plan") which was authorized on July 1, 2011. The Company has reserved 300,000 authorized but unissued shares of common stock for purchase under the current version of the plan. Shares are purchased at 85% of the fair market value on the exercise date through monthly payroll deductions of not less than 1% or more than 10% of cash compensation paid in the month. The Purchase Plan is administered by a committee of at least three directors appointed by the board of directors. At December 31, 2019, there were 72,490 shares available for issuance under this plan.

The Company's 2015 stock repurchase plan expired on August 31, 2017. The program permitted the repurchase of up to 5% of the Company's outstanding shares of common stock or approximately 1,200,000 shares. Under the 2015 expired stock repurchase program a total of 736,139 shares of common stock were repurchased for a total cost of \$19.2 million.

The Company's board of directors approved a new stock repurchase plan in December 2018. The current program permits the repurchase of up to 1,800,000 shares of common stock. During 2019, the Company repurchased 668,191 common shares for the total cost of \$24.3 million.

The Company has a dividend reinvestment plan that is sponsored and administered by Computershare Shareholder Services as independent agent, which enables current shareholders as well as first-time buyers to purchase and sell common stock of Sandy Spring Bancorp, Inc. directly through Computershare at low commissions. Participants may reinvest cash dividends and make periodic supplemental cash payments to purchase additional shares.

Bank and holding company regulations, as well as Maryland law, impose certain restrictions on dividend payments by the Bank, as well as restricting extensions of credit and transfers of assets between the Bank and the Company. At December 31, 2019, the Bank could have paid additional dividends of \$167.3 million to its parent company without regulatory approval. There were no loans outstanding between the Bank and the Company at December 31, 2019 and 2018, respectively.

NOTE 14 – SHARE BASED COMPENSATION

At December 31, 2019, the Company had two share-based compensation plans in existence, the 2005 Omnibus Stock Plan (“Omnibus Stock Plan”) and the 2015 Omnibus Incentive Plan (“Omnibus Incentive Plan”). The Omnibus Stock Plan expired during the second quarter of 2015 but has outstanding options that may still be exercised. The Omnibus Incentive Plan is described in the following paragraph.

The Company’s Omnibus Incentive Plan was approved on May 6, 2015 and provides for the granting of non-qualified stock options to the Company’s directors, and incentive and non-qualified stock options, stock appreciation rights, restricted stock grants, restricted stock units and performance awards to selected key employees on a periodic basis at the discretion of the board. The Omnibus Incentive Plan authorizes the issuance of up to 1,500,000 shares of common stock, of which 1,150,417 shares are available for issuance at December 31, 2019, has a term of ten years, and is administered by a committee of at least three directors appointed by the board of directors. Options granted under the plan have an exercise price which may not be less than 100% of the fair market value of the common stock on the date of the grant and must be exercised within seven to ten years from the date of grant. The exercise price of stock options must be paid for in full in cash or shares of common stock, or a combination of both. The board committee has the discretion when making a grant of stock options to impose restrictions on the shares to be purchased upon the exercise of such options. The Company generally issues authorized but previously unissued shares to satisfy option exercises.

The fair values of all of the options granted for the periods indicated have been estimated using a binomial option-pricing model with the weighted-average assumptions for the years ended December 31 are presented in the following table:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Dividend yield	- %	2.64 %	2.45 %
Weighted average expected volatility	- %	39.13 %	40.27 %
Weighted average risk-free interest rate	- %	2.61 %	2.14 %
Weighted average expected lives (in years)	-	5.61	5.67
Weighted average grant-date fair value	-	\$11.73	\$13.42

The dividend yield is based on estimated future dividend yields. The risk-free rate for periods within the contractual term of the share option is based on the U.S. Treasury yield curve in effect at the time of the grant. Expected volatilities are generally based on historical volatilities. The expected term of share options granted is generally derived from historical experience. The Company recognized forfeitures as they occur.

Compensation expense is recognized on a straight-line basis over the vesting period of the respective stock option or restricted stock grant. Compensation expense of \$2.9 million, \$2.5 million, and \$2.1 million was recognized for the years ended December 31, 2019, 2018 and 2017, respectively, related to the awards of stock options and restricted stock grants. The intrinsic value for the stock options exercised was \$0.2 million, \$0.4 million, and \$0.7 million in the years ended December 31, 2019, 2018 and 2017, respectively. The total of unrecognized compensation cost related to stock options was approximately \$0.1 million as of December 31, 2019. That cost is expected to be recognized over a weighted average period of approximately 1.1 years. The total of unrecognized compensation cost related to restricted stock was approximately \$5.6 million as of December 31, 2019. That cost is expected to be recognized over a weighted average period of approximately 2.7 years. The fair value of the options vested during the years ended December 31, 2019, 2018 and 2017, was \$0.2 million, \$0.1 million, and \$0.2 million, respectively.

The Company granted 96,191 shares of restricted stock in the first quarter of 2019, of which 21,390 shares are subject to a three year performance vesting schedule and 74,801 shares are subject to a three or a five year vesting schedule with one third or one fifth of the shares vesting on April 1st of each year. The Company granted an additional 10,203 shares of restricted stock during the third quarter of 2019, of which 2,125 shares are subject to a three year performance vesting schedule and 8,078 shares subject to a three year vesting schedule with one third of the shares vesting on the anniversary date of the grant. There were no additional shares of restricted stock granted during the remainder of the year. The Company did not grant any stock options during 2019.

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

	Number of Common Shares	Weighted Average Exercise Share Price	Weighted Average Contractual Remaining Life(Years)	Aggregate Intrinsic Value (in thousands)
Balance at January 1, 2019	81,508	\$ 29.74		\$ 369
Granted	-	\$ -		
Exercised	(15,080)	\$ 22.20		\$ 179
Forfeited	(1,007)	\$ 37.11		
Expired	(142)	\$ 42.48		
Balance at December 31, 2019	<u>65,279</u>	\$ 31.34	3.2	\$ 485
Exercisable at December 31, 2019	51,179	\$ 29.15	2.7	\$ 485
Weighted average fair value of options granted during the year		\$ -		

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

<i>(In dollars, except share data):</i>	Number of Common Shares	Weighted Average Grant-Date Fair Value
Restricted stock at January 1, 2019	203,603	\$ 35.14
Granted	106,394	\$ 33.45
Vested	(69,842)	\$ 31.55
Forfeited	(13,653)	\$ 35.43
Restricted stock at December 31, 2019	<u>226,502</u>	\$ 35.43

NOTE 15 – PENSION, PROFIT SHARING, AND OTHER EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

The Company has a qualified, noncontributory, defined benefit pension plan (the "Plan") covering substantially all employees. All benefit accruals for employees were frozen as of December 31, 2007 based on past service and thus future salary increases and additional years of service will no longer affect the defined benefit provided by the plan although additional vesting may continue to occur.

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

The Plan's funded status at December 31 is as follows:

<i>(In thousands)</i>	2019	2018
Reconciliation of Projected Benefit Obligation:		
Projected obligation at January 1	\$ 40,152	\$ 43,441
Interest cost	1,609	1,540
Actuarial (gain)/loss	371	(593)
Benefit payments	(1,695)	(1,188)
Increase/(decrease) related to change in assumptions	<u>5,060</u>	<u>(3,048)</u>
Projected obligation at December 31	<u>45,497</u>	<u>40,152</u>
Reconciliation of Fair Value of Plan Assets:		
Fair value of plan assets at January 1	37,772	41,246
Actual return on plan assets	7,195	(2,646)
Contribution	185	360
Benefit payments	<u>(1,695)</u>	<u>(1,188)</u>
Fair value of plan assets at December 31	<u>43,457</u>	<u>37,772</u>
Funded status at December 31	<u>\$ (2,040)</u>	<u>\$ (2,380)</u>
Accumulated benefit obligation at December 31	<u>\$ 45,497</u>	<u>\$ 40,152</u>
Unrecognized net actuarial loss	<u>\$ 11,177</u>	<u>\$ 12,352</u>
Net periodic pension cost not yet recognized	<u>\$ 11,177</u>	<u>\$ 12,352</u>

Weighted-average assumptions used to determine benefit obligations at December 31 are presented in the following table:

	2019	2018	2017
Discount rate	3.25%	4.15%	3.65%
Rate of compensation increase	N/A	N/A	N/A

The components of net periodic benefit cost for the years ended December 31 are presented in the following table:

<i>(In thousands)</i>	2019	2018	2017
Interest cost on projected benefit obligation	\$ 1,609	\$ 1,540	\$ 1,640
Expected return on plan assets	(1,647)	(1,861)	(1,985)
Recognized net actuarial loss	<u>1,059</u>	<u>1,000</u>	<u>1,181</u>
Net periodic benefit cost	<u>\$ 1,021</u>	<u>\$ 679</u>	<u>\$ 836</u>

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31 are presented in the following table:

	2019	2018	2017
Discount rate	4.15%	3.65%	4.15%
Expected return on plan assets	5.00%	5.00%	6.00%
Rate of compensation increase	N/A	N/A	N/A

The expected rate of return on assets of 5.00% reflects the Plan's predominant investment of assets in fixed income mutual funds and was developed as a weighted average rate based on the target asset allocation of the Plan. Key economic inputs used included future inflation, economic growth, and interest rate environment.

The following table reflects the components of the net unrecognized benefits costs that is reflected in accumulated other comprehensive loss for the periods indicated. Additions represent the growth in the unrecognized actuarial loss during the period. Reclassifications represent the portion of the unrecognized benefits that are recognized each period as a component of the net periodic benefit cost.

<i>(In thousands)</i>	Unrecognized Net Loss
Included in accumulated other comprehensive loss at January 1, 2017	\$ 13,689
Reductions during the year	(3,016)
Reclassifications due to recognition as net periodic pension cost	(1,181)
Increase related to change in assumptions	2,995
Included in accumulated other comprehensive loss as of December 31, 2017	12,487
Additions during the year	3,914
Reclassifications due to recognition as net periodic pension cost	(1,000)
Decrease related to change in assumptions	(3,049)
Included in accumulated other comprehensive loss as of December 31, 2018	12,352
Reductions during the year	(5,176)
Reclassifications due to recognition as net periodic pension cost	(1,059)
Increase related to change in assumptions	5,060
Included in accumulated other comprehensive loss as of December 31, 2019	11,177
Applicable tax effect	(2,845)
Included in accumulated other comprehensive loss net of tax effect at December 31, 2019	<u>\$ 8,332</u>
Amount expected to be recognized as part of net periodic pension cost in the next fiscal year	\$ 488

There are no plan assets expected to be returned to the employer in the next twelve months.

The following items have not yet been recognized as a component of net periodic benefit cost at December 31:

<i>(In thousands)</i>	2019	2018	2017
Net actuarial loss	<u>\$ 11,177</u>	<u>\$ 12,352</u>	<u>\$ 12,487</u>
Net periodic benefit cost not yet recognized	<u>\$ 11,177</u>	<u>\$ 12,352</u>	<u>\$ 12,487</u>

Pension Plan Assets

The Company's pension plan weighted average allocations at December 31 are presented in the following table:

<u>Asset Category:</u>	2019	2018
Equity Securities Mutual Funds	10.4 %	13.5 %
Fixed Income Mutual Funds	89.6	86.5
Total pension plan assets	<u>100.0 %</u>	<u>100.0 %</u>

The Company has a written investment policy approved by the board of directors that governs the investment of the defined benefit pension fund trust portfolio. The investment policy is designed to provide limits on risk that is undertaken by the investment managers both in terms of market volatility of the portfolio and the quality of the individual assets that are held in the portfolio. The investment policy statement focuses on the following areas of concern: preservation of capital, diversification, risk tolerance, investment duration, rate of return, liquidity and investment management costs.

The Company has constituted the Retirement Plans Investment Committee (“RPIC”) in part to monitor the investments of the Plan as well as to recommend to executive management changes in the Investment Policy Statement which governs the Plan’s investment operations. These recommendations include asset allocation changes based on a number of factors including the investment horizon for the Plan. The Company uses outside third parties to advise RPIC on the Plan’s investment matters.

Investment strategies and asset allocations are based on careful consideration of Plan liabilities, the Plan’s funded status and the Company’s financial condition. Investment performance and asset allocation are measured and monitored on an ongoing basis. Management allocates plan assets towards fixed income securities in order to align expected cash outflows with its funding source. This asset allocation has been set after taking into consideration the Plan’s current frozen status and the possibility of partial plan terminations over the intermediate term. The Plan’s asset allocation remained consistent during the current year.

Market volatility risk is controlled by limiting the asset allocation of the most volatile asset class, equities, to no more than 70% of the portfolio and by ensuring that there is sufficient liquidity to meet distribution requirements from the portfolio without disrupting long-term assets. Diversification of the equity portion of the portfolio is controlled by limiting the value of any initial acquisition so that it does not exceed 5% of the market value of the portfolio when purchased. The policy requires the sale of any portion of an equity position when its value exceeds 10% of the portfolio. Fixed income market volatility risk is managed by limiting the term of fixed income investments to five years. Fixed income investments must carry an “A” or better rating by a recognized credit rating agency. Corporate debt of a single issuer may not exceed 10% of the market value of the portfolio. The investment in derivative instruments such as “naked” call options, futures, commodities, and short selling is prohibited. Investment in equity index funds and the writing of “covered” call options (a conservative strategy to increase portfolio income) are permitted. Foreign currency-denominated debt instruments are not permitted. At December 31, 2019, management is of the opinion that there are no significant concentrations of risk in the assets of the plan with respect to any single entity, industry, country, commodity or investment fund that are not otherwise mitigated by FDIC insurance available to the participants of the plan and collateral pledged for any such amount that may not be covered by FDIC insurance. Investment performance is measured against industry accepted benchmarks. The risk tolerance and asset allocation limitations imposed by the policy are consistent with attaining the rate of return assumptions used in the actuarial funding calculations. The RPIC committee meets quarterly to review the activities of the investment managers to ensure adherence with the Investment Policy Statement.

Fair Values

The fair values of the Company’s pension plan assets by asset category at December 31 are presented in the following tables:

	2019			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<i>(In thousands)</i>				
Asset Category:				
Mutual funds:				
Large cap U.S. equity funds	\$ 1,855	\$ 919	\$ -	\$ 2,774
Small/Mid cap U.S. equity funds	-	847	-	847
International equity funds	894	-	-	894
Short-term fixed income funds	-	3,688	-	3,688
Fixed income funds	8,769	26,485	-	35,254
Total mutual funds	11,518	31,939	-	43,457
Total pension plan assets	\$ 11,518	\$ 31,939	\$ -	\$ 43,457

<i>(In thousands)</i>	2018			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Asset Category:				
Mutual funds:				
Large cap U.S. equity funds	\$ 1,366	\$ 1,720	\$ -	\$ 3,086
Small/Mid cap U.S. equity funds	-	646	-	646
International equity funds	1,368	-	-	1,368
Short-term fixed income funds	-	1,186	-	1,186
Fixed income funds	4,403	27,083	-	31,486
Total mutual funds	<u>7,137</u>	<u>30,635</u>	<u>-</u>	<u>37,772</u>
Total pension plan assets	<u>\$ 7,137</u>	<u>\$ 30,635</u>	<u>\$ -</u>	<u>\$ 37,772</u>

Contributions

The decision as to whether or not to make a plan contribution and the amount of any such contribution is dependent on a number of factors. Such factors include the investment performance of the plan assets in the current economy and, since the Plan is currently frozen, the remaining investment horizon of the Plan. After consideration of these factors, the Company made a contribution of \$0.2 million in 2019. Management continues to monitor the funding level of the Plan and may make contributions as necessary during 2020.

Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, as appropriate, that are expected to be paid for the years ending December 31 are presented in the following table:

<i>(In thousands)</i>	Pension Benefits
2020	\$ 2,550
2021	2,420
2022	2,630
2023	2,350
2024	3,320
Thereafter	13,890

Sandy Spring Bank 401(k) Plan

The Sandy Spring Bank 401(k) Plan (“the 401(k)”) is voluntary and covers all eligible employees after ninety days of service. The 401(k) provides that employees contributing to the 401(k) receive a matching contribution of 100% of the first 4% of compensation and 50% of the next 2% of compensation subject to employee contribution limitations. The Company matching contribution vests immediately. The Plan permits employees to purchase shares of the Company’s common stock with their 401(k) contributions, Company match, and other contributions under the Plan. The Company’s matching contribution to the 401(k) Plan that are included in non-interest expenses totaled \$4.1 million, \$2.8 million, and \$2.0 million in 2019, 2018 and 2017, respectively.

Executive Incentive Retirement Plan

The Executive Incentive Retirement Plan is a non-qualified deferred compensation defined contribution plan that provides for contributions to be made to the participants’ plan accounts based on the attainment of a level of financial performance compared to a selected group of peer banks. This level of performance is determined annually by the board of directors. Benefit costs related to the Plan included in non-interest expense for 2019, 2018 and 2017 were \$0.5 million, \$0.4 million, and \$0.4 million, respectively.

NOTE 16 – OTHER NON-INTEREST INCOME AND OTHER NON-INTEREST EXPENSE

Selected components of other non-interest income and other non-interest expense for the years ended December 31 are presented in the following table:

<i>(In thousands)</i>	2019	2018	2017
Letter of credit fees	\$ 389	\$ 611	\$ 847
Extension fees	1,287	873	568
Other income	7,104	5,642	4,916
Total other non-interest income	\$ 8,780	\$ 7,126	\$ 6,331

<i>(In thousands)</i>	2019	2018	2017
Postage and delivery	\$ 1,502	\$ 1,439	\$ 1,179
Communications	2,414	2,610	1,502
Loss on FHLB redemption	-	-	1,275
Other expenses	16,510	15,443	11,188
Total other non-interest expense	\$ 20,426	\$ 19,492	\$ 15,144

NOTE 17 – INCOME TAXES

The following table provides the components of income tax expense for the years ended December 31:

<i>(In thousands)</i>	2019	2018	2017
Current income taxes:			
Federal	\$ 28,404	\$ 18,615	\$ 22,355
State	6,598	7,183	5,146
Total current	35,002	25,798	27,501
Deferred income taxes:			
Federal	234	4,808	6,973
State	1,192	1,218	252
Total deferred	1,426	6,026	7,225
Total income tax expense	\$ 36,428	\$ 31,824	\$ 34,726

The Company does not have uncertain tax positions that are deemed material, and did not recognize any adjustments for unrecognized tax benefits.

Temporary differences between the amounts reported in the financial statements and the tax bases of assets and liabilities result in deferred taxes. Deferred tax assets and liabilities, shown as the sum of the appropriate tax effect for each significant type of temporary difference, are presented in the following table at December 31 for the years indicated:

<i>(In thousands)</i>	2019	2018
Deferred Tax Assets:		
Allowance for loan and lease losses	\$ 14,287	\$ 13,979
Lease liability	19,616	-
Fair value acquisition adjustments	1,322	2,253
Employee benefits	4,535	4,339
Pension plan OCI	2,845	3,228
Deferred loan fees and costs	471	306
Non-qualified stock option expense	659	457
Unrealized losses on investments available-for-sale	-	2,343
Losses on other real estate owned	201	202
Other than temporary impairment	76	76
Loan and deposit premium/discount	1,422	3,950
Deferred rent	-	1,270
Reserve for recourse loans	166	210
Loss carryforward	916	1,323
Tax credits carryforwards	-	251
Other	159	280
Gross deferred tax assets	<u>46,675</u>	<u>34,467</u>
Valuation allowance	<u>(880)</u>	<u>(644)</u>
Net deferred tax asset	<u>45,795</u>	<u>33,823</u>
Deferred Tax Liabilities:		
Right of use asset	(17,688)	-
Unrealized gains on investments available-for-sale	(1,379)	-
Pension plan costs	(2,373)	(2,607)
Depreciation	(2,744)	(3,307)
Intangible assets	(3,338)	(3,701)
Bond accretion	(322)	(188)
Section 481 adjustments	(1,335)	(2,053)
Other	(585)	(404)
Gross deferred tax liabilities	<u>(29,764)</u>	<u>(12,260)</u>
Net deferred tax asset	<u>\$ 16,031</u>	<u>\$ 21,563</u>

The Company has approximately \$0.7 million of federal net operating loss carryovers subject to the annual limitations under Internal Revenue Code Section 382 at December 31, 2019 from the WashingtonFirst acquisition. The net operating loss begins to expire in 2029. The Company has approximately \$10.6 million of state net operating loss carryover which begins to expire in 2032. The Company believes that it is more likely than not that the future benefit from the state net operating loss carryover will not be realized. As such, there is a valuation allowance on the deferred tax assets of the jurisdictions in which the net operating losses relate.

The reconcilements between the statutory federal income tax rate and the effective rate for the years ended December 31 are presented in the following table:

<i>(Dollars in thousands)</i>	2019		2018		2017	
	Percentage of		Percentage of		Percentage of	
	Amount	Pre-Tax Income	Amount	Pre-Tax Income	Amount	Pre-Tax Income
Income tax expense at federal statutory rate	\$ 32,101	21.0 %	\$ 27,865	21.0 %	\$ 30,776	35.0 %
Increase (decrease) resulting from:						
Tax exempt income, net	(2,101)	(1.4)	(2,427)	(1.8)	(3,929)	(4.5)
Bank-owned life insurance	(665)	(0.4)	(909)	(0.7)	(841)	(0.9)
State income taxes, net of federal income tax benefits	6,154	4.0	6,637	5.0	3,508	4.0
Federal tax rate change	-	-	-	-	5,544	6.3
Other, net	939	0.6	658	0.5	(332)	(0.4)
Total income tax expense and rate	\$ 36,428	23.8 %	\$ 31,824	24.0 %	\$ 34,726	39.5 %

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The Act reduced the U.S. federal corporate tax rate from 35% to 21% for years beginning on or after January 1, 2018. The Company recorded a provisional amount to deferred tax expense of \$5.5 million in 2017, which was primarily due to a re-measurement deferred tax assets and liabilities at the newly enacted rate. Certain deferred tax assets and liabilities were re-measured based on the rates at which they are expected to reverse in the future, which is generally 21%. The Company completed an analysis on the impact of the Act in 2018 and determined that the provisional amount recorded in 2017 was reasonable, and that no further adjustments to deferred tax amounts are required. During 2018, the Company also adopted recently issued FASB guidance on reclassification of the tax effects stranded in OCI and reclassified \$1.5 million from OCI to retained earnings.

NOTE 18 – NET INCOME PER COMMON SHARE

The calculation of net income per common share for the years ended December 31 is presented in the following table:

<i>(Dollars and amounts in thousands, except per share data)</i>	2019	2018	2017
Net income	\$ 116,433	\$ 100,864	\$ 53,209
<u>Basic:</u>			
Basic weighted average EPS shares	35,797	35,707	24,175
Basic net income per share	\$ 3.25	\$ 2.82	\$ 2.20
<u>Diluted:</u>			
Basic weighted average EPS shares	35,797	35,707	24,175
Dilutive common stock equivalents	56	21	32
Dilutive EPS shares	35,853	35,728	24,207
Diluted net income per share	\$ 3.25	\$ 2.82	\$ 2.20
Anti-dilutive shares	9	7	3

NOTE 19 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is defined as net income plus transactions and other occurrences that are the result of non-owner changes in equity. For financial statements presented for the Company, non-equity changes are comprised of unrealized gains or losses on available-for-sale debt securities and any minimum pension liability adjustments. These do not have an impact on the Company's net income. The following table presents the activity in net accumulated other comprehensive income (loss) for the periods indicated:

<i>(In thousands)</i>	Unrealized Gains (Losses) on		Total
	Investments Available-for-Sale	Defined Benefit Pension Plan	
Balance at January 1, 2017	\$ 1,642	\$ (8,256)	\$ (6,614)
Period change, net of tax	(955)	712	(243)
Balance at December 31, 2017	687	(7,544)	(6,857)
Period change, net of tax	(7,465)	45	(7,420)
Reclassification of tax effects from other comprehensive income	148	(1,625)	(1,477)
Balance at December 31, 2018	(6,630)	(9,124)	(15,754)
Period change, net of tax	10,630	792	11,422
Balance at December 31, 2019	\$ 4,000	\$ (8,332)	\$ (4,332)

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

<i>(In thousands)</i>	Year Ended December 31,		
	2019	2018	2017
Unrealized gains/(losses) on investments available-for-sale			
Affected line item in the Statements of Income:			
Investment securities gains	\$ 77	\$ 190	\$ 1,273
Income before taxes	77	190	1,273
Tax expense	20	50	504
Net income	\$ 57	\$ 140	\$ 769

Amortization of defined benefit pension plan items

Affected line item in the Statements of Income:

Recognized actuarial loss ⁽¹⁾	\$ (1,059)	\$ (1,000)	\$ (1,181)
Income before taxes	(1,059)	(1,000)	(1,181)
Tax benefit	(277)	(261)	(467)
Net loss	\$ (782)	\$ (739)	\$ (714)

(1) This amount is included in the computation of net periodic benefit cost, see Note 15.

NOTE 20 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND DERIVATIVES

In the normal course of business, the Company has various outstanding credit commitments that are not reflected in the financial statements. These commitments are made to satisfy the financing needs of the Company's clients. The associated credit risk is controlled by subjecting such activity to the same credit and quality controls as exist for the Company's lending and investing activities. The commitments involve diverse business and consumer customers and are generally well collateralized. Collateral held varies, but may include residential real estate, commercial real estate, property and equipment, inventory and accounts receivable. Commitments do not necessarily represent future cash requirements as a portion of the commitments have some reduced likelihood of being exercised. Additionally, many of the commitments are subject to annual reviews, material change clauses or requirements for inspections prior to draw funding that could result in a curtailment of the funding commitments.

A summary of the financial instruments with off-balance sheet credit risk is as follows at December 31 for the years indicated:

<i>(In thousands)</i>	2019	2018
Commercial real estate development and construction	\$ 571,368	\$ 562,777
Residential real estate-development and construction	89,224	130,251
Real estate-residential mortgage	74,282	31,227
Lines of credit, principally home equity and business lines	1,400,038	1,296,481
Standby letters of credit	62,065	59,826
Total Commitments to extend credit and available credit lines	<u>\$ 2,196,977</u>	<u>\$ 2,080,562</u>

The Company has entered into interest rate swaps (“swaps”) to facilitate customer transactions and meet their financing needs. These swaps qualify as derivatives, but are not designated as hedging instruments. Interest rate swap contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. When the fair value of a derivative instrument contract is positive, this generally indicates that the counterparty or customer owes the Company, and results in credit risk to the Company. When the fair value of a derivative instrument contract is negative, the Company owes the customer or counterparty and therefore, has no credit risk. The swap positions are offset to minimize the potential impact on the Company’s financial statements. Credit risk exists if the borrower’s collateral or financial condition indicates that the underlying collateral or financial condition of the borrower makes it probable that amounts due will be uncollectible. Any amounts due to the Company will be expected to be collected from the borrower. Management reviews this credit exposure on a monthly basis. At December 31, 2019 and 2018, all loans associated with the swap agreements were determined to be “pass” rated credits as provided by regulatory guidance and therefore no component of credit loss was factored into the valuation of the swaps. A summary of the Company’s interest rate swaps at December 31 for the years indicated is included in the following table:

<i>(Dollars in thousands)</i>	2019				
	Notional Amount	Estimated Fair Value	Years to Maturity	Receive Rate	Pay Rate
Interest Rate Swap Agreements:					
Pay Fixed/Receive Variable Swaps	\$ 102,337	\$ (2,507)	9.1	3.40 %	4.11 %
Pay Variable/Receive Fixed Swaps	<u>102,337</u>	<u>2,507</u>	9.1	4.11 %	3.40 %
Total Swaps	<u>\$ 204,674</u>	<u>\$ -</u>	9.1	3.76 %	3.76 %
	2018				
<i>(Dollars in thousands)</i>	Notional Amount	Estimated Fair Value	Years to Maturity	Receive Rate	Pay Rate
Interest Rate Swap Agreements:					
Pay Fixed/Receive Variable Swaps	\$ 8,324	\$ (446)	4.1	3.45 %	5.47 %
Pay Variable/Receive Fixed Swaps	<u>8,324</u>	<u>446</u>	4.1	5.47 %	3.45 %
Total Swaps	<u>\$ 16,648</u>	<u>\$ -</u>	4.1	4.46 %	4.46 %

The estimated fair value of the swaps at December 31 for the periods indicated in the table above were recorded in other assets and other liabilities. The associated net gains and losses on the swaps are recorded in other non-interest income.

NOTE 21 - LITIGATION

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

NOTE 22 – FAIR VALUE

Generally accepted accounting principles provide entities the option to measure eligible financial assets, financial liabilities and commitments at fair value (i.e. the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a commitment. Subsequent changes in fair value must be recorded in earnings. The Company applies the fair value option on residential mortgage loans held for sale. The fair value option on residential mortgage loans allows the recognition of gains on sale of mortgage loans to more accurately reflect the timing and economics of the transaction.

The standard for fair value measurement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below.

Basis of Fair Value Measurement:

Level 1- Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2- Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3- Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Changes to interest rates may result in changes in the cash flows due to prepayments or extinguishments. Accordingly, this could result in higher or lower measurements of the fair values.

Assets and Liabilities

Mortgage loans held for sale

Mortgage loans held for sale are valued based on quotations from the secondary market for similar instruments and are classified as Level 2 of the fair value hierarchy.

Investments available-for-sale

U.S. government agencies, mortgage-backed and asset-backed securities

Valuations are based on active market data and use of evaluated broker pricing models that vary based by asset class and includes available trade, bid, and other market information. Generally, the methodology includes broker quotes, proprietary models, descriptive terms and conditions databases coupled with extensive quality control programs. Multiple quality control evaluation processes review available market, credit and deal level information to support the evaluation of the security. If there is a lack of objectively verifiable information available to support the valuation, the evaluation of the security is discontinued. Additionally, proprietary models and pricing systems, mathematical tools, actual transacted prices, integration of market developments and experienced evaluators are used to determine the value of a security based on a hierarchy of market information regarding a security or securities with similar characteristics. The Company does not adjust the quoted price for such securities. Such instruments are generally classified within Level 2 of the fair value hierarchy.

State and municipal securities

Proprietary valuation matrices are used for valuing all tax-exempt municipals that can incorporate changes in the municipal market as they occur. Market evaluation models include the ability to value bank qualified municipals and general market municipals that can be broken down further according to insurer, credit support, state of issuance and rating to incorporate additional spreads and municipal curves. Taxable municipals are valued using a third party model that incorporates a methodology that captures the trading nuances associated with these bonds. Such instruments are generally classified within Level 2 of the fair value hierarchy.

Interest rate swap agreements

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

Assets Measured at Fair Value on a Recurring Basis

The following tables set forth the Company's financial assets and liabilities at the December 31 for the years indicated that were accounted for or disclosed at fair value. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

<i>(In thousands)</i>	2019			Total
	Quoted Prices in Active Markets Identical Assets (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable Inputs (Level 3)	
<u>Assets</u>				
Residential mortgage loans held for sale	\$ -	\$ 53,701	\$ -	\$ 53,701
Investments available-for-sale:				
U.S. government agencies	-	258,495	-	258,495
State and municipal	-	233,649	-	233,649
Mortgage-backed and asset-backed	-	570,759	-	570,759
Corporate debt	-	-	9,552	9,552
Trust preferred	-	-	310	310
Marketable equity securities	-	568	-	568
Interest rate swap agreements	-	2,507	-	2,507
<u>Liabilities</u>				
Interest rate swap agreements	\$ -	\$ (2,507)	\$ -	\$ (2,507)

<i>(In thousands)</i>	2018			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Residential mortgage loans held for sale	\$ -	\$ 22,773	\$ -	\$ 22,773
Investments available-for-sale:				
U.S. government agencies	-	296,678	-	296,678
State and municipal	-	282,024	-	282,024
Mortgage-backed	-	348,515	-	348,515
Corporate debt	-	-	9,240	9,240
Trust preferred	-	-	310	310
Marketable equity securities	-	568	-	568
Interest rate swap agreements	-	446	-	446
Liabilities				
Interest rate swap agreements	\$ -	\$ (446)	\$ -	\$ (446)

The fair value of investments transferred or that are purchased and placed in Level 3 is estimated by discounting the expected future cash flows using the current rates for investments with similar credit ratings and similar remaining maturities. Expected cash flows were projected based on contractual cash flows.

The following table provides activity of assets reported as Level 3 for the period indicated:

<i>(In thousands)</i>	Significant Unobservable Inputs (Level 3)
Investments available-for-sale:	
Balance at January 1, 2019	\$ 9,550
Transfer into Level 3 assets	-
Additions of Level 3 assets	-
Sales of Level 3 assets	-
Total unrealized gains included in accumulated other comprehensive loss	312
Balance at December 31, 2019	<u>\$ 9,862</u>

Assets Measured at Fair Value on a Nonrecurring Basis

The following table sets forth the Company's financial assets subject to fair value adjustments (impairment) on a nonrecurring basis at December 31 for the year indicated that are valued at the lower of cost or market. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

2019

<i>(In thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Total Losses
Impaired loans (1)	\$ -	\$ -	\$ 6,886	\$ 6,886	\$ (6,299)
Other real estate owned	-	-	1,482	1,482	(281)
Total	\$ -	\$ -	\$ 8,368	\$ 8,368	\$ (6,580)

(1) Amounts represent the fair value of collateral for impaired loans allocated to the allowance for loan losses. Fair values are determined using actual market prices (Level 2), independent third party valuations and borrower records, discounted as appropriate (Level 3).

2018

<i>(In thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Total Losses
Impaired loans (1)	\$ -	\$ -	\$ 6,780	\$ 6,780	\$ (10,932)
Other real estate owned	-	-	1,584	1,584	(262)
Total	\$ -	\$ -	\$ 8,364	\$ 8,364	\$ (11,194)

(1) Amounts represent the fair value of collateral for impaired loans allocated to the allowance for loan losses. Fair values are determined using actual market prices (Level 2), independent third party valuations and borrower records, discounted as appropriate (Level 3).

At December 31, 2019, impaired loans totaling \$24.8 million were written down to fair value of \$19.3 million as a result of specific loan loss allowances of \$5.5 million associated with the impaired loans which was included in the allowance for loan losses. Impaired loans totaling \$22.2 million were written down to fair value of \$17.3 million at December 31, 2018 as a result of specific loan loss allowances of \$4.9 million associated with the impaired loans.

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

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

Fair Value of Financial Instruments

The Company discloses fair value information of financial instruments that are not measured at fair value in the financial statements based on the exit price notion. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

Quoted market prices, where available, are shown as estimates of fair market values. Because no quoted market prices are available for a significant portion of the Company's financial instruments, the fair value of such instruments has been derived based on the amount and timing of future cash flows and estimated discount rates based on observable inputs ("Level 2") or unobservable inputs ("Level 3").

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

The carrying amounts and fair values of the Company's financial instruments at December 31 for the year indicated are presented in the following table:

<i>(In thousands)</i>	2019		Fair Value Measurements		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Other equity securities	\$ 51,803	\$ 51,803	\$ -	\$ 51,803	\$ -
Loans, net of allowance	6,649,100	6,628,054	-	-	6,628,054
Other assets (1)	113,171	113,171	-	113,171	-
Financial Liabilities					
Time deposits	\$ 1,542,322	\$ 1,547,116	\$ -	\$ 1,547,116	\$ -
Securities sold under retail repurchase agreements and federal funds purchased	213,605	213,605	-	213,605	-
Advances from FHLB	513,777	520,729	-	520,729	-
Subordinated debentures	209,406	200,864	-	-	200,864

(1) Includes bank owned life insurance products.

<i>(In thousands)</i>	2018		Fair Value Measurements		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Investments held-to-maturity and other equity securities	\$ 73,389	\$ 73,389	\$ -	\$ 73,389	\$ -
Loans, net of allowance	6,518,148	6,376,307	-	-	6,376,307
Other assets (1)	110,823	110,823	-	110,823	-
Financial Liabilities					
Time deposits	\$ 1,526,161	\$ 1,536,238	\$ -	\$ 1,536,238	\$ -
Securities sold under retail repurchase agreements and federal funds purchased	327,429	327,429	-	327,429	-
Advances from FHLB	848,611	850,186	-	850,186	-
Subordinated debentures	37,425	33,588	-	-	33,588

(1) Includes bank owned life insurance products.

NOTE 23 – PARENT COMPANY FINANCIAL INFORMATION

Financial statements for Sandy Spring Bancorp, Inc. (Parent Only) for the periods indicated are presented in the following tables:

Statement of Condition

<i>(In thousands)</i>	December 31,	
	2019	2018
Assets		
Cash and cash equivalents	\$ 90,361	\$ 23,334
Investments available-for-sale (at fair value)	10,430	10,118
Investment in subsidiary	1,242,229	1,066,550
Goodwill	1,292	1,292
Other assets	1,480	4,463
Total assets	<u>\$ 1,345,792</u>	<u>\$ 1,105,757</u>
Liabilities		
Subordinated debentures	\$ 209,406	\$ 37,425
Accrued expenses and other liabilities	3,412	429
Total liabilities	<u>212,818</u>	<u>37,854</u>
Stockholders' Equity		
Common stock	34,970	35,531
Additional paid in capital	586,622	606,573
Retained earnings	515,714	441,553
Accumulated other comprehensive loss	(4,332)	(15,754)
Total stockholders' equity	<u>1,132,974</u>	<u>1,067,903</u>
Total liabilities and stockholders' equity	<u>\$ 1,345,792</u>	<u>\$ 1,105,757</u>

Statements of Income

<i>(In thousands)</i>	Year Ended December 31,		
	2019	2018	2017
Income:			
Cash dividends from subsidiary	\$ 42,625	\$ 39,370	\$ 25,420
Other income	1,093	897	1,832
Total income	<u>43,718</u>	<u>40,267</u>	<u>27,252</u>
Expenses:			
Interest	3,141	1,922	12
Other expenses	1,507	1,135	970
Total expenses	<u>4,648</u>	<u>3,057</u>	<u>982</u>
Income before income taxes and equity in undistributed income of subsidiary	39,070	37,210	26,270
Income tax expense (benefit)	(734)	(283)	331
Income before equity in undistributed income of subsidiary	39,804	37,493	25,939
Equity in undistributed income of subsidiary	76,629	63,371	27,270
Net income	<u>\$ 116,433</u>	<u>\$ 100,864</u>	<u>\$ 53,209</u>

Statements of Cash Flows

<i>(In thousands)</i>	Year Ended December 31,		
	2019	2018	2017
Cash Flows from Operating Activities:			
Net income	\$ 116,433	\$ 100,864	\$ 53,209
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income-subsiary	(76,629)	(63,371)	(27,270)
Decrease in receivable from subsidiary bank	-	-	30,000
Share based compensation expense	3,042	2,645	2,164
Tax benefit from stock options exercised	7	8	-
Other-net	-	(3,252)	(4,028)
Net cash provided by operating activities	<u>42,853</u>	<u>36,894</u>	<u>54,075</u>
Cash Flows from Investing Activities:			
Proceeds from investment available-for-sale	-	-	3,179
Investment in subsidiary	(85,000)	-	-
Acquisition of business activity, net of cash paid	-	11,845	-
Net cash provided/ (used) by investing activities	<u>(85,000)</u>	<u>11,845</u>	<u>3,179</u>
Cash Flows from Financing Activities:			
Retirement of subordinated debt	-	-	(30,000)
Proceeds from issuance of subordinated debt	175,000	-	-
Proceeds from issuance of common stock	1,433	1,395	1,200
Stock tendered for payment of withholding taxes	(703)	(760)	(952)
Repurchase of common stock	(24,284)	-	-
Dividends paid	(42,272)	(39,277)	(25,134)
Net cash provided/ (used) by financing activities	<u>109,174</u>	<u>(38,642)</u>	<u>(54,886)</u>
Net increase in cash and cash equivalents	<u>67,027</u>	<u>10,097</u>	<u>2,368</u>
Cash and cash equivalents at beginning of year	<u>23,334</u>	<u>13,237</u>	<u>10,869</u>
Cash and cash equivalents at end of year	<u>\$ 90,361</u>	<u>\$ 23,334</u>	<u>\$ 13,237</u>

NOTE 24 – REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and the Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established and defined by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of Total, Tier 1 and Common Equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. As of December 31, 2019 and 2018, the capital levels of the Company and the Bank substantially exceeded all applicable capital adequacy requirements.

As of December 31, 2019, the most recent notification from the Bank's primary regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum Total risk-based, Tier 1 risk-based, Common Equity Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios at December 31 for the years indicated are presented in the following table:

<i>(Dollars in thousands)</i>	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019:						
Total Capital to risk-weighted assets						
Company	\$ 1,052,328	14.85 %	\$ 566,863	8.00 %	N/A	N/A
Sandy Spring Bank	\$ 950,793	13.44 %	\$ 565,794	8.00 %	\$ 707,243	10.00 %
Tier 1 Capital to risk-weighted assets						
Company	\$ 794,300	11.21 %	\$ 425,147	6.00 %	N/A	N/A
Sandy Spring Bank	\$ 894,659	12.65 %	\$ 424,346	6.00 %	\$ 565,794	8.00 %
Common Equity Tier 1 Capital to risk-weighted assets						
Company	\$ 783,903	11.06 %	\$ 318,860	4.50 %	N/A	N/A
Sandy Spring Bank	\$ 894,659	12.65 %	\$ 318,259	4.50 %	\$ 459,708	6.50 %
Tier 1 Leverage						
Company	\$ 794,300	9.70 %	\$ 327,577	4.00 %	N/A	N/A
Sandy Spring Bank	\$ 894,659	10.94 %	\$ 327,123	4.00 %	\$ 408,904	5.00 %
As of December 31, 2018:						
Total Capital to risk-weighted assets						
Company	\$ 818,393	12.26 %	\$ 533,994	8.00 %	N/A	N/A
Sandy Spring Bank	\$ 780,858	11.72 %	\$ 532,970	8.00 %	\$ 666,213	10.00 %
Tier 1 Capital to risk-weighted assets						
Company	\$ 737,883	11.06 %	\$ 400,496	6.00 %	N/A	N/A
Sandy Spring Bank	\$ 727,371	10.92 %	\$ 399,728	6.00 %	\$ 532,970	8.00 %
Common Equity Tier 1 Capital to risk-weighted assets						
Company	\$ 727,481	10.90 %	\$ 300,372	4.50 %	N/A	N/A
Sandy Spring Bank	\$ 727,371	10.92 %	\$ 299,796	4.50 %	\$ 433,038	6.50 %
Tier 1 Leverage						
Company	\$ 737,883	9.50 %	\$ 310,807	4.00 %	N/A	N/A
Sandy Spring Bank	\$ 727,371	9.38 %	\$ 310,224	4.00 %	\$ 387,780	5.00 %

NOTE 25 - SEGMENT REPORTING

Currently, the Company conducts business in three operating segments—Community Banking, Insurance and Investment Management. Each of the operating segments is a strategic business unit that offers different products and services. The Insurance and Investment Management segments were businesses that were acquired in separate transactions where management of acquisition was retained. The accounting policies of the segments are the same as those of the Company. However, the segment data reflects inter-segment transactions and balances.

The Community Banking segment is conducted through Sandy Spring Bank and involves delivering a broad range of financial products and services, including various loan and deposit products to both individuals and businesses. Parent company income is included in the Community Banking segment, as the majority of effort of these functions is related to this segment. Major revenue sources include net interest income, gains on sales of mortgage loans, trust income, fees on sales of investment products and service charges on deposit accounts. Expenses include personnel, occupancy, marketing, equipment and other expenses. Non-cash charges associated with amortization of intangibles related to the acquired entities totaled \$1.7 million and \$1.9 million for the years ended December 31, 2019 and December 31, 2018, respectively, and were not significant for the year ended December 31, 2017.

The Insurance segment is conducted through Sandy Spring Insurance Corporation, a subsidiary of the Bank, and offers annuities as an alternative to traditional deposit accounts. Sandy Spring Insurance Corporation operates Sandy Spring Insurance, a general insurance agency located in Annapolis, Maryland, and Neff and Associates, located in Ocean City, Maryland. Major sources of revenue are insurance commissions from commercial lines, personal lines, and medical liability lines. Expenses include personnel and support charges. Non-cash charges associated with amortization of intangibles related to the acquired entities were not significant for the years ended December 31, 2019, 2018 and 2017, respectively.

The Investment Management segment is conducted through West Financial Services, Inc., a subsidiary of the Bank. This asset management and financial planning firm, located in McLean, Virginia, provides comprehensive investment management and financial planning to individuals, families, small businesses and associations including cash flow analysis, investment review, tax planning, retirement planning, insurance analysis and estate planning. West Financial currently has approximately \$1.7 billion in assets under management. Major revenue sources include non-interest income earned on the above services. Expenses include personnel and support charges. Non-cash charges associated with amortization of intangibles related to the acquired entities was not significant for the years ended December 31, 2019, 2018 and 2017, respectively.

Information for the operating segments and reconciliation of the information to the consolidated financial statements for the years ended December 31 is presented in the following tables:

<i>(In thousands)</i>	2019				
	Community	Investment		Inter-Segment	Total
	Banking	Insurance	Mgmt.	Elimination	
Interest income	\$ 347,867	\$ 26	\$ 13	\$ (37)	\$ 347,869
Interest expense	82,598	-	-	(37)	82,561
Provision for loan losses	4,684	-	-	-	4,684
Non-interest income	55,042	6,621	10,326	(667)	71,322
Non-interest expenses	166,802	5,731	7,219	(667)	179,085
Income before income taxes	148,825	916	3,120	-	152,861
Income tax expense	35,350	258	820	-	36,428
Net income	<u>\$ 113,475</u>	<u>\$ 658</u>	<u>\$ 2,300</u>	<u>\$ -</u>	<u>\$ 116,433</u>
Assets	<u>\$ 8,624,590</u>	<u>\$ 10,340</u>	<u>\$ 16,424</u>	<u>\$ (22,352)</u>	<u>\$ 8,629,002</u>
	2018				
<i>(In thousands)</i>	Community	Investment		Inter-Segment	Total
	Banking	Insurance	Mgmt.	Elimination	
Interest income	\$ 324,081	\$ 3	\$ 8	\$ (10)	\$ 324,082
Interest expense	63,647	-	-	(10)	63,637
Provision for loan losses	9,023	-	-	-	9,023
Non-interest income	45,841	6,153	9,670	(615)	61,049
Non-interest expenses	168,261	5,601	6,536	(615)	179,783
Income before income taxes	128,991	555	3,142	-	132,688
Income tax expense	30,827	169	828	-	31,824
Net income	<u>\$ 98,164</u>	<u>\$ 386</u>	<u>\$ 2,314</u>	<u>\$ -</u>	<u>\$ 100,864</u>
Assets	<u>\$ 8,246,282</u>	<u>\$ 9,165</u>	<u>\$ 16,332</u>	<u>\$ (28,507)</u>	<u>\$ 8,243,272</u>

<i>(In thousands)</i>	2017				
	Community		Investment	Inter-Segment	Total
	Banking	Insurance	Mgmt.	Elimination	
Interest income	\$ 194,798	\$ 2	\$ 7	\$ (8)	\$ 194,799
Interest expense	26,039	-	-	(8)	26,031
Provision for loan losses	2,977	-	-	-	2,977
Non-interest income	37,447	6,233	8,335	(772)	51,243
Non-interest expenses	119,607	5,533	4,731	(772)	129,099
Income before income taxes	83,622	702	3,611	-	87,935
Income tax expense	33,684	(399)	1,441	-	34,726
Net income	\$ 49,938	\$ 1,101	\$ 2,170	\$ -	\$ 53,209
Assets	\$ 5,446,056	\$ 8,873	\$ 13,126	\$ (21,380)	\$ 5,446,675

NOTE 26 – QUARTERLY FINANCIAL RESULTS (UNAUDITED)

A summary of selected consolidated quarterly financial data for the years ended December 31 is provided in the following tables:

<i>(In thousands, except per share data)</i>	2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	\$ 88,183	\$ 87,214	\$ 87,082	\$ 85,390
Interest expense	21,433	21,029	20,292	19,807
Net interest income	66,750	66,185	66,790	65,583
Provision (credit) for loan losses	(128)	1,633	1,524	1,655
Non-interest income	16,969	16,556	18,573	19,224
Non-interest expense	44,192	43,887	44,925	46,081
Income before income taxes	39,655	37,221	38,914	37,071
Income tax expense	9,338	8,945	9,531	8,614
Net income	\$ 30,317	\$ 28,276	\$ 29,383	\$ 28,457
Basic net income per share	\$ 0.85	\$ 0.79	\$ 0.82	\$ 0.80
Diluted net income per share	\$ 0.85	\$ 0.79	\$ 0.82	\$ 0.80

<i>(In thousands, except per share data)</i>	2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	\$ 75,504	\$ 78,597	\$ 84,374	\$ 85,607
Interest expense	12,613	14,779	16,783	19,462
Net interest income	62,891	63,818	67,591	66,145
Provision for loan losses	1,997	1,733	1,890	3,403
Non-interest income	17,118	14,868	15,033	14,030
Non-interest expense	49,641	45,082	42,393	42,667
Income before income taxes	28,371	31,871	38,341	34,105
Income tax expense	6,706	7,472	9,107	8,539
Net income	\$ 21,665	\$ 24,399	\$ 29,234	\$ 25,566
Basic net income per share	\$ 0.61	\$ 0.68	\$ 0.82	\$ 0.72
Diluted net income per share	\$ 0.61	\$ 0.68	\$ 0.82	\$ 0.72

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Fourth Quarter 2019 Changes In Internal Controls Over Financial Reporting

No change occurred during the fourth quarter of 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Disclosure Controls and Procedures

As required by SEC rules, the Company's management evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) as of December 31, 2019. The Company's chief executive officer and chief financial officer participated in the evaluation. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2019.

Management's annual report on internal control over financial reporting is located on page 64 of this report.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The material labeled "Information About Nominees and Incumbent Directors," "Corporate Governance and Other Matters," "Section 16(a) Beneficial Ownership Reporting Compliance," "Shareholder Proposals and Communications," and "Report of the Audit Committee" in the Proxy Statement is incorporated in this Report by reference. Information regarding executive officers is included under the caption "Executive Officers" on page 15 of this Report.

Item 11. EXECUTIVE COMPENSATION

The material labeled "Corporate Governance and Other Matters," "Compensation Discussion and Analysis," and "Compensation Committee Report" in the Proxy Statement is incorporated in this Report by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The material labeled "Owners of More than 5% of Bancorp's Common Stock" and "Stock Ownership of Directors and Executive Officers" in the Proxy Statement is incorporated in this Report by reference. Information regarding securities authorized for issuance under equity compensation plans is incorporated by reference from "Equity Compensation Plans" on page 31 of this Report.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The material labeled "Director Independence" and "Transactions and Relationships with Management" in the Proxy Statement is incorporated in this Report by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The material labeled "Audit and Non-Audit" Fees in the Proxy Statement is incorporated in this Report by reference.

PART IV.

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following financial statements are filed as a part of this report:

Consolidated Statements of Condition at December 31, 2019 and 2018

Consolidated Statements of Income for the years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2019, 2018 and 2017

Notes to the Consolidated Financial Statements

Reports of Registered Public Accounting Firm

All financial statement schedules have been omitted, as the required information is either not applicable or included in the Consolidated Financial Statements or related Notes.

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
2	Agreement and Plan of Merger, dated as of September 23, 2019, by and among Sandy Spring Bancorp, Inc., Sandy Spring Bank and Revere Bank	Incorporated by reference to Exhibit 2.1 to Form 8-K filed on September 24, 2019, SEC File No. 0-19065
3.1.1	Articles of Incorporation of Sandy Spring Bancorp, Inc., as amended	Incorporated by reference to Exhibit 3.1 to Form 10-Q for the quarter ended June 30, 1996, SEC File No. 0-19065
3.1.2	Articles of Amendment to the Articles of Incorporation of Sandy Spring Bancorp, Inc.	Incorporated by reference to Exhibit 3(b) to Form 10-K for the year ended December 31, 2011, SEC File No. 0-19065
3.1.3	Articles of Amendment to the Articles of Incorporation of Sandy Spring Bancorp, Inc.	Incorporated by reference to Exhibit 3.1 to Form 8-K filed on May 2, 2018, SEC File No. 0-19065
3.2	Bylaws of Sandy Spring Bancorp, Inc.	Incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-3, SEC File No. 333-222910
4.1.1	Description of Common Stock	Filed herewith
4.1.2	Subordinated Indenture, dated as of November 5, 2019, between Sandy Spring Bancorp, Inc. and Wilmington Trust, National Association, as Trustee	Incorporated by reference to Exhibit 4.1 to Form 8-K filed on November 5, 2019, SEC File No. 0-19065
4.1.3	First Supplemental Indenture, dated as of November 5, 2019, between Sandy Spring Bancorp, Inc. and Wilmington Trust, National Association, as Trustee	Incorporated by reference to Exhibit 4.2 to Form 8-K filed on November 5, 2019, SEC File No. 0-19065
	Other instruments defining the rights of holders of long-term debt securities of Sandy Spring Bancorp, Inc. and its subsidiaries are omitted in accordance with Section (b)(4)(iii)(A) of Item 601 of Regulation S-K. Sandy Spring Bancorp, Inc. agrees to furnish copies of these instruments to the SEC upon request.	
10.1*	Sandy Spring Bancorp, Inc. 2005 Omnibus Stock Plan	Incorporated by reference to Exhibit 10.1 to Form 8-K filed on June 27, 2005, SEC File No. 0-19065
10.2.1*	Form of Director Fee Deferral Agreement, August 26, 1997, as amended	Incorporated by reference to Exhibit 10(h) to Form 10-K for the year ended December 31, 2003, SEC File No. 0-19065
10.2.2*	Form of Amendment to Directors' Fee Deferral Agreement	Incorporated by reference to Exhibit 10(o) to Form 10-K for the year ended December 31, 2008, SEC File No. 0-19065
10.3*	Sandy Spring Bank Directors' Deferred Fee Plan	Incorporated by reference to Exhibit 10(d) to Form 10-K for the year ended December 31, 2016, SEC File No. 0-19065
10.4*	Sandy Spring Bancorp, Inc. Directors' Stock Purchase Plan	Incorporated by reference to Exhibit 4 to Registration Statement on Form S-8, File No. 333-166808
10.5.1*	Employment Agreement dated as of January 13, 2012, by and among Sandy Spring Bancorp, Inc., Sandy Spring Bank, and Philip J. Mantua	Incorporated by reference to Exhibit 10.1 to Form 8-K filed on January 17, 2012, SEC File No. 0-19065
10.5.2*	Amendment to Employment Agreement Between Sandy Spring Bancorp, Inc., Sandy Spring Bank and Philip J. Mantua dated January 13, 2012	Incorporated by reference to Exhibit 10.2 to Form 8-K filed on March 7, 2013, SEC File No. 0-19065

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
10.6.1*	Employment Agreement dated as of January 1, 2009, by and among Sandy Spring Bancorp, Inc., Sandy Spring Bank, and Daniel J. Schrider	Incorporated by reference to Exhibit 10(h) to Form 10-K for the year ended December 31, 2008, SEC File No. 0-19065
10.6.2*	Amendment to Employment Agreement between Sandy Spring Bancorp, Inc., Sandy Spring Bank and Daniel J. Schrider dated January 1, 2009	Filed herewith
10.6.3*	Second Amendment to Employment Agreement Between Sandy Spring Bancorp, Inc., Sandy Spring Bank and Daniel J. Schrider dated January 1, 2009	Incorporated by reference to Exhibit 10.1 to Form 8-K filed on March 7, 2013, SEC File No. 0-19065
10.7.1*	Change in Control Agreement dated as of March 9, 2012, by and among Sandy Spring Bancorp, Inc., Sandy Spring Bank, and R. Louis Caceres	Incorporated by reference to Exhibit 10(m) to Form 10-K for the year ended December 31, 2011, SEC File No. 0-19065
10.7.2*	Amendment to Change in Control Agreement Between Sandy Spring Bancorp, Inc., Sandy Spring Bank and R. Louis Caceres dated March 9, 2012	Incorporated by reference to Exhibit 10.4 to Form 8-K filed on March 7, 2013, SEC File No. 0-19065
10.8.1*	Employment Agreement dated as of January 13, 2012, by and among Sandy Spring Bancorp, Inc., Sandy Spring Bank, and Joseph J. O'Brien, Jr.	Incorporated by reference to Exhibit 10.2 to Form 8-K filed on January 17, 2012, SEC File No. 0-19065
10.8.2*	Amendment to Employment Agreement Between Sandy Spring Bancorp, Inc., Sandy Spring Bank and Joseph J. O'Brien, Jr. dated January 13, 2012	Incorporated by reference to Exhibit 10.3 to Form 8-K filed on March 7, 2013, SEC File No. 0-19065
10.9*	Employment Agreement dated as of July 22, 2019 by and among Sandy Spring Bancorp, Inc., Sandy Spring Bank and Aaron M. Kaslow	Filed herewith
10.10*	Form of Sandy Spring National Bank of Maryland Officer Group Term Replacement Plan	Incorporated by reference to Exhibit 10(r) to Form 10-K for the year ended December 31, 2001, SEC File No. 0-19065
10.11*	Sandy Spring Bank Executive Incentive Retirement Plan	Incorporated by reference to Exhibit 10(v) to Form 10-K for the year ended December 31, 2007, SEC File No. 0-19065
10.12*	Sandy Spring Bancorp, Inc. 2011 Employee Stock Purchase Plan	Incorporated by reference to Appendix A of the Definitive Proxy Statement filed on March 28, 2011, SEC File No. 0-19065
10.13*	Sandy Spring Bancorp, Inc. 2015 Omnibus Incentive Plan	Incorporated by reference to Appendix A of the Definitive Proxy Statement filed on March 31, 2015, SEC File No. 0-19065
21	Subsidiaries	Filed herewith
23	Consent of Ernst and Young LLP	Filed herewith
31(a)	Rule 13a-14(a)/15d-14(a) Certification	Filed herewith
31(b)	Rule 13a-14(a)/15d-14(a) Certification	Filed herewith
32(a)	18 U.S.C. Section 1350 Certification	Filed herewith

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
32(b)	18 U.S.C. Section 1350 Certification	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)	

* Management Contract or Compensatory Plan or Arrangement filed pursuant to Item 15(b) of this Report.

Item 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SANDY SPRING BANCORP, INC.

(Registrant)

By: /s/ Daniel J. Schrider

Daniel J. Schrider

President and Chief Executive Officer

Date: February 21, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of February 21, 2020.

Principal Executive Officer and Director:

/s/ Daniel J. Schrider

Daniel J. Schrider

President and Chief Executive Officer

Principal Financial and Accounting Officer:

/s/ Philip J. Mantua

Philip J. Mantua

Executive Vice President and Chief Financial Officer

<u>Signature</u>	<u>Title</u>
<u>/s/ Ralph F. Boyd, Jr.</u> Ralph F. Boyd, Jr.	Director
<u>/s/ Mark E. Friis</u> Mark E. Friis	Director
<u>/s/ Robert E. Henel, Jr.</u> Robert E. Henel, Jr.	Director
<u>/s/ Pamela A. Little</u> Pamela A. Little	Director
<u>/s/ James J. Maiwurm</u> James J. Maiwurm	Director
<u>/s/ Mark C. Michael</u> Mark C. Michael	Director
<u>/s/ Mark C. Micklem</u> Mark C. Micklem	Director
<u>/s/ Gary G. Nakamoto</u> Gary G. Nakamoto	Director
<u>/s/ Robert L. Orndorff</u> Robert L. Orndorff	Director
<u>/s/ Joe R. Reeder</u> Joe R. Reeder	Director
<u>/s/ Craig A. Ruppert</u> Craig A. Ruppert	Director
<u>/s/ Mona Abutaleb Stephenson</u> Mona Abutaleb Stephenson	Director

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BOARD OF DIRECTORS

Robert L. Orndorff, *Chairman*
Mona Abutaleb
Ralph F. Boyd, Jr.
Mark E. Friis
Robert E. Henel, Jr.
Brian J. Lemek
Pamela A. Little
James J. Maiwurm
Walter C. Martz II
Mark C. Michael
Mark C. Micklem
Gary G. Nakamoto
Christina B. O'Meara
Joe R. Reeder
Craig A. Ruppert
Daniel J. Schrider

CORPORATE OFFICERS OF SANDY SPRING BANCORP, INC.

Daniel J. Schrider
President
Chief Executive Officer

Philip J. Mantua
Executive Vice President
Chief Financial Officer

Aaron M. Kaslow
Executive Vice President
General Counsel & Secretary

EXECUTIVE OFFICERS OF SANDY SPRING BANK

Daniel J. Schrider, President
Chief Executive Officer

Philip J. Mantua, EVP
Chief Financial Officer

Joseph J. O'Brien, Jr., EVP
Chief Banking Officer

Kenneth C. Cook, EVP
Division President,
Commercial Banking

R. Louis Caceres, EVP
Wealth Mgmt, Insurance, &
Mortgage

Aaron M. Kaslow, EVP
General Counsel & Secretary

Kevin Slane, EVP
Chief Risk Officer

Ronda M. McDowell, EVP
Chief Credit Officer

John D. Sadowski, EVP
Chief Information Officer

DIRECTORS EMERITI

Hunter R. Hollar,
Chairman Emeritus
W. Drew Stabler,
Chairman Emeritus
John Chirtea
Solomon Graham
Susan D. Goff
Marshall H. Groom
Joyce Riggs Hawkins
Gilbert L. Hardesty
Charles F. Mess, Sr.
Robert L. Mitchell
David E. Rippeon
Lewis R. Schumann
Dennis A. Starlipier

FREDERICK ADVISORY BOARD

Mark E. Friis, *Chairman*
James L. Bittle
Jennifer Clingan
Edward P. Robinson
Gary R. Sanbower
Chad S. Tyler
Edward E. Wormald

NORTHERN VIRGINIA ADVISORY BOARD

Craig E. Cheifetz, M.D.
Michael Jordan
Jaideep "JD" Kathuria
David M. Lesser
William J. McMenamin
Peter J. Panturo
Thomas P. Schimmel

CORPORATE INFORMATION

Corporate Headquarters
Sandy Spring Bancorp, Inc.
17801 Georgia Avenue
Olney, MD 20832
(301) 774-6400
(800) 399-5919

Annual Meeting

The Annual Meeting of Shareholders will be held by virtual-only webcast on Wednesday, June 4, 2020 at 10:00 a.m. EDT. There will be no physical location for this meeting. Please refer to the proxy statement or notice of meeting for more information.

Sandy Spring Bancorp, Inc.
Willard H. Derrick Building
17801 Georgia Avenue
Olney, MD 20832

Form 10-K

Bancorp's Form 10-K may be obtained free of charge by writing to:

Aaron M. Kaslow
General Counsel & Secretary
Sandy Spring Bancorp, Inc.
17801 Georgia Avenue
Olney, MD 20832

Or by email to:
ir@sandyspringbank.com

Or online at
www.sandyspringbank.com/proxy

Stock Exchange Listing

Sandy Spring Bancorp, Inc., common stock is traded on the Nasdaq Global Select Market under the symbol SASR.

Transfer Agent

Computershare, Inc.
www.computershare.com
(800) 368-5948

Investor Relations

www.sandyspringbank.com

Member Federal Reserve Bank
Member FDIC
Equal Housing Lender
Affirmative Action EEO