SANDY SPRING BANCORP INC
Form 10-Q
August 03, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2018

OR

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

For the transition period from _____ to _____

Commission File Number: 0-19065

SANDY SPRING BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

301-774-6400

(Registrant's telephone number, including area code)

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

Yes X No ___

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

Yes X No ___

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

Large accelerated filer X 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 Exchange Act)

Yes No X

The number of outstanding shares of common stock outstanding as of July 31, 2018

Common stock, $1.00 par value – 35,515,958 shares

SANDY SPRING BANCORP, INC.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item1. FINANCIAL STATEMENTS

Condensed Consolidated Statements of Condition
June 30, 2018 and December 31, 2017

Condensed Consolidated Statements of Income -
Ended June 30, 2018 and 2017

Condensed Consolidated Statements of Compreh
the Three and Six Months Ended June 30, 2018 a

Condensed Consolidated Statements of Cash Flo
Months Ended June 30, 2018 and 2017

Condensed Consolidated Statements of Changes
Six Months Ended June 30, 2018 and 2017

Notes to Condensed Consolidated Financial State

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

Item 4. CONTROLS AND PROCEDURES

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Item 1A. RISK FACTORS

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Item 3. DEFAULTS UPON SENIOR SECURITIES

Item 4. MINE SAFETY DISCLOSURES

Item 5. OTHER INFORMATION

Item 6. EXHIBITS

SIGNATURES

Forward-Looking Statements

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

Forward-looking statements reflect our expectation or prediction of future conditions, events or results based on information currently available. These forward-looking statements are subject to significant risks and uncertainties that may cause actual results to differ materially from those in such statements. These risks and uncertainties include, but are not limited to, the risks identified in Item 1A of the Company's 2017 Annual Report on Form 10-K, Item 1A of Part II of this report and the following:

- general business and economic conditions nationally or in the markets that the Company serves could adversely affect, among other things, real estate prices, unemployment levels, and consumer and business confidence, which could lead to decreases in the demand for loans, deposits and other financial services that we provide and increases in loan delinquencies and defaults;

- changes or volatility in the capital markets and interest rates may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our balance sheet as well as our liquidity;

- our liquidity requirements could be adversely affected by changes in our assets and liabilities;

- our investment securities portfolio is subject to credit risk, market risk, and liquidity risk as well as changes in the estimates we use to value certain of the securities in our portfolio;

- the effect of legislative or regulatory developments including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry;

- acquisition integration risks, including potential deposit attrition, higher than expected costs, customer loss, business disruption and the inability to realize benefits and costs savings from, and limit any unexpected liabilities associated with, any business combinations;

- competitive factors among financial services companies, including product and pricing pressures and our ability to attract, develop and retain qualified banking professionals;

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

other regulatory agencies; and

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

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

Part I

Item 1. FINANCIAL STATEMENTS

Sandy Spring Bancorp, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CONDITION - UNAUDITED

(Dollars in thousands)	**June 30, 2018**	December 31, 2017
Assets		
Cash and due from banks	**$ 69,451**	$ 55,693
Federal funds sold	**1,434**	2,845
Interest-bearing deposits with banks	**223,883**	53,962
Cash and cash equivalents	**294,768**	112,500
Residential mortgage loans held for sale (at fair value)	**40,000**	9,848
Investments available-for-sale (at fair value)	**942,832**	729,507
Other equity securities	**74,442**	45,518
Total loans	**6,250,073**	4,314,248
Less: allowance for loan losses	**(48,493)**	(45,257)
Net loans	**6,201,580**	4,268,991
Premises and equipment, net	**62,275**	54,761
Other real estate owned	**2,361**	2,253
Accrued interest receivable	**23,197**	15,480
Goodwill	**346,312**	85,768
Other intangible assets, net	**10,868**	580
Other assets	**153,965**	121,469
Total assets	**$ 8,152,600**	**$** 5,446,675
Liabilities		
Noninterest-bearing deposits	**$ 1,910,690**	$ 1,264,392
Interest-bearing deposits	**3,927,136**	2,699,270
Total deposits	**5,837,826**	3,963,662
Securities sold under retail repurchase agreements and federal funds purchased	**139,647**	119,359
Advances from FHLB	**1,063,777**	765,833
Subordinated debentures	**37,495**	-
Accrued interest payable and other liabilities	**47,506**	34,005
Total liabilities	**7,126,251**	4,882,859
Stockholders' Equity		
Common stock -- par value $1.00; shares authorized 100,000,000; shares issued and outstanding 35,511,943 and 23,996,293 at June 30, 2018 and December 31, 2017, respectively	**35,512**	23,996
Additional paid in capital	**604,631**	168,188
Retained earnings	**406,762**	378,489
Accumulated other comprehensive loss	**(20,556)**	(6,857)
Total stockholders' equity	**1,026,349**	563,816
Total liabilities and stockholders' equity	**$ 8,152,600**	**$** 5,446,675

The accompanying notes are an integral part of these statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	**2018**	2017	**2018**	2017
Interest income:				
Interest and fees on loans	**$ 70,672**	$ 42,747	**$ 138,264**	$ 82,970
Interest on loans held for sale	**279**	72	**647**	154
Interest on deposits with banks	**514**	91	**871**	181
Interest and dividends on investment securities:				
Taxable	**5,083**	3,554	**10,185**	7,162
Exempt from federal income taxes	**2,042**	2,106	**4,114**	4,057
Interest on federal funds sold	**7**	6	**20**	10
Total interest income	**78,597**	48,576	**154,101**	94,534
Interest expense:				
Interest on deposits	**8,851**	3,023	**15,810**	5,511
Interest on retail repurchase agreements and federal funds purchased	**108**	79	**216**	155
Interest on advances from FHLB	**5,338**	3,148	**10,416**	6,277
Interest on subordinated debt	**482**	-	**950**	12
Total interest expense	**14,779**	6,250	**27,392**	11,955
Net interest income	**63,818**	42,326	**126,709**	82,579
Provision for loan losses	**1,733**	1,322	**3,730**	1,516
Net interest income after provision for loan losses	**62,085**	41,004	**122,979**	81,063
Non-interest income:				
Investment securities gains	**-**	1,273	**63**	1,275
Service charges on deposit accounts	**2,290**	2,017	**4,549**	3,981
Mortgage banking activities	**2,064**	840	**4,271**	1,448
Wealth management income	**5,387**	4,744	**10,448**	9,228
Insurance agency commissions	**1,180**	1,222	**3,004**	2,974
Income from bank owned life insurance	**670**	605	**3,001**	1,199
Bank card fees	**1,393**	1,253	**2,763**	2,398
Other income	**1,884**	1,617	**3,887**	3,700
Total non-interest income	**14,868**	13,571	**31,986**	26,203
Non-interest expense:				
Salaries and employee benefits	**24,664**	18,282	**48,576**	36,083
Occupancy expense of premises	**4,642**	3,211	**9,584**	6,613
Equipment expense	**2,243**	1,767	**4,468**	3,491
Marketing	**945**	776	**2,093**	1,439
Outside data services	**1,707**	1,367	**3,104**	2,759
FDIC insurance	**1,390**	823	**2,583**	1,628
Amortization of intangible assets	**541**	25	**1,082**	51
Merger expenses	**2,228**	987	**11,186**	987
Other expense	**6,722**	5,630	**12,047**	9,798
Total non-interest expense	**45,082**	32,868	**94,723**	62,849
Income before income taxes	**31,871**	21,707	**60,242**	44,417
Income tax expense	**7,472**	6,966	**14,178**	14,564
Net income	**$ 24,399**	$ 14,741	**$ 46,064**	$ 29,853

Per share information:						
Basic net income per share	**$ 0.68**	$ 0.61	**$ 1.29**	$ 1.24		
Diluted net income per share	**$ 0.68**	$ 0.61	**$ 1.29**	$ 1.23		
Dividends declared per common share	**$ 0.28**	$ 0.26	**$ 0.54**	$ 0.52		

The accompanying notes are an integral part of these statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2018**	2017	**2018**	2017
Net income	**$ 24,399**	$ 14,741	**$ 46,064**	$ 29,853
Other comprehensive income:				
Investments available-for-sale:				
Net change in unrealized gains/(losses) on investments available-for-sale	**(4,230)**	4,003	**(16,919)**	5,505
Related income tax (expense)/benefit	**1,107**	(1,593)	**4,428**	(2,191)
Net investment gains reclassified into earnings	**-**	(1,273)	**(63)**	(1,275)
Related income tax expense	**-**	508	**16**	508
Net effect on other comprehensive income/(loss) for the period	**(3,123)**	1,645	**(12,538)**	2,547
Defined benefit pension plan:				
Recognition of unrealized loss	**250**	295	**500**	590
Related income tax benefit	**(65)**	(118)	**(184)**	(235)
Net effect on other comprehensive income for the period	**185**	177	**316**	355
Total other comprehensive income/(loss)	**(2,938)**	1,822	**(12,222)**	2,902
Comprehensive income	**$ 21,461**	$ 16,563	**$ 33,842**	$ 32,755

The accompanying notes are an integral part of these statements

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

	Six Months Ended June 30,	
(Dollars in thousands)	**2018**	2017
Operating activities:		
Net income	**$ 46,064**	$ 29,853
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**6,099**	3,967
Provision for loan losses	**3,730**	1,516
Stock based compensation expense	**1,250**	1,052
Tax benefits associated with share based compensation	**252**	692
Deferred income tax expense/(benefit)	**2,358**	(540)
Origination of loans held for sale	**(186,777)**	(70,736)
Proceeds from sales of loans held for sale	**186,211**	79,489
Gains on sales of loans held for sale	**(3,674)**	(1,443)
(Gains)/losses on sales of other real estate owned	**106**	(17)
Investment securities gains	**(63)**	(1,275)
Net increase in accrued interest receivable	**(1,211)**	(321)
Net increase in other assets	**(443)**	(1,506)
Net decrease in accrued expenses and other liabilities	**(2,239)**	(4,069)
Other – net	**2,712**	3,605
Net cash provided by operating activities	**54,375**	40,267
Investing activities:		
(Purchases)/Proceeds of other equity securities	**(12,027)**	4,681
Purchases of investments available-for-sale	**(497)**	(115,028)
Proceeds from sales of investment available-for-sale	**994**	2,251
Proceeds from maturities, calls and principal payments of investments available-for-sale	**52,798**	70,361
Net increase in loans	**(315,872)**	(223,705)
Proceeds from the sales of other real estate owned	**676**	759
Proceeds from sales of loans previously held for investment	**59,945**	18,222
Acquisition of business activity, net of cash paid	**32,552**	-
Expenditures for premises and equipment	**(6,788)**	(2,395)
Net cash used in investing activities	**(188,219)**	(244,854)
Financing activities:		
Net increase in deposits	**263,322**	307,901
Net increase in retail repurchase agreements and federal funds purchased	**13,402**	2,193
Proceeds from advances from FHLB	**3,920,000**	2,220,000
Repayment of advances from FHLB	**(3,861,413)**	(2,340,000)
Retirement of subordinated debt	**-**	(30,000)
Proceeds from issuance of common stock	**829**	817
Stock tendered for payment of withholding taxes	**(760)**	(952)
Dividends paid	**(19,268)**	(12,561)
Net cash provided by financing activities	**316,112**	147,398
Net increase (decrease) in cash and cash equivalents	**182,268**	(57,189)
Cash and cash equivalents at beginning of period	**112,500**	134,125

Cash and cash equivalents at end of period	**$**	**294,768**	$	76,936
Supplemental disclosures:				
Interest payments	**$**	**26,587**	$	12,391
Income tax payments		**11,598**		16,287
Transfer from loans to residential mortgage loans held for sale		**60,043**		18,053
Transfer from loans to other real estate owned		**289**		288

The accompanying notes are an integral part of these statements

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

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(Dollars in thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at January 1, 2018	**$ 23,996**	**$ 168,188**	**$ 378,489**	**$ (6,857)**	**$ 563,816**
Net income	**-**	**-**	**46,064**	**-**	**46,064**
Other comprehensive loss, net of tax	**-**	**-**	**-**	**(12,222)**	**(12,222)**
Common stock dividends - $0.54 per share	**-**	**-**	**(19,268)**	**-**	**(19,268)**
Stock compensation expense	**-**	**1,250**	**-**	**-**	**1,250**
Common stock issued pursuant to:					
Acquisition of WashingtonFirst Bankshares, Inc. - 11,446,197 shares	**11,446**	**435,194**	**-**	**-**	**446,640**
Stock option plan - 17,927 shares	**18**	**352**	**-**	**-**	**370**
Employee stock purchase plan - 13,821 shares	**14**	**445**	**-**	**-**	**459**
Restricted stock - 37,705 shares	**38**	**(798)**	**-**	**-**	**(760)**
Reclassification of tax effects from other comprehensive income	**-**	**-**	**1,477**	**(1,477)**	**-**
Balances at June 30, 2018	**$ 35,512**	**$ 604,631**	**$ 406,762**	**$ (20,556)**	**$ 1,026,349**
Balance at January 1, 2017	$ 23,901	$ 165,871	$ 350,414	$ (6,614)	$ 533,572
Net income	-	-	29,853	-	29,853
Other comprehensive income, net of tax	-	-	-	2,902	2,902
Common stock dividends - $0.52 per share	-	-	(12,561)	-	(12,561)
Stock compensation expense	-	1,052	-	-	1,052
Common stock issued pursuant to:					
Stock option plan - 27,284 shares	27	491	-	-	518
Employee stock purchase plan - 8,565 shares	9	290	-	-	299
Restricted stock - 47,064 shares	47	(999)	-	-	(952)
Balances at June 30, 2017	$ 23,984	$ 166,705	$ 367,706	$ (3,712)	$ 554,683

The accompanying notes are an integral part of these statements

Sandy Spring Bancorp, Inc. and Subsidiaries

Notes to the CONDENSED Consolidated Financial Statements - UNAUDITED

Note 1 – Significant Accounting Policies

Nature of Operations

Sandy Spring Bancorp (the "Company"), a Maryland corporation, is the bank holding company for Sandy Spring Bank (the "Bank"). Independent and community-oriented, Sandy Spring Bank offers a broad range of commercial banking, retail banking, mortgage and trust services throughout central Maryland, Northern Virginia, and the greater Washington, D.C. market. Through its subsidiaries, Sandy Spring Insurance Corporation and West Financial Services, Inc., Sandy Spring Bank also offers a comprehensive menu of insurance and wealth management services.

Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP") and prevailing practices within the financial services industry for interim financial information and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements and prevailing practices within the banking industry. The following summary of significant accounting policies of the Company is presented to assist the reader in understanding the financial and other data presented in this report. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for any future periods or for the year ending December 31, 2018. In the opinion of management, all adjustments (comprising only normal recurring accruals) necessary for a fair presentation of the results of the interim periods have been included. Certain reclassifications have been made to prior period amounts, as necessary, to conform to the current period presentation. The Company has evaluated subsequent events through the date of the issuance of its financial statements.

These statements should be read in conjunction with the financial statements and accompanying notes included in the Company's 2017 Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC") on February 23, 2018. There have been no significant changes to the Company's accounting policies as disclosed in the 2017 Annual Report on Form 10-K.

Principles of Consolidation

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

Use of Estimates

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

Cash Flows

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

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 Condensed 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/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 the Sandy Spring Insurance is a producer. The Company recognizes revenue when the insurance policy has been contractually agreed to by the insurer and policyholder (at transaction date).

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.

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.

Adopted Accounting Pronouncements

The FASB issued Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, in May 2014 that provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to customers. The guidance also provides for a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company's revenue is comprised of net interest income and non-interest income. The guidance does not apply to revenue associated with financial instruments, net interest income, mortgage origination and servicing activities, and gains and losses from securities. Accordingly, the majority of the Company's revenues have not been affected. The following revenue streams were identified to be in scope of ASC 606: 1) wealth management income; 2) insurance agency commissions; and 3) service charges on deposit accounts. The Company adopted the standard on January 1, 2018. The Company's accounting policies and revenue recognition principles did not change materially as the principles of ASC 606 are largely consistent with the current revenue recognition practices.

The FASB issued Update No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, in February 2018. The guidance permits entities to reclassify from accumulated other comprehensive income ("OCI") to retained earnings stranded income tax effects resulting from the Tax Cuts and Jobs Act enacted in December 2017. The Company made the election to adopt this guidance during the first quarter of 2018 and reclassified $1.5 million of stranded income tax effects from OCI to retained earnings. The Company made the adjustment between OCI and retained earnings in the Condensed Consolidated Statements of Changes in Stockholders' Equity as of the beginning of the current reporting period.

The FASB issued Update No. 2016-01, *Financial Instruments – (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities"*, in January 2016. This guidance amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under fair value option and equity investments. The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost. The Company adopted the guidance in the first quarter 2018 with no impact to retained earnings or other comprehensive income. The Company has no investments in marketable equity securities classified as available-for-sale accounted for at fair value. The Company's marketable equity securities that do not have determinable fair values are measured at cost less any impairment. The Company's existing accounting policy is consistent with the measurement alternative provided by the guidance. For purposes of disclosing fair values of financial instruments carried at amortized cost, we determined the fair values based on "exit price" as required by the guidance.

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 condition and reasonable and supportable forecasts. This will result in earlier recognition of loss allowances in most instances. Credit losses related to available-for-sale debt securities (regardless of whether the impairment is considered to be other-than-temporary) will be measured in a manner similar to the present, except that such losses will be recorded as allowances rather than as reductions in the amortized cost of the related securities. With respect to trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures, the guidance requires that an entity estimate its lifetime expected credit loss and record an allowance resulting in the net amount expected to be collected to be reflected as the financial asset. Entities are also required to provide significantly more disclosures, including information used to track credit quality by year of origination for most financing receivables. This guidance is effective for public business entities for the first interim or annual period beginning after December 15, 2019. The standard's provisions will be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. Early adoption by public business entities is permitted for the first interim or annual period beginning after December 15, 2018. The Company assessed the guidance and has identified the available historical loan level information and completed a data gap analysis. The Company is in process of reviewing various calculation methodologies and the approximate impact on the Company's financial position, results of operations and cash flows.

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

NOTE 2 - ACQUISITION OF WASHINGTONFIRST BANKSHARES, INC.

On January 1, 2018 ("Acquisition Date"), the Company completed its acquisition of WashingtonFirst Bankshares, Inc. ("WashingtonFirst") in a transaction valued at approximately $447 million in the aggregate, based on the Company's closing market price of $39.02 on December 29, 2017. The Company issued an aggregate of 11,446,197 shares of the Company's common stock in the transaction. At the effective date of the acquisition, Sandy Spring shareholders owned approximately 67.7% and WashingtonFirst's shareholders owned approximately 32.3% of the combined company. As of the Acquisition Date, WashingtonFirst was merged into the Company and WashingtonFirst's wholly-owned subsidiary, WashingtonFirst Bank, was merged with and into Sandy Spring Bank.

WashingtonFirst, headquartered in Reston, Virginia, had 19 community banking offices throughout the Washington D.C. metropolitan region and more than $2.1 billion in assets as of December 31, 2017. In addition, WashingtonFirst provided wealth management services through its subsidiary, 1st Portfolio Wealth Advisors, and mortgage banking services through the bank's subsidiary, WashingtonFirst Mortgage Corporation.

The acquisition of WashingtonFirst is being accounted for as a business combination using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration paid are recorded at estimated fair values on the Acquisition Date. During the second quarter, management recorded a re-measurement period adjustment to goodwill and fair value of the acquired loan portfolio in the total amount of $3.4 million, as the Company continues to assess the credit quality of the acquired loan portfolio from WashingtonFirst. The provisional amount of goodwill recognized as of the Acquisition Date was approximately $260.5 million. The estimated fair values of the acquired assets and assumed liabilities are subject to refinement as additional information relative to closing date fair values becomes available. Any subsequent adjustments to the fair values of acquired assets and liabilities assumed, identifiable intangible assets, or other purchase accounting adjustments will result in adjustments to goodwill within the first 12 months following the closing date of acquisition.

The consideration paid for WashingtonFirst's common equity and the provisional fair values of acquired identifiable assets and liabilities assumed as of the Acquisition Date were as follows:

(In thousands)		January 1, 2018
Purchase Price:		
Fair value of common shares issued (11,446,197 shares) based on Sandy Spring's share price of $39.02	$	446,640
Cash for fractional shares		10
Total purchase price	$	446,650
Identifiable assets:		
Cash and cash equivalents	$	32,497
Residential mortgage loans held for sale		25,789
Investment securities		302,321
Loans		1,680,278
Premises and equipment		4,602
Other Real Estate Owned		497
Accrued Interest Receivable		6,648
Other Intangible assets		11,370
Other Assets		33,764
Total identifiable assets	$	2,097,766
Identifiable liabilities:		
Deposits	$	1,610,327
Borrowings		283,808
Other Liabilities		17,525
Total identifiable liabilities	$	1,911,660
Provisional fair value of net assets acquired including identifiable intangible assets		186,106
Provisional resulting goodwill	$	260,544

Note 3 – Investments

Investments available-for-sale

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

	June 30, 2018				December 31, 2017			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	**$212,837**	**$ -**	**$ (6,389)**	**$206,448**	$109,349	$ -	$(2,781)	$106,568
State and municipal	**321,028**	**3,408**	**(1,930)**	**322,506**	306,109	6,313	(169)	312,253
Mortgage-backed	**414,829**	**698**	**(11,765)**	**403,762**	302,664	1,585	(4,209)	300,040
Corporate debt	**9,100**	**138**	**-**	**9,238**	9,100	332	-	9,432
Trust preferred	**310**	**-**	**-**	**310**	931	71	-	1,002
Total debt securities	**958,104**	**4,244**	**(20,084)**	**942,264**	728,153	8,301	(7,159)	729,295
Marketable equity securities	**568**	**-**	**-**	**568**	212	-	-	212
Total investments available-for-sale	**$958,672**	**$ 4,244**	**$(20,084)**	**$942,832**	$728,365	$ 8,301	$(7,159)	$729,507

Any unrealized losses in the U.S. government agencies, state and municipal, mortgage-backed or corporate debt investment securities at June 30, 2018 are not the result of credit related events but due to changes in interest rates. These declines in fair market value are considered temporary in nature and are expected to recover over time as these securities approach maturity.

The mortgage-backed securities portfolio at June 30, 2018 is composed entirely of either the most senior tranches of GNMA, FNMA or FHLMC collateralized mortgage obligations ($146.9 million), or GNMA, FNMA or FHLMC mortgage-backed securities ($256.9 million). The Company does not intend to sell these securities and has sufficient liquidity to hold these securities for an adequate period of time to allow for any anticipated recovery in fair value.

During the first quarter of 2018, the Company sold the pooled trust preferred security for an insignificant gain. This security had incurred credit related other-than-temporary impairment which was recognized in periods prior to 2017.

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

			June 30, 2018		
			Continuous Unrealized Losses Existing for:		
(Dollars in thousands)	**Number of Securities**	**Fair Value**	**Less than 12 months**	**More than 12 months**	**Total Unrealized Losses**

U.S. government agencies	**57**	**$ 206,448**	**$ 2,893**	**$ 3,496**	**$ 6,389**
State and municipal	**117**	**112,777**	**1,889**	**41**	**1,930**
Mortgage-backed	**143**	**377,136**	**4,956**	**6,809**	**11,765**
Total	**317**	**$ 696,361**	**$ 9,738**	**$ 10,346**	**$ 20,084**

		December 31, 2017			
			Continuous Unrealized Losses Existing for:		
(Dollars in thousands)	Number of Securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
U.S. government agencies	13	$ 106,568	$ 545	$ 2,236	$ 2,781
State and municipal	20	18,228	107	62	169
Mortgage-backed	46	221,621	402	3,807	4,209
Total	79	$ 346,417	$ 1,054	$ 6,105	$ 7,159

The amortized cost and estimated fair values of debt securities available-for-sale by contractual maturity at the dates indicated are provided in the following table. The Company has allocated mortgage-backed securities into the four maturity groupings reflected in the following table using the expected average life of the individual securities based on statistics provided by independent third party industry sources. Expected maturities will differ from contractual maturities as borrowers may have the right to prepay obligations with or without prepayment penalties.

	June 30, 2018		December 31, 2017	
(In thousands)	**Amortized Cost**	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Due in one year or less	**$ 54,125**	**$ 54,522**	$ 12,789	$ 12,889
Due after one year through five years	**244,147**	**245,061**	180,109	184,264
Due after five years through ten years	**288,396**	**281,183**	228,484	227,688
Due after ten years	**371,436**	**361,498**	306,771	304,454
Total debt securities available for sale	**$ 958,104**	**$ 942,264**	$ 728,153	$ 729,295

At June 30, 2018 and December 31, 2017, investments available-for-sale with a book value of $632.2 million and $431.7 million, respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law. The outstanding balance of no single issuer, except for U.S. Agencies securities, exceeded ten percent of stockholders' equity at June 30, 2018 and December 31, 2017.

Equity securities

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

(In thousands)	**June 30, 2018**	December 31, 2017
Federal Reserve Bank stock	**$ 22,438**	$ 8,398
Federal Home Loan Bank of Atlanta stock	**52,004**	37,120
Total equity securities	**$ 74,442**	$ 45,518

Note 4 – LOANS

Outstanding loan balances at June 30, 2018 and December 31, 2017 are net of unearned income including net deferred loan costs of $0.8 million and $1.8 million, respectively. The loan portfolio segment balances at the dates indicated are presented in the following table:

(In thousands)	**June 30, 2018**	December 31, 2017
Residential real estate:		
Residential mortgage	**$ 1,106,674**	$ 921,435
Residential construction	**197,372**	176,687
Commercial real estate:		
Commercial owner occupied real estate	**1,184,421**	857,196
Commercial investor real estate	**1,923,827**	1,112,710
Commercial AD&C	**609,266**	292,443
Commercial business	**702,939**	497,948
Consumer	**525,574**	455,829
Total loans	**$ 6,250,073**	$ 4,314,248

The fair value of the financial assets acquired in the WashingtonFirst transaction 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. During the second quarter, management recorded a re-measurement period adjustment to goodwill and fair value of the acquired loan portfolio in the total amount of $3.4 million, as the Company continues to assess the credit quality of the acquired loan portfolio from WashingtonFirst. Of the $10.7 million specific credit mark on acquired credit impaired loans, approximately $2.6 million is estimated to be an accretable adjustment recognized over the remaining expected lives of the loans and $8.1 million non-accretable adjustment.

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

(Dollars in thousands)	**January 1, 2018**
Gross amortized cost basis at January 1, 2018	$ 1,697,760
Interest rate fair value adjustment	15,591
Credit fair value adjustment on pools of homogeneous loans	(22,421)
Credit fair value adjustment on purchased credit impaired loans	(10,652)
Fair value of acquired loan portfolio at January 1, 2018	$ 1,680,278

The following table presents the acquired credit impaired loans receivable as of the Acquisition Date:

(Dollars in thousands)	**January 1, 2018**
Contractual principal and interest at acquisition	$ 33,275
Contractual cash flows not expected to be collected (Nonaccretable yield)	(12,466)
Expected cash flows at acquisition	20,809
Interest component of expected cash flows (Accretable yield)	(2,616)
Fair value of purchased credit impaired loans	$ 18,193

The outstanding balance of purchased credit impaired loans receivable totaled $28.8 million and $28.3 million at January 1, 2018 and June 30, 2018, respectively. The fair value of purchased credit impaired loans was $18.9 million at June 30, 2018.

Activity for the accretable yield since the Acquisition Date was as follows:

(Dollars in thousands)	**For the Six Months Ended June 30, 2018**
Accretable yield at the beginning of the period	$ -
Addition of accretable yield due to acquisition	2,616
Accretion into interest income	(740)
Accretable yield at the end of the period.	$ 1,876

Note 5– CREDIT QUALITY ASSESSMENT

Allowance for Loan Losses

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

	Six Months Ended June 30,	
(In thousands)	**2018**	2017
Balance at beginning of year	**$ 45,257**	$ 44,067

Provision for loan losses			**3,730**	1,516
Loan charge-offs			**(818)**	(824)
Loan recoveries			**324**	320
Net charge-offs			**(494)**	(504)
Balance at period end	**$**	**48,493**	$	45,079

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

	For the Six Months Ended June 30, 2018							
		Commercial Real Estate				Residential Real Estate		
(Dollars in thousands)	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	$ 8,711	$ 3,501	$ 14,970	$ 7,178	$ 2,383	$ 7,268	$ 1,246	$ 45,257
Provision (credit)	1,033	688	2,000	(740)	327	(144)	566	3,730
Charge-offs	(378)	-	-	-	(414)	(26)	-	(818)
Recoveries	129	62	16	-	71	35	11	324
Net recoveries (charge-offs)	(249)	62	16	-	(343)	9	11	(494)
Balance at end of period	$ 9,495	$ 4,251	$ 16,986	$ 6,438	$ 2,367	$ 7,133	$ 1,823	$ 48,493
Total loans	$702,939	$609,266	$1,923,827	$1,184,421	$525,574	$1,106,674	$197,372	$6,250,073
Allowance for loans losses to total loans ratio	1.35%	0.70%	0.88%	0.54%	0.45%	0.64%	0.92%	0.78%
Balance of loans specifically evaluated for impairment	$ 7,668	$ 136	$ 5,878	$ 3,440	$ N/A	$ 1,775	$ -	$ 18,897
Allowance for loans specifically evaluated for impairment	$ 3,123	$ -	$ 1,255	$ 125	$ N/A	$ -	$ -	$ 4,503
Specific allowance to specific loans ratio	40.73%	-	21.35%	3.63%	N/A	-	-	23.83%
Balance of loans collectively evaluated	$688,133	$609,130	$1,900,464	$1,178,689	$524,231	$1,104,887	$197,372	$6,202,906
Allowance for loans collectively evaluated	$ 6,372	$ 4,251	$ 15,731	$ 6,313	$ 2,367	$ 7,133	$ 1,823	$ 43,990
Collective allowance to collective loans ratio	0.93%	0.70%	0.83%	0.54%	0.45%	0.65%	0.92%	0.71%
Balance of loans acquired with deteriorated credit quality	$ 7,138	$ -	$ 17,485	$ 2,292	$ 1,343	$ 12	$ -	$ 28,270
Allowance for loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Allowance to loans acquired with deteriorated credit quality ratio	-	-	-	-	-	-	-	-

	For the Year Ended December 31,2017							
		Commercial Real Estate				Residential Real Estate		
(Dollars in thousands)	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	$ 7,539	$ 4,652	$ 12,939	$ 7,885	$ 2,828	$ 7,261	$ 963	$ 44,067
Provision (credit)	2,616	(1,254)	1,930	(459)	(57)	(56)	257	2,977
Charge-offs	(1,538)	-	-	(248)	(693)	(87)	-	(2,566)
Recoveries	94	103	101	-	305	150	26	779
Net recoveries (charge-offs)	(1,444)	103	101	(248)	(388)	63	26	(1,787)
Balance at end of period	$ 8,711	$ 3,501	$ 14,970	$ 7,178	$ 2,383	$ 7,268	$ 1,246	$ 45,257
Total loans	$497,948	$292,443	$1,112,710	$857,196	$455,829	$921,435	$176,687	$4,314,248
Allowance for loan losses to total loans ratio	1.75%	1.20%	1.35%	0.84%	0.52%	0.79%	0.71%	1.05%
Balance of loans specifically evaluated for impairment	$ 8,105	$ 136	$ 5,575	$ 4,078	$ N/A	$ 2,915	$ -	$ 20,809
Allowance for loans specifically evaluated for impairment	$ 3,220	$ -	$ 663	$ 131	$ N/A	$ -	$ -	$ 4,014
Specific allowance to specific loans ratio	39.73%	-	11.89%	3.21%	N/A	-	-	19.29%
Balance of loans collectively evaluated	$489,843	$292,307	$1,107,135	$853,118	$455,829	$918,520	$176,687	$4,293,439
Allowance for loans collectively evaluated	$ 5,491	$ 3,501	$ 14,307	$ 7,047	$ 2,383	$ 7,268	$ 1,246	$ 41,243
Collective allowance to collective loans ratio	1.12%	1.20%	1.29%	0.83%	0.52%	0.79%	0.71%	0.96%

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

(In thousands)	**June 30, 2018**	December 31, 2017
Impaired loans with a specific allowance	**$ 11,829**	$ 11,693
Impaired loans without a specific allowance	**7,068**	9,116
Total impaired loans	**$ 18,897**	$ 20,809
Allowance for loan losses related to impaired loans	**$ 4,503**	$ 4,014
Allowance for loan losses related to loans collectively evaluated	**43,990**	41,243
Total allowance for loan losses	**$ 48,493**	$ 45,257
Average impaired loans for the period	**$ 20,166**	$ 23,179
Contractual interest income due on impaired loans during the period	**$ 1,298**	$ 2,314
Interest income on impaired loans recognized on a cash basis	**$ 302**	$ 754
Interest income on impaired loans recognized on an accrual basis	**$ 64**	$ 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 the dates indicated:

	June 30, 2018					
		Commercial Real Estate				**Total Recorded Investment in**
(In thousands)	**Commercial**	**Commercial AD&C**	**Commercial Investor R/E**	**Commercial Owner Occupied R/E**	**All Other Loans**	**Impaired Loans**
Impaired loans with a specific allowance						
Non-accruing	**$ 3,493**	**$ -**	**$ 5,157**	**$ -**	**$ -**	**$ 8,650**
Restructured accruing	**342**	**-**	**-**	**-**	**-**	**342**
Restructured non-accruing	**2,059**	**-**	**-**	**778**	**-**	**2,837**
Balance	**$ 5,894**	**$ -**	**$ 5,157**	**$ 778**	**$ -**	**$ 11,829**
Allowance	**$ 3,123**	**$ -**	**$ 1,255**	**$ 125**	**$ -**	**$ 4,503**
Impaired loans without a specific allowance						
Non-accruing	**$ 307**	**$ -**	**$ 721**	**$ 1,101**	**$ -**	**$ 2,129**
Restructured accruing	**443**	**-**	**-**	**-**	**878**	**1,321**
Restructured non-accruing	**1,024**	**136**	**-**	**1,561**	**897**	**3,618**
Balance	**$ 1,774**	**$ 136**	**$ 721**	**$ 2,662**	**$ 1,775**	**$ 7,068**
Total impaired loans						
Non-accruing	**$ 3,800**	**$ -**	**$ 5,878**	**$ 1,101**	**$ -**	**$ 10,779**

Restructured accruing	**785**	**-**	**-**	**-**	**878**	**1,663**
Restructured non-accruing	**3,083**	**136**	**-**	**2,339**	**897**	**6,455**
Balance	**$ 7,668**	**$ 136**	**$ 5,878**	**$ 3,440**	**$ 1,775**	**$ 18,897**
Unpaid principal balance in total impaired loans	**$ 10,755**	**$ 1,248**	**$ 10,476**	**$ 5,774**	**$ 2,646**	**$ 30,899**

	June 30, 2018					
	Commercial Real Estate					Total Recorded Investment in Impaired
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	Loans
Average impaired loans for the period	**$ 7,906**	**$ 136**	**$ 5,755**	**$ 3,842**	**$ 2,527**	**$ 20,166**
Contractual interest income due on impaired loans during the period	**$ 531**	**$ 184**	**$ 317**	**$ 189**	**$ 77**	
Interest income on impaired loans recognized on a cash basis	**$ 100**	**$ -**	**$ 13**	**$ 83**	**$ 106**	
Interest income on impaired loans recognized on an accrual basis	**$ 38**	**$ -**	**$ -**	**$ -**	**$ 26**	

	December 31, 2017					
	Commercial Real Estate					Total Recorded Investment in Impaired
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	Loans
Impaired loans with a specific allowance						
Non-accruing	$ 4,516	$ -	$ 5,157	$ -	$ -	$ 9,673
Restructured accruing	1,129	-	-	-	-	1,129
Restructured non-accruing	108	-	-	783	-	891
Balance	$ 5,753	$ -	$ 5,157	$ 783	$ -	$ 11,693
Allowance	$ 3,220	$ -	$ 663	$ 131	$ -	$ 4,014
Impaired loans without a specific allowance						
Non-accruing	$ 391	$ -	$ 418	$ 1,318	$ -	$ 2,127
Restructured accruing	273	-	-	496	890	1,659
Restructured non-accruing	1,688	136	-	1,481	2,025	5,330
Balance	$ 2,352	$ 136	$ 418	$ 3,295	$ 2,915	$ 9,116
Total impaired loans						
Non-accruing	$ 4,907	$ -	$ 5,575	$ 1,318	$ -	$ 11,800
Restructured accruing	1,402	-	-	496	890	2,788
Restructured non-accruing	1,796	136	-	2,264	2,025	6,221
Balance	$ 8,105	$ 136	$ 5,575	$ 4,078	$ 2,915	$ 20,809
Unpaid principal balance in total impaired loans	$ 11,263	$ 1,248	$ 10,166	$ 6,331	$ 3,681	$ 32,689

December 31, 2017

(In thousands)	Commercial	Commercial Real Estate				Total Recorded Investment in Impaired Loans
		Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	
Average impaired loans for the period	$ 7,903	$ 137	$ 6,835	$ 5,336	$ 2,968	$ 23,179
Contractual interest income due on impaired loans during the period	$ 828	$ 333	$ 669	$ 400	$ 84	
Interest income on impaired loans recognized on a cash basis	$ 204	$ -	$ 24	$ 394	$ 132	
Interest income on impaired loans recognized on an accrual basis	$ 111	$ -	$ -	$ 26	$ 32	

Credit Quality

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

	June 30, 2018							
	Commercial Real Estate					Residential Real Estate		
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Consumer	Residential Mortgage	Residential Construction	Total
Non-performing loans and assets:								
Non-accrual loans (1)	**$ 6,883**	**$ 136**	**$ 5,878**	**$ 3,440**	**$ 4,298**	**$ 6,251**	**$ 168**	**$ 27,054**
Loans 90 days past due	**6**	**-**	**-**	**112**	**-**	**-**	**-**	**118**
Restructured loans	**785**	**-**	**-**	**-**	**-**	**878**	**-**	**1,663**
Total non-performing loans	**7,674**	**136**	**5,878**	**3,552**	**4,298**	**7,129**	**168**	**28,835**
Other real estate owned	**39**	**365**	**497**	**-**	**-**	**1,460**	**-**	**2,361**
Total non-performing assets	**$ 7,713**	**$ 501**	**$ 6,375**	**$ 3,552**	**$ 4,298**	**$ 8,589**	**$ 168**	**$ 31,196**

(1) Includes $1.4 million of consumer loans acquired from WashingtonFirst considered performing at the Acquisition Date.

	December 31, 2017							
	Commercial Real Estate					Residential Real Estate		
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Consumer	Residential Mortgage	Residential Construction	Total
Non-performing loans and assets:								
Non-accrual loans	$ 6,703	$ 136	$ 5,575	$ 3,582	$ 2,967	$ 7,196	$ 177	$ 26,336
Loans 90 days past due	-	-	-	-	-	225	-	225
Restructured loans	1,402	-	-	496	-	890	-	2,788
Total non-performing loans	8,105	136	5,575	4,078	2,967	8,311	177	29,349
Other real estate owned	39	365	-	400	-	1,449	-	2,253
Total non-performing assets	$ 8,144	$ 501	$ 5,575	$ 4,478	$ 2,967	$ 9,760	$ 177	$ 31,602

	June 30, 2018							
	Commercial Real Estate					Residential Real Estate		
(In thousands)	Commercial	Commercial AD&C	Commercial Owner		Consumer	Residential Mortgage	Residential Construction	Total

			Investor R/E	Occupied R/E				
Past due loans								
31-60 days	**$ 744**	**$ 28**	**$ 2,995**	**$ 144**	**$ 3,492**	**$ 9,532**	**$ -**	**$ 16,935**
61-90 days	**3,532**	**279**	**770**	**771**	**1,060**	**4,893**	**-**	**11,305**
> 90 days	**6**	**-**	**-**	**112**	**-**	**-**	**-**	**118**
Total past due	**4,282**	**307**	**3,765**	**1,027**	**4,552**	**14,425**	**-**	**28,358**
Non-accrual loans (1)	**6,883**	**136**	**5,878**	**3,440**	**4,298**	**6,251**	**168**	**27,054**
Loans acquired with deteriorated credit quality	**7,138**	**-**	**17,485**	**2,292**	**1,343**	**12**	**-**	**28,270**
Current loans	**684,636**	**608,823**	**1,896,699**	**1,177,662**	**515,381**	**1,085,986**	**197,204**	**6,166,391**
Total loans	**$702,939**	**$609,266**	**$1,923,827**	**$1,184,421**	**$525,574**	**$1,106,674**	**$197,372**	**$6,250,073**

(1) Includes $1.4 million of consumer loans acquired from WashingtonFirst considered performing at the Acquisition Date.

	December 31, 2017							
	Commercial Real Estate					Residential Real Estate		
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Consumer	Residential Mortgage	Residential Construction	Total
Past due loans								
31-60 days	$ 587	$ -	$ 775	$ 414	$ 2,107	$ 6,100	$ -	$ 9,983
61-90 days	-	-	-	-	106	3,103	-	3,209
> 90 days	-	-	-	-	-	225	-	225
Total past due	587	-	775	414	2,213	9,428	-	13,417
Non-accrual loans	6,703	136	5,575	3,582	2,967	7,196	177	26,336
Current loans	490,658	292,307	1,106,360	853,200	450,649	904,811	176,510	4,274,495
Total loans	$497,948	$292,443	$1,112,710	$857,196	$455,829	$921,435	$176,687	$4,314,248

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

	June 30, 2018				
	Commercial Real Estate				
(In thousands)	**Commercial**	**Commercial AD&C**	**Commercial Investor R/E**	**Commercial Owner Occupied R/E**	**Total**
Pass	**$ 679,208**	**$ 608,808**	**$ 1,896,995**	**$ 1,171,576**	**$ 4,356,587**
Special Mention	**3,574**	**322**	**3,469**	**5,296**	**12,661**
Substandard	**20,157**	**136**	**23,363**	**7,549**	**51,205**
Doubtful	**-**	**-**	**-**	**-**	**-**
Total	**$ 702,939**	**$ 609,266**	**$ 1,923,827**	**$ 1,184,421**	**$ 4,420,453**

	December 31, 2017				
	Commercial Real Estate				
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Total
Pass	$ 482,924	$ 292,307	$ 1,103,480	$ 845,102	$ 2,723,813
Special Mention	2,443	-	3,517	5,505	11,465
Substandard	12,581	136	5,713	6,589	25,019
Doubtful	-	-	-	-	-
Total	$ 497,948	$ 292,443	$ 1,112,710	$ 857,196	$ 2,760,297

Homogeneous loan pools do not have individual loans subjected to internal risk ratings therefore, the credit indicator applied to these pools is based on their delinquency status. The following tables provide information by credit risk rating indicators for those remaining segments of the loan portfolio at the dates indicated:

	June 30, 2018			
		Residential Real Estate		
(In thousands)	Consumer	Residential Mortgage	Residential Construction	Total
Performing	**$ 521,276**	**$ 1,099,545**	**$ 197,204**	**$ 1,818,025**
Non-performing:				
90 days past due	**-**	**-**	**-**	**-**
Non-accruing (1)	**4,298**	**6,251**	**168**	**10,717**
Restructured loans	**-**	**878**	**-**	**878**
Total	**$ 525,574**	**$ 1,106,674**	**$ 197,372**	**$ 1,829,620**

(1) Includes $1.4 million of consumer loans acquired from WashingtonFirst considered performing at the Acquisition Date.

	December 31, 2017			
		Residential Real Estate		
(In thousands)	Consumer	Residential Mortgage	Residential Construction	Total
Performing	$ 452,862	$ 913,124	$ 176,510	$ 1,542,496
Non-performing:				
90 days past due	-	225	-	225
Non-accruing	2,967	7,196	177	10,340
Restructured loans	-	890	-	890
Total	$ 455,829	$ 921,435	$ 176,687	$ 1,553,951

During the six months ended June 30, 2018, the Company restructured $1.6 million in loans that were designated as troubled debt restructurings. 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 the six months ended June 30, 2018 had specific reserves of $0.6 million. For the year ended December 31, 2017, the Company restructured $2.1 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 2017 had specific reserves of $0.2 million at December 31, 2017. The commitments to lend additional funds on loans that have been restructured at June 30, 2018 and December 31, 2017 were not significant.

The following table provides the amounts of the restructured loans at the date of restructuring for specific segments of the loan portfolio during the period indicated:

	For the Six Months Ended June 30, 2018					
		Commercial Real Estate				
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	Total

Troubled debt restructurings							
Restructured accruing	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Restructured non-accruing	**1,464**	**-**	**-**	**158**	**-**	**1,622**
Balance	**$ 1,464**	**$ -**	**$ -**	**$ 158**	**$ -**	**$ 1,622**
Specific allowance	**$ 637**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 637**
Restructured and subsequently defaulted	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

	For the Year Ended December 31, 2017					
		Commercial Real Estate				
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	Total
Troubled debt restructurings						
Restructured accruing	$ 492	$ -	$ -	$ -	$ -	$ 492
Restructured non-accruing	1,019	-	-	540	-	1,559
Balance	$ 1,511	$ -	$ -	$ 540	$ -	$ 2,051
Specific allowance	$ 247	$ -	$ -	$ -	$ -	$ 247
Restructured and subsequently defaulted	$ -	$ -	$ -	$ -	$ -	$ -

Other Real Estate Owned

Other real estate owned totaled $2.4 million and $2.3 million at June 30, 2018 and December 31, 2017, respectively. There were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process as of June 30, 2018.

Note 6 – Goodwill and Other Intangible Assets

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

	June 30, 2018				December 31, 2017			
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	**Weighted Average Remaining Life**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
(Dollars in thousands)								
Amortizing intangible assets:								
Core deposit intangibles	**$ 10,678**	**$ (971)**	**$ 9,707**	**9.5 years**	**$ -**	**$ -**	**$ -**	**-**
Other identifiable intangibles	**1,478**	**(317)**	**1,161**	**11.0 years**	**786**	**(206)**	**580**	**13.1 years**
Total amortizing intangible assets	**$ 12,156**	**$ (1,288)**	**$ 10,868**		$ **786**	$ **(206)**	**$ 580**	
Goodwill	**$ 346,312**		**$ 346,312**		$ **85,768**		**$ 85,768**	

During 2018, the acquisition of WashingtonFirst and subsidiaries resulted in the addition of $0.7 million in other intangible assets.

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

(In thousands)		Amount
2018	$	1,080
2019		1,944
2020		1,720
2021		1,507
Thereafter		4,617
Total amortizing intangible assets	$	10,868

The amount of goodwill by reportable segment recognized in the WashingtonFirst acquisition is presented in the following table:

(Dollars in thousands)	Community Banking	Insurance	Investment Management	Total
Balance December 31, 2017	$ 69,991	$ 6,788	$ 8,989	$ 85,768
WashingtonFirst Acquisition	260,345	-	199	260,544
Balance June 30, 2018	$ 330,336	$ 6,788	$ 9,188	$ 346,312

Note 7 – Deposits

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

(In thousands)	**June 30, 2018**	December 31, 2017
Noninterest-bearing deposits	**$ 1,910,690**	$ 1,264,392
Interest-bearing deposits:		
Demand	**722,476**	658,716
Money market savings	**1,603,902**	1,030,432
Regular savings	**355,569**	321,171
Time deposits of less than $100,000	**427,635**	293,201
Time deposits of $100,000 or more	**817,554**	395,750
Total interest-bearing deposits	**3,927,136**	2,699,270
Total deposits	**$ 5,837,826**	$ 3,963,662

Note 8 – SUBORDINATED DEBENTURES

In conjunction with the acquisition, 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 June 30, 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 June 30, 2018 was 5.49%. 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 June 30, 2018, the Company was current on all interest payments. Under current regulatory guidelines the trust preferred securities are considered to be Tier 1 capital.

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

	As of,	
(In thousands)	January 1, 2018	**June 30, 2018**
Subordinated debentures	$ 25,000	**$ 25,000**
Add: Purchase accounting premium	2,158	**2,091**
Trust preferred securities	10,310	**10,310**
Add: Purchase accounting premium	96	**94**
Total subordinated debentures	$ 37,564	**$ 37,495**

Note 9 – Share Based Compensation

At June 30, 2018, the Company had two share based compensation plans in existence, the 2005 Omnibus Stock Plan ("Omnibus Stock Plan") and the 2015 Omnibus Incentive Plan ("Omnibus Incentive Plan"). The Omnibus Stock Plan expired during the second quarter of 2015 but has outstanding options that may still be exercised. The Omnibus Incentive Plan is described in the following paragraph.

The Company's Omnibus Incentive Plan was approved on May 6, 2015 and provides for the granting of incentive stock options, non-qualifying stock options, stock appreciation rights, restricted stock grants, restricted stock units and performance awards to selected employees on a periodic basis at the discretion of the board. The Omnibus Incentive Plan authorizes the issuance of up to 1,500,000 shares of common stock, of which 1,243,108 are available for issuance at June 30, 2018, has a term of ten years, and is administered by a committee of at least three directors appointed by the board of directors. Options granted under the plan have an exercise price which may not be less than 100% of the fair market value of the common stock on the date of the grant and must be exercised within seven to ten years from the date of grant. The exercise price of stock options must be paid for in full in cash or shares of common stock, or a combination of both. The board committee has the discretion when making a grant of stock options to impose restrictions on the shares to be purchased upon the exercise of such options. The Company generally issues authorized but previously unissued shares to satisfy option exercises.

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

	Six Months Ended June 30,	
	2018	2017
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.

Compensation expense is recognized on a straight-line basis over the vesting period of the respective stock option or restricted stock grant. The Company recognized compensation expense of $0.6 million and $0.5 million for the three months ended June 30, 2018 and 2017, respectively, related to the awards of stock options and restricted stock grants. Compensation expense of $1.1 million and $1.0 million was recognized for the six months ended June 30, 2018 and 2017, respectively. The intrinsic value of stock options exercised in the six months ended June 30, 2018 and 2017 was $0.3 million and $0.6 million, respectively. The total of unrecognized compensation cost related to stock options was approximately $0.3 million as of June 30, 2018. That cost is expected to be recognized over a weighted average period of approximately 2.2 years. The total of unrecognized compensation cost related to restricted stock was approximately $6.4 million as of June 30, 2018. That cost is expected to be recognized over a weighted average period of approximately 3.3 years. The fair value of the options vested during the six months ended June 30, 2018 and 2017, was not significant.

In the first quarter of 2018, 16,212 stock options were granted, subject to a three year vesting schedule with one third of the options vesting on April 1st of each year. The Company granted 36,003 shares of restricted stock in the first quarter of 2018, of which 9,170 shares are subject to a three year vesting schedule with one third of the shares vesting each year and 26,833 shares subject to a five year vesting schedule with one fifth of the shares vesting each year. During the second quarter of 2018, the Company granted 46,407 shares of restricted stock, all of which are subject to a five year vesting schedule with one fifth of shares vesting on April 1st of each year.

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, 2018	87,300	$ 26.22		$ 1,160
Granted	16,212	$ 38.15		
Exercised	(17,927)	$ 20.65		$ 337
Forfeited or expired	(482)	$ 36.68		
Balance at June 30, 2018	85,103	$ 29.60	4.2	$ 989
Exercisable at June 30, 2018	54,958	$ 25.46	3.1	$ 860
Weighted average fair value of options granted during the year		$ 11.73		

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

(In dollars, except share data):	Number of Common Shares	Weighted Average Grant-Date Fair Value
Restricted stock at January 1, 2018	189,035	$ 30.92
Granted	82,410	$ 38.93
Vested	(64,875)	$ 27.74
Forfeited	(1,194)	$ 33.05
Restricted stock at June 30, 2018	205,376	$ 35.13

Note 10 – Pension, Profit Sharing, and Other Employee Benefit Plans

Defined Benefit Pension Plan

The Company has a qualified, noncontributory, defined benefit pension plan (the "Plan"). Benefits after January 1, 2005, are based on the benefit earned as of December 31, 2004, plus benefits earned in future years of service based on the employee's compensation during each such year. All benefit accruals for employees were frozen as of December 31,

2007 based on past service and thus salary increases and additional years of service after such date no longer affect the defined benefit provided by the plan although additional vesting may continue to occur.

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

The components of net periodic benefit cost for the periods indicated are presented in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2018**	2017	**2018**	2017
Interest cost on projected benefit obligation	**$ 385**	$ 410	**$ 770**	$ 820
Expected return on plan assets	**(465)**	(496)	**(930)**	(992)
Recognized net actuarial loss	**250**	295	**500**	590
Net periodic benefit cost	**$ 170**	$ 209	**$ 340**	$ 418

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 to the plan during the second quarter of 2018. The Company did not make any contributions to the plan during the first quarter of 2018. Management continues to monitor the funding level of the pension plan and may make additional contributions as necessary during 2018.

Note 11 – Net Income per Common Share

The calculation of net income per common share for the periods indicated is presented in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars and amounts in thousands, except per share data)	**2018**	2017	**2018**	2017
Net income	**$ 24,399**	$ 14,741	**$ 46,064**	$ 29,853
Basic:				
Basic weighted average EPS shares	**35,721**	24,198	**35,686**	24,164
Basic net income per share	**$ 0.68**	$ 0.61	**$ 1.29**	$ 1.24
Diluted:				
Basic weighted average EPS shares	**35,721**	24,198	**35,686**	24,164
Dilutive common stock equivalents	**23**	65	**24**	95
Dilutive EPS shares	**35,744**	24,263	**35,710**	24,259
Diluted net income per share	**$ 0.68**	$ 0.61	**$ 1.29**	$ 1.23
Anti-dilutive shares	**6**	5	**6**	3

NOTE 12 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income is defined as net income plus transactions and other occurrences that are the result of non-owner changes in equity. For condensed financial statements presented for the Company, non-owner changes in equity are comprised of unrealized gains or losses on available-for-sale debt securities and any minimum pension liability adjustments. The following table presents the activity in net accumulated other comprehensive income (loss) and the components of the activity for the periods indicated:

(In thousands)	Unrealized Gains (Losses) on Investments Available-for-Sale	Defined Benefit Pension Plan	Total
Balance at January 1, 2018	**$ 687**	**$ (7,544)**	**$ (6,857)**
Other comprehensive income before reclassification, net of tax	**(12,491)**	**-**	**(12,491)**
Reclassifications from accumulated other comprehensive income, net of tax	**(47)**	**316**	**269**
Current period change in other comprehensive income, net of tax	**(12,538)**	**316**	**(12,222)**
Reclassification of tax effects from accumulated other comprehensive income	**148**	**(1,625)**	**(1,477)**
Balance at June 30, 2018	**$ (11,703)**	**$ (8,853)**	**$ (20,556)**

(In thousands)	Unrealized Gains (Losses) on Investments Available-for-Sale	Defined Benefit Pension Plan	Total
Balance at January 1, 2017	$ 1,642	$ (8,256)	$ (6,614)
Other comprehensive income before reclassification, net of tax	3,314	-	3,314
Reclassifications from accumulated other comprehensive income, net of tax	(767)	355	(412)
Current period change in other comprehensive income, net of tax	2,547	355	2,902
Balance at June 30, 2017	$ 4,189	$ (7,901)	$ (3,712)

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

	Six Months Ended June 30,	
(In thousands)	**2018**	2017
Unrealized gains on investments available-for-sale		
Affected line item in the Statements of Income:		
Investment securities gains	**$ 63**	$ 1,275
Income before taxes	**63**	1,275
Tax expense	**(16)**	(508)
Net income	**$ 47**	$ 767
Amortization of defined benefit pension plan items		
Affected line item in the Statements of Income:		
Recognized actuarial loss[(1)]	**$ (500)**	$ (590)
Income before taxes	**(500)**	(590)
Tax benefit	**184**	235
Net loss	**$ (316)**	$ (355)

(1) This amount is included in the computation of net periodic benefit cost, see Note 10

In the first quarter of 2018, the Company elected to make a one-time reclassification from accumulated other comprehensive income to retained earnings for the effects of re-measuring the deferred tax assets and liabilities originally recorded in other comprehensive income as a result of the change in the federal tax rate by the Tax Cuts and Jobs Act.

Note 13 – Financial Instruments with Off-balance Sheet Risk and Derivatives

The Company has entered into interest rate swaps (“swaps”) to facilitate customer transactions and meet their financing needs. These swaps qualify as derivatives, but are not designated as hedging instruments. Interest rate swap contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. When the fair value of a derivative instrument contract is positive, this generally indicates that the counterparty or customer owes the Company, and results in credit risk to the Company. When the fair value of a derivative instrument contract is negative, the Company owes the customer or counterparty and therefore, has no credit risk. The notional value of commercial loan swaps outstanding was $17.2 million with a fair value of $0.5 million as of June 30, 2018 compared to $17.8 million with a fair value of $0.7 million as of December 31, 2017. The swap positions are offset to minimize the potential impact on the Company’s financial statements. Fair values of the swaps are carried as both gross assets and gross liabilities in the Condensed Consolidated Statements of Condition. The associated net gains and losses on the swaps are recorded in other non-interest income.

Note 14 – Litigation

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

Note 15 – 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 held for sale allows the recognition of gains on sale of mortgage loans to more accurately reflect the timing and economics of the transaction.

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

Basis of Fair Value Measurement:

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

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

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

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

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

Assets and Liabilities

Mortgage loans held for sale

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

Investments available-for-sale

U.S. government agencies and mortgage-backed securities

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

State and municipal securities

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

Interest rate swap agreements

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

Assets Measured at Fair Value on a Recurring Basis

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

	June 30, 2018			
(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Residential mortgage loans held for sale	**$ -**	**$ 40,000**	**$ -**	**$ 40,000**
Investments available-for-sale:				
U.S. government agencies	**-**	**206,448**	**-**	**206,448**
State and municipal	**-**	**322,506**	**-**	**322,506**
Mortgage-backed	**-**	**403,762**	**-**	**403,762**
Corporate debt	**-**	**-**	**9,238**	**9,238**
Trust preferred	**-**	**-**	**310**	**310**
Marketable equity securities	**-**	**568**	**-**	**568**
Interest rate swap agreements	**-**	**498**	**-**	**498**
Liabilities				
Interest rate swap agreements	**$ -**	**$ (498)**	**$ -**	**$ (498)**

	December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	

(In thousands)	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Residential mortgage loans held for sale	$ -	$ 9,848	$ -	$ 9,848
Investments available-for-sale:				
U.S. government agencies	-	106,568	-	106,568
State and municipal	-	312,253	-	312,253
Mortgage-backed	-	300,040	-	300,040
Corporate debt	-	-	9,432	9,432
Trust preferred	-	-	1,002	1,002
Marketable equity securities	-	212	-	212
Interest rate swap agreements	-	707	-	707
Liabilities				
Interest rate swap agreements	$ -	$ (707)	$ -	$ (707)

The following table provides unrealized losses included in assets measured in the Condensed Consolidated Statements of Condition at fair value on a recurring basis for the period indicated:

(In thousands)	Significant Unobservable Inputs (Level 3)
Investments available-for-sale:	
Balance at January 1, 2018	$ 10,434
Additions of Level 3 assets	310
Principal sales	(1,002)
Total unrealized losses included in other comprehensive loss	(194)
Balance at June 30, 2018	$ 9,548

Assets Measured at Fair Value on a Nonrecurring Basis

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

	June 30, 2018				
(In thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**	**Total Losses**
Impaired loans	**$ -**	**$ -**	**$ 7,100**	**$ 7,100**	**$ (11,970)**
Other real estate owned	**-**	**-**	**2,361**	**2,361**	**(54)**
Total	**$ -**	**$ -**	**$ 9,461**	**$ 9,461**	**$ (12,024)**

	December 31, 2017				
(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Total Losses
Impaired loans	$ -	$ -	$ 8,474	$ 8,474	$ (11,806)
Other real estate owned	-	-	2,253	2,253	(158)
Total	$ -	$ -	$ 10,727	$ 10,727	$ (11,964)

At June 30, 2018, impaired loans totaling $18.9 million were written down to fair value of $14.4 million as a result of specific loan loss allowances of $4.5 million associated with the impaired loans which was included in the allowance for loan losses. Impaired loans totaling $20.8 million were written down to fair value of $16.8 million at December 31, 2017 as a result of specific loan loss allowances of $4.0 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 experience, 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 the dates indicated are presented in the following table:

			Fair Value Measurements		
	June 30, 2018		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
(In thousands)	Carrying Amount	Estimated Fair Value		(Level 2)	(Level 3)

			(Level 1)		
Financial Assets					
Other equity securities	**$ 74,442**	**$ 74,442**	**$ -**	**$ 74,442**	**$ -**
Loans, net of allowance	**6,201,580**	**6,060,778**	**-**	**-**	**6,060,778**
Other assets	**109,498**	**109,498**	**-**	**109,498**	**-**
Financial Liabilities					
Time deposits	**$1,245,189**	**$1,256,431**	**$ -**	**$1,256,431**	**$ -**
Securities sold under retail repurchase agreements and federal funds purchased	**139,647**	**139,647**	**-**	**139,647**	**-**
Advances from FHLB	**1,063,777**	**1,063,894**	**-**	**1,063,894**	**-**
Subordinated debentures	**37,495**	**31,724**	**-**	**-**	**31,724**

	December 31, 2017		Fair Value Measurements		
(In thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Other equity securities	$ 45,518	$ 45,518	$ -	$ 45,518	$ -
Loans, net of allowance	4,268,991	4,320,719	-	-	4,320,719
Other assets	95,730	95,730	-	95,730	-
Financial Liabilities					
Time deposits	$ 688,951	$ 684,139	$ -	$ 684,139	$ -
Securities sold under retail repurchase agreements and federal funds purchased	119,359	119,359	-	119,359	-
Advances from FHLB	765,833	769,860	-	769,860	-
Subordinated debentures	-	-	-	-	-

Note 16 - Segment Reporting

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

The Community Banking segment is conducted through Sandy Spring Bank and involves delivering a broad range of financial products and services, including various loan and deposit products to both individuals and businesses. Parent company income is included in the Community Banking segment, as the majority of effort of these functions is related to this segment. Major revenue sources include net interest income, gains on sales of mortgage loans, trust income fees and service charges on deposit accounts. Expenses include personnel, occupancy, marketing, equipment and other expenses. Non-cash charges associated with amortization of intangibles was $0.5 million and $1.0 million for the three and six months ended June 30, 2018, respectively. This amount was not significant for the three and six months ended June 30, 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 were not significant for the three and six months ended June 30, 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 $1.5 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 were not significant for the three and six months ended June 30, 2018 and 2017, respectively.

Information for the operating segments and reconciliation of the information to the condensed consolidated financial statements for the periods indicated is presented in the following tables:

	Three Months Ended June 30, 2018				
(In thousands)	**Community Banking**	**Insurance**	**Investment Mgmt.**	**Inter-Segment Elimination**	**Total**
Interest income	**$ 78,596**	**$ 1**	**$ 2**	**$ (2)**	**$ 78,597**
Interest expense	**14,781**	**-**	**-**	**(2)**	**14,779**
Provision for loan losses	**1,733**	**-**	**-**	**-**	**1,733**
Noninterest income	**11,252**	**1,179**	**2,590**	**(153)**	**14,868**
Noninterest expense	**42,302**	**1,302**	**1,631**	**(153)**	**45,082**
Income before income taxes	**31,032**	**(122)**	**961**	**-**	**31,871**
Income tax expense	**7,249**	**(32)**	**255**	**-**	**7,472**
Net income	**$ 23,783**	**$ (90)**	**$ 706**	**$ -**	**$ 24,399**
Assets	**$ 8,154,957**	**$ 9,041**	**$ 15,407**	**$ (26,805)**	**$ 8,152,600**

	Three Months Ended June 30, 2017				
(In thousands)	Community Banking	Insurance	Investment Mgmt.	Inter-Segment Elimination	Total
Interest income	$ 48,576	$ -	$ 2	$ (2)	$ 48,576
Interest expense	6,252	-	-	(2)	6,250
Provision for loan losses	1,322	-	-	-	1,322
Non-interest income	10,544	1,223	2,014	(210)	13,571
Non-interest expense	30,602	1,324	1,152	(210)	32,868
Income before income taxes	20,944	(101)	864	-	21,707
Income tax expense	6,669	(40)	337	-	6,966
Net income	$ 14,275	$ (61)	$ 527	$ -	$ 14,741
Assets	$ 5,273,823	$ 8,046	$ 13,676	$ (25,024)	$ 5,270,521

	Six Months Ended June 30, 2018				
(In thousands)	**Community Banking**	**Insurance**	**Investment Mgmt.**	**Inter-Segment Elimination**	**Total**
Interest income	**$ 154,100**	**$ 1**	**$ 3**	**$ (3)**	**$ 154,101**
Interest expense	**27,395**	**-**	**-**	**(3)**	**27,392**
Provision for loan losses	**3,730**	**-**	**-**	**-**	**3,730**
Noninterest income	**24,423**	**3,001**	**4,869**	**(307)**	**31,986**
Noninterest expense	**89,333**	**2,681**	**3,016**	**(307)**	**94,723**
Income before income taxes	**58,065**	**321**	**1,856**	**-**	**60,242**
Income tax expense	**13,602**	**91**	**485**	**-**	**14,178**
Net income	**$ 44,463**	**$ 230**	**$ 1,371**	**$ -**	**$ 46,064**
Assets	**$ 8,154,957**	**$ 9,041**	**$ 15,407**	**$ (26,805)**	**$ 8,152,600**

	Six Months Ended June 30, 2017				
(In thousands)	Community Banking	Insurance	Investment Mgmt.	Inter-Segment Elimination	Total
Interest income	$ 94,533	$ 1	$ 4	$ (4)	$ 94,534
Interest expense	11,959	-	-	(4)	11,955
Provision for loan losses	1,516	-	-	-	1,516
Non-interest income	19,630	2,975	4,017	(419)	26,203
Non-interest expense	58,401	2,679	2,188	(419)	62,849
Income before income taxes	42,287	297	1,833	-	44,417
Income tax expense	13,729	121	714	-	14,564
Net income	$ 28,558	$ 176	$ 1,119	$ -	$ 29,853
Assets	$ 5,273,823	$ 8,046	$ 13,676	$ (25,024)	$ 5,270,521

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company

Sandy Spring Bancorp, Inc. (the "Company") is the bank holding company for Sandy Spring Bank (the "Bank"). The Company is registered as a bank holding company pursuant to the Bank Holding Company Act of 1956, as amended (the "Holding Company Act"). As such, the Company is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Company began operating in 1988. The Bank traces its origin to 1868, making it among the oldest institutions in the region. This year marks its 150th year anniversary. Independent and community-oriented, Sandy Spring Bank offers a broad range of commercial banking, retail banking, mortgage and trust services throughout central Maryland, Northern Virginia, and the greater Washington, D.C. market. Through its subsidiaries, Sandy Spring Insurance Corporation and West Financial Services, Inc., Sandy Spring Bank also offers a comprehensive menu of insurance and wealth management services. The Bank is a state chartered bank subject to supervision and regulation by the Federal Reserve and the State of Maryland. The Bank's deposit accounts are insured by the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation (the "FDIC") to the maximum permitted by law. The Bank is a member of the Federal Reserve System and is an Equal Housing Lender. The Company, the Bank, and its other subsidiaries are Affirmative Action/Equal Opportunity Employers.

The Company is a $8.2 billion community banking organization that focuses its lending and other services on businesses and consumers in the local market area. Through its subsidiaries, Sandy Spring Insurance Corporation and West Financial Services, Inc., Sandy Spring Bank offers a comprehensive menu of insurance and investment management services.

On January 1, 2018, the Company completed the planned acquisition of WashingtonFirst Bankshares, Inc., the parent company for WashingtonFirst Bank, (collectively referred to as "WashingtonFirst") headquartered in Reston, Virginia. At the date of acquisition, WashingtonFirst, had 19 community banking offices and more than $2.1 billion in assets. The all-stock transaction resulted in the issuance of 11.4 million common shares and was valued at approximately $447 million.

The results of operations for the first six months of 2018 include the impact of the acquisition on the various income and expense classifications as presented in the subsequent sections of management's discussion and analysis. Significant period-to-period asset and liability variances are also directly attributable to the WashingtonFirst transaction. Operational cost savings from the synergies resulting from the combination of the institutions will continue to be realized throughout 2018.

Overview

Net income for the Company for the second quarter of 2018 totaled $24.4 million ($0.68 per diluted share) as compared to net income of $14.7 million ($0.61 per diluted share) for the second quarter of 2017 and net income of $21.7 million ($0.61 per diluted share) for the first quarter of 2018. The current quarter's results included the impact of $2.2 million in merger expenses. Exclusive of the after-tax impact of these expenses, earnings per diluted share would have been approximately $0.73 per share.

These results reflect the following events:

- Total loans increased 51% compared to the second quarter of 2017, primarily as a result of the acquisition. Loan growth momentum remained strong as the loan portfolio grew 3% compared to the first quarter of 2018.

- The net interest margin was 3.56% for the second quarter of 2018, compared to 3.60% for the second quarter of 2017 and 3.58% for the first quarter of 2018. The prior year's margin was positively impacted by an interest income recovery of $0.7 million. Exclusive of this non-core item, the prior year's margin would have been 3.54%.

- Second quarter results reflected an annualized return on average assets of 1.23% and annualized return on average equity of 9.66% as compared to 1.14% and 10.80% respectively for the second quarter of 2017. Exclusive of merger costs on an after-tax basis, the return on average assets and return on average equity would have been 1.32% and 10.32%, respectively.

- Pre-tax merger expenses recognized in the current quarter declined to $2.2 million compared to $9.0 million in the prior quarter.

- The effective tax rate for the current quarter was 23.4% compared to 32.1% for the same quarter of the prior year and 23.6% for the prior quarter.

- The Non-GAAP efficiency ratio was 52.98% for the current quarter as compared to 54.10% for the second quarter of 2017 and 49.54% for the first quarter of 2018.

- Dividend increased 8% to $0.28 per share in the second quarter of 2018 from $0.26 per share in previous quarters.

The local economy continues to exhibit positive trends such as low unemployment and increased housing starts; however, these trends have been tempered by other concerns such as the lack of wage growth, deficit growth and geo-political turmoil. These factors, in concert, have acted to continue to restrict the pace of economic expansion and create volatility in global economic markets. Additionally, rising interest rates continue to restrain confidence among individual consumers and small and mid-sized businesses. Despite this mixed economic environment, management remains optimistic that the regional economy will present further growth opportunities for the Company.

Total assets at June 30, 2018 increased 50% compared to December 31, 2017 substantially driven by earning asset balances that increased due to the acquisition of WashingtonFirst on January 1, 2018. Additionally, customer funding sources, which include deposits plus other short-term borrowings from core customers, increased 41% compared to balances at December 31, 2017. 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. As a result of the acquisition and a lesser extent from retained earnings, stockholders' equity increased $463 million compared to December 31, 2017.

Non-performing loans (which excludes purchased credit impaired loans) represented 0.46% of total loans at June 30, 2018 compared to 0.78% at June 30, 2017 as a result of the growth in the loan portfolio. The Company's non-performing loans were $28.8 million at June 30, 2018 compared to $32.2 million at June 30, 2017. The ratio of annualized net charge-offs to average loans was 0.01% for the second quarter of 2018 compared to 0.01% for the prior year quarter.

Net interest income for the second quarter of 2018 increased 51% compared to the second quarter of 2017 as a result of the WashingtonFirst acquisition and, to a lesser extent, the Company's organic loan growth during the period. The net interest margin was 3.56% for the second quarter of 2018 compared to 3.60% for the second quarter of 2017. The prior year's margin was positively impacted by an interest income recovery of $0.7 million. Exclusive of this non-core item, the margin would have been 3.54%.

The provision for loan losses was $1.7 million for the second quarter of 2018 compared to $1.3 million for the second quarter of 2017. The increase in the provision reflects the impact of organic loan production and the impact of acquired loans being refinanced as they reach maturity under the original lending arrangements during the second quarter of 2018.

Non-interest income increased 10% for the second quarter of 2018 as compared to the second quarter of 2017. The second quarter of 2017 included gains of $1.3 million on sales of investment securities. Excluding the gains, non-interest income increased 21% due primarily to the impact of increased mortgage banking activities and, to a lesser extent, income from wealth management activities and service charges on deposit accounts.

Non-interest expenses increased 37% to $45.1 million for the second quarter of 2018 compared to $32.9 million in the second quarter of 2017. The current quarter included $2.2 million in merger expenses and the second quarter of 2017 included $1.3 million in penalties on the early payoff of high-rate FHLB advances and $1.0 million in merger expenses. Excluding these transactions, non-interest expenses increased 40% compared to the second quarter of 2017 due to increased compensation and benefit costs and facility and operational expenses. Merger expenses for the current quarter include the costs related to the consolidation of six redundant branches. The non-GAAP efficiency ratio improved to 52.98% for the second quarter of 2018, compared to 54.10% for the second quarter of 2017, as a result of the growth in net interest income.

Results of Operations

For the Six Months Ended June 30, 2018 Compared to the Six Months Ended June 30, 2017

Net income for the Company for the first six months of 2018 totaled $46.1 million ($1.29 per diluted share) compared to net income of $29.9 million ($1.23 per diluted share) for the first six months of 2017.

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-exempt loans and 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 review of the information provided in the following table.

Net interest income for the first six months of 2018 was $126.7 million compared to $82.6 million for the first six months of 2017. On a tax-equivalent basis, net interest income for the first six months of 2018 was $129.0 million compared to $86.3 million for the first six months of 2017, a 49% increase. The increase in net interest income is the result of the acquisition and, to a lesser degree, the Company's organic earning asset growth during the period. The following table provides an analysis of net interest income performance that reflects a net interest margin that has increased to 3.57% for the first six months of 2018 compared to 3.56% for the first six months of 2017. The amortization of the fair value adjustments to both interest-earning assets and interest-bearing liabilities directly attributable to the acquisition had a positive effect on net interest margin for the current period. The amortization of the fair value adjustments is estimated to be 12 basis points on an annual basis. This estimate could be affected by prepayments in the acquired loan portfolio. This favorable margin impact was partially offset by the effect of the recently enacted tax rate reduction on tax-advantaged securities in the investment portfolio, which adversely affected the margin by 5 basis points. Net interest income for the first six months of 2017 included the $0.7 million from the full payoff of a previously acquired credit impaired loan. Exclusive of the recovered interest income, the net interest margin would have been 3.54%. The impact of the amortization of the fair value adjustments on net interest income for the first six months of 2018 is presented in the following table:

(In thousands)	**For the Six Months Ended June 30, 2018**
Net Interest Income Excluding Purchase Accounting Adjustments:	
Net Interest Income	$ 126,709
Accretion of fair value adjustment on pools of homogeneous loans	(2,284)
Accretion of loan credit fair value adjustment on purchased credit impaired loans	(740)
Accretion of fair value adjustment on certificates of deposits	(1,345)
Accretion of fair value adjustment on subordinated debentures	(68)

Net Interest Income Excluding Purchase Accounting Adjustments	$	122,272

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

	Six Months Ended June 30,					
	2018			2017		
(Dollars in thousands and tax-equivalent)	**Average Balances**	**(1) Interest**	**Annualized Average Yield/Rate**	Average Balances	(1) Interest	Annualized Average Yield/Rate
Assets						
Residential mortgage loans	**$1,075,540**	**$ 19,795**	**3.68%**	$ 854,022	$14,879	3.48%
Residential construction loans	**208,332**	**4,043**	**3.91**	163,174	3,015	3.73
Total mortgage loans	**1,283,872**	**23,838**	**3.72**	1,017,196	17,894	3.52
Commercial AD&C loans	**579,458**	**16,407**	**5.71**	306,604	7,421	4.88
Commercial investor real estate loans	**1,956,374**	**46,089**	**4.75**	977,915	21,699	4.47
Commercial owner occupied real estate loans	**1,062,912**	**24,567**	**4.66**	775,625	19,009	4.94
Commercial business loans	**661,851**	**16,856**	**5.14**	458,563	10,069	4.43
Total commercial loans	**4,260,595**	**103,919**	**4.92**	2,518,707	58,198	4.66
Consumer loans	**535,064**	**11,299**	**4.32**	459,927	8,101	3.58
Total loans (2)	**6,079,531**	**139,056**	**4.61**	3,995,830	84,193	4.24
Loans held for sale	**30,557**	**647**	**4.24**	7,238	154	4.27
Taxable securities	**747,862**	**10,549**	**2.82**	534,306	7,413	2.78
Tax-exempt securities (3)	**297,359**	**5,220**	**3.51**	296,323	6,280	4.24
Total investment securities	**1,045,221**	**15,769**	**3.02**	830,629	13,693	3.30
Interest-bearing deposits with banks	**104,115**	**871**	**1.69**	40,038	181	0.91
Federal funds sold	**2,925**	**20**	**1.36**	2,320	10	0.84
Total interest-earning assets	**7,262,349**	**156,363**	**4.33**	4,876,055	98,231	4.05
Less: allowance for loan losses	**(46,689)**			(43,703)		
Cash and due from banks	**71,664**			48,165		
Premises and equipment, net	**61,027**			53,548		
Other assets	**535,844**			223,228		
Total assets	**$7,884,195**			$5,157,293		
Liabilities and Stockholders' Equity						
Interest-bearing demand deposits	**$ 744,048**	**426**	**0.12%**	$ 612,608	237	0.08%
Regular savings deposits	**412,053**	**395**	**0.19**	320,577	106	0.07
Money market savings deposits	**1,467,823**	**7,698**	**1.06**	986,625	1,854	0.38
Time deposits	**1,225,755**	**7,291**	**1.20**	616,713	3,314	1.08
Total interest-bearing deposits	**3,849,679**	**15,810**	**0.83**	2,536,523	5,511	0.44
Other borrowings	**144,100**	**216**	**0.30**	130,531	155	0.24
Advances from FHLB	**1,055,982**	**10,416**	**1.99**	699,641	6,277	1.81
Subordinated debentures	**37,536**	**950**	**5.07**	829	12	2.91
Total interest-bearing liabilities	**5,087,297**	**27,392**	**1.09**	3,367,524	11,955	0.72
Noninterest-bearing demand deposits	**1,724,353**			1,205,809		
Other liabilities	**60,943**			42,659		
Stockholders' equity	**1,011,602**			541,301		
Total liabilities and stockholders' equity	**$7,884,195**			$5,157,293		

Net interest income and spread	**128,971**	**3.24%**	86,276	3.33%
Less: tax-equivalent adjustment	**2,262**		3,697	
Net interest income	**$126,709**		$82,579	
Interest income/earning assets		**4.33%**		4.05%
Interest expense/earning assets		**0.76**		0.49
Net interest margin		**3.57%**		3.56%

(1) Tax-equivalent income has been adjusted using the combined marginal federal and state rate of 26.13% and 39.88% for 2018 and 2017, respectively. The annualized

taxable-equivalent adjustments utilized in the above table to compute yields aggregated to $2.3 million and $3.7 million in 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:

	2018 vs. 2017			2017 vs. 2016		
	Increase	**Due to Change In**		Increase	Due to Change In	
	Or	**Average:***		Or	Average:*	
(Dollars in thousands and tax equivalent)	**(Decrease)**	**Volume**	**Rate**	(Decrease)	Volume	Rate
Interest income from earning assets:						
Residential mortgage loans	**$ 4,916**	**$ 4,024**	**$ 892**	$ 1,077	$ 784	$ 293
Residential construction loans	**1,028**	**875**	**153**	552	440	112
Commercial AD&C loans	**8,986**	**7,545**	**1,441**	1,308	939	369
Commercial investor real estate loans	**24,390**	**22,952**	**1,438**	4,099	4,610	(511)
Commercial owner occupied real estate loans	**5,558**	**6,688**	**(1,130)**	2,644	2,270	374
Commercial business loans	**6,787**	**4,985**	**1,802**	113	24	89
Consumer loans	**3,198**	**1,438**	**1,760**	327	157	170
Loans held for sale	**493**	**494**	**(1)**	(44)	(79)	35
Taxable securities	**3,136**	**3,026**	**110**	1,057	582	475
Tax exempt securities	**(1,060)**	**22**	**(1,082)**	256	242	14
Interest-bearing deposits with banks	**690**	**449**	**241**	74	(7)	81
Federal funds sold	**10**	**3**	**7**	8	6	2
Total interest income	**58,132**	**52,501**	**5,631**	11,471	9,968	1,503
Interest expense on funding of earning assets:						
Interest-bearing demand deposits	**189**	**57**	**132**	14	14	-
Regular savings deposits	**289**	**42**	**247**	17	6	11
Money market savings deposits	**5,844**	**1,252**	**4,592**	922	95	827
Time deposits	**3,977**	**3,575**	**402**	680	400	280
Other borrowings	**61**	**18**	**43**	17	17	-
Advances from FHLB	**4,139**	**3,462**	**677**	164	936	(772)
Subordinated debentures	**938**	**922**	**16**	(461)	(466)	5
Total interest expense	**15,437**	**9,328**	**6,109**	1,353	1,002	351
Net interest income	**$ 42,695**	**$ 43,173**	**$ (478)**	$ 10,118	$ 8,966	$ 1,152

* 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

The Company's total tax-equivalent interest income increased 59% for the first six months of 2018 compared to the prior year period. The previous tables reflect that the increase in interest income has been driven predominantly by the growth in interest-earning assets as a result of the WashingtonFirst acquisition and, to a lesser extent, organic loan and investment portfolio growth during the past twelve months.

The average balance of the loan portfolio increased 52% for the first six months of 2018 compared to the first six months of 2017. This growth occurred in all segments of the loan portfolio with the most significant growth in the commercial real estate portfolios. The loan portfolio acquired from WashingtonFirst was similar in composition to the Company’s loan portfolio. The yield on average loans increased 37 basis points compared to the prior year period. The increase in the yield on loans was the primary driver of the 28 basis point rise in the yield on interest-earning assets from period to period.

The average yield on total investment securities decreased 28 basis points as the average balance of the portfolio increased 26% for the first six months of 2018 compared to the first six months of 2017. The decrease in the yield on investments was driven by the impact on tax-exempt securities of the recently enacted tax legislation. The reduction in corporate income tax rates resulted in the 73 basis point decline in the tax-equivalent yield on these investments while the average size of the portfolio remained relatively level from period to period.

Interest Expense

Interest expense increased 129% in the first six months of 2018 compared to the first six months of 2017. While the majority of the increase from period to period was due to the WashingtonFirst acquisition, during the period, the Company had increased rates or maintained pre-existing rates structures on various categories of deposits to perpetuate deposit relationships and provide funding for loan growth. The cost of interest-bearing deposits increased due predominantly to the 49% growth in money market and 99% growth in time deposit average balances coupled with the substantial increase in money market deposit rates. The changes in the money market rates were directly affected by changes in the certain pricing indices in addition to the maintenance of the pricing structure associated with the money market accounts acquired from WashingtonFirst. Additionally, average borrowings increased 49% as the average rate paid increased 33 basis points from period to period. The overall impact was an increase of 37 basis points in the rate paid on interest-bearing liabilities in the first six months of 2018 compared to first six months of 2017.

Non-interest Income

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

Six Months Ended June 30,	2018/2017	2018/2017

(Dollars in thousands)	**2018**	2017	$ Change	% Change
Securities gains	**$ 63**	$ 1,275	$ (1,212)	(95.1)%
Service charges on deposit accounts	**4,549**	3,981	568	14.3
Mortgage banking activities	**4,271**	1,448	2,823	195.0
Wealth management income	**10,448**	9,228	1,220	13.2
Insurance agency commissions	**3,004**	2,974	30	1.0
Income from bank owned life insurance	**3,001**	1,199	1,802	150.3
Bank card fees	**2,763**	2,398	365	15.2
Other income	**3,887**	3,700	187	5.1
Total non-interest income	**$ 31,986**	$ 26,203	$ 5,783	22.1

Total non-interest income was $32.0 million for the first six months of 2018 compared to $26.2 million for the first six months of 2017. The first six months of 2017 included $1.3 million in gains on sales of investment securities. Excluding these gains, non-interest income increased 28% compared to the prior year period primarily due to increases in mortgage banking activities, wealth management income and BOLI insurance proceeds. Further detail by type of non-interest income follows:

- Gains on sales of investment securities declined by $1.3 million for the first six months of 2018 compared to the first six months of 2017. During the first six months of 2017 the Company sold specific equity securities for gains that were applied to offset the impact of prepayment penalties incurred on FHLB advances during the second quarter of 2017.

- Income from mortgage banking activities increased 195% in the first six months of 2018 compared to the first six months of 2017. Origination volume associated with the mortgage lending operations acquired as part of the WashingtonFirst acquisition contributed to the significant growth in mortgage banking income for the first six months of 2018.

- Wealth management income is comprised of income from trust and estate services and investment management fees earned by the Company's investment management subsidiary. Overall, wealth management income increased 13% for the first six months of 2018 compared to the same period of the prior year. Trust services fees increased 7% for the first six months of 2018 compared to the prior year period due to an increase in personal trust services. Investment management fees increased 21% for the first six months of 2018 compared to the same period of 2017, due to an increase in assets under management. Overall total assets under management increased to $2.9 billion at June 30, 2018 compared to $2.6 billion at June 30, 2017 primarily as a result of positive trends occurring in the financial markets, an increase in sales efforts and, to a lesser extent, the addition of the wealth management line of business associated with the WashingtonFirst acquisition.
- BOLI life insurance income increased for the first six months of 2018 as compared to the first six months of 2017 due to the receipt $1.6 million in mortality proceeds in the first quarter of 2018.
- Bank card fee income grew 15% during the first half of 2018 compared to the first half of 2017 as transaction volume increased from the prior year.

Non-interest Expense

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

	Six Months Ended June 30,		2018/2017	2018/2017
(Dollars in thousands)	**2018**	2017	$ Change	% Change
Salaries and employee benefits	**$ 48,576**	$ 36,083	$ 12,493	34.6 %
Occupancy expense of premises	**9,584**	6,613	2,971	44.9
Equipment expenses	**4,468**	3,491	977	28.0
Marketing	**2,093**	1,439	654	45.4
Outside data services	**3,104**	2,759	345	12.5
FDIC insurance	**2,583**	1,628	955	58.7

Amortization of intangible assets	**1,082**	51	1,031	n.m
Merger expenses	**11,186**	987	10,199	n.m
Professional fees	**2,739**	2,000	739	37.0
Other real estate owned	**79**	(1)	80	n.m
Other expense	**9,229**	7,799	1,430	18.3
Total non-interest expense	**$ 94,723**	$ 62,849	$ 31,874	50.7

Non-interest expenses increased 51% to $94.7 million in the first six months of 2018 compared to $62.8 million in the first six months of 2017. The first six months of 2018 included $11.2 million in merger expenses. The six months ended June 30, 2017, included $1.3 million in prepayment penalties for the early payoff of high-rate FHLB advances and $1.0 million in merger expenses. Excluding the impact of the prepayment penalties and merger expenses, non-interest expenses increased 38% over the prior year period. The majority of the increase was in compensation, facility costs and other operational expenses resulting from the increased size of the Company. Further detail by category of non-interest expense follows:

- Salaries and employee benefits, the largest component of non-interest expenses, increased 35% in the first six months of 2018 due to the increase in the average number of full-time equivalent employees to 919 in the first half of 2018 compared to 733 in the first half of 2017.
- Combined occupancy and equipment expenses increased 39% compared to the prior year as a result of the impact from the additional acquired branches and business offices.
- Marketing expense increased 45% as a result of focused marketing initiatives and various media campaigns.
- FDIC insurance experienced a 59% increase due to growth in the total asset assessment base.
- Merger expenses are comprised of a variety of expenses related to personnel decisions, systems conversions, professional fees and branch closure costs that are directly associated with the acquisition of WashingtonFirst.
- Core deposit intangible amortization increased compared to the prior year as a result of the intangible associated with the WashingtonFirst acquisition.

- Other non-interest expenses increased 23% in the first six months of 2018 compared to the prior year period. The prior year included $1.3 million in penalties related to the prepayment of FHLB advances. Excluding these expenses, other non-interest expenses increased 41% for the first six months compared to the prior year period. This increase was driven primarily by increases in communication costs, professional fees and franchise taxes.

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, 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 vary widely from period to period without appreciably affecting operating expenses, and other 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 Condensed Consolidated Statements of Income. The GAAP and non-GAAP efficiency ratios are reconciled and provided in the following table. The GAAP efficiency ratio improved in the first six months of 2018 compared to the first six months of 2017 due primarily to the increase in net interest income discussed previously.

In addition, the Company uses pre-tax, pre-provision income adjusted for merger expenses as a measure of the level of 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 the provision for loan losses, merger expenses and the provision for income taxes back to net income. This metric increased in the first six months of 2018 compared to the first six months of 2017 due primarily to the increase in net interest income.

42

(Dollars in thousands)	Six Months Ended June 30, **2018**	2017
Pre-tax pre-provision income:		
Net income	**$ 46,064**	$ 29,853
Plus non-GAAP adjustments:		
Merger expenses	**11,186**	987
Income taxes	**14,178**	14,564
Provision for loan losses	**3,730**	1,516
Pre-tax pre-provision income	**$ 75,158**	$ 46,920
Efficiency ratio - GAAP basis:		
Non-interest expense	**$ 94,723**	$ 62,849
Net interest income plus non-interest income	**$ 158,695**	$ 108,782
Efficiency ratio - GAAP basis	**59.69%**	57.78%
Efficiency ratio - Non-GAAP basis:		
Non-interest expense	**$ 94,723**	$ 62,849
Less non-GAAP adjustments:		
Amortization of intangible assets	**1,082**	51
Loss on FHLB redemption	**-**	1,275
Merger expenses	**11,186**	987
Non-interest expenses - as adjusted	**$ 82,455**	$ 60,536
Net interest income plus non-interest income	**$ 158,695**	$ 108,782
Plus non-GAAP adjustment:		
Tax-equivalent income	**2,262**	3,697
Less non-GAAP adjustment:		
Securities gains	**63**	1,275
Net interest income plus non-interest income - as adjusted	**$ 160,894**	$ 111,204
Efficiency ratio - Non-GAAP basis	**51.25%**	54.44%
Supplemental Non-GAAP Performance Measurements:		
Net income - GAAP	**46,064**	29,853
Plus non-GAAP adjustment:		
Merger expenses - net of tax	**8,263**	593
Less non-GAAP adjustment:		
Accretion of acquisition fair value marks - net of tax	**3,278**	47
Net income - Non-GAAP	**$ 51,049**	$ 30,399
Diluted net income per share - Non-GAAP	**$ 1.43**	$ 1.25
Return on average assets - Non-GAAP	**1.31%**	1.19%
Return on average common equity - Non-GAAP	**10.18%**	11.32%

Income Taxes

The Company had income tax expense of $14.2 million in the first six months of 2018, compared to income tax expense of $14.6 million in the first six months of 2017. The resulting effective tax rates were 23.5% for the first six months of 2018 and 32.8% for the first six months of 2017. The reduction in the effective tax rate was due primarily to the recently enacted tax legislation, which will continue to benefit future periods.

Results of Operations

For the Three Months Ended June 30, 2018 Compared to the Three Months Ended June 30, 2017

Net income for the Company for the second quarter of 2018 totaled $24.4 million ($0.68 per diluted share) compared to net income of $14.7 million ($0.61 per diluted share) for the second quarter of 2017.

Net Interest Income

For the second quarter of 2018 net interest income increased 51% to $63.8 million compared to $42.3 million for the second quarter of 2017. On a tax-equivalent basis, net interest income for the second quarter of 2018 was $65.0 million compared to $44.2 million for the second quarter of 2017, an increase of 47%. The increase in net interest income is the result of the WashingtonFirst acquisition and, to a lesser degree, the Company's organic loan growth during the period. The following table provides an analysis of net interest income performance that reflects a net interest margin that was 3.56% for the second quarter of 2018 compared to 3.60% for the second quarter of 2017. The margin for the prior year's quarter included $0.7 million from the full payoff of a previously acquired credit impaired loan. Exclusive of the recovered interest income, the net interest margin would have been 3.54% based on an adjusted net interest income of $41.6 million. Amortization of the fair value adjustments to both interest-earning assets and interest-bearing liabilities directly attributable to the WashingtonFirst acquisition had a 12 basis point positive effect on net interest margin for the current period. This favorable margin effect was offset by approximately 5 basis points as a result of the impact that the recent reduction in the tax rate had on tax-advantaged investments. The impact of the amortization of the fair value adjustments on net interest income for the current quarter is presented in the following table:

(In thousands)		**For the Three Months Ended June 30, 2018**
Net Interest Income Excluding Purchase Accounting Adjustments:		
Net Interest Income	$	63,818
Accretion of fair value adjustment on pools of homogeneous loans		(1,197)
Accretion of loan credit fair value adjustment on purchased credit impaired loans		(399)
Accretion of fair value adjustment on certificates of deposits		(578)
Accretion of fair value adjustment on subordinated debentures		(34)
Net Interest Income Excluding Purchase Accounting Adjustments	$	61,610

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

	Three Months Ended June 30,					
	2018			2017		
(Dollars in thousands and tax-equivalent)	**Average Balances**	**(1) Interest**	**Annualized Average Yield/Rate**	Average Balances	(1) Interest	Annualized Average Yield/Rate
Assets						
Residential mortgage loans	**$1,034,062**	**$ 9,414**	**3.64%**	$ 860,081	$ 7,531	3.50%
Residential construction loans	**223,171**	**2,199**	**3.95**	169,130	1,579	3.74
Total mortgage loans	**1,257,233**	**11,613**	**3.70**	1,029,211	9,110	3.54
Commercial AD&C loans	**576,076**	**8,271**	**5.76**	302,924	3,767	4.99
Commercial investor real estate loans	**1,924,759**	**22,661**	**4.72**	1,010,389	11,280	4.48
Commercial owner occupied real estate loans	**1,184,409**	**13,989**	**4.74**	776,279	9,981	5.16
Commercial business loans	**666,280**	**8,807**	**5.30**	454,724	5,062	4.46
Total commercial loans	**4,351,524**	**53,728**	**4.95**	2,544,316	30,090	4.74
Consumer loans	**531,965**	**5,753**	**4.40**	461,672	4,171	3.66
Total loans (2)	**6,140,722**	**71,094**	**4.64**	4,035,199	43,371	4.31
Loans held for sale	**25,403**	**279**	**4.39**	7,077	72	4.09
Taxable securities	**734,482**	**5,282**	**2.88**	535,028	3,678	2.75
Tax-exempt securities (3)	**293,824**	**2,598**	**3.54**	307,809	3,259	4.23
Total investment securities	**1,028,306**	**7,880**	**3.06**	842,837	6,937	3.29
Interest-bearing deposits with banks	**114,869**	**514**	**1.79**	34,738	91	1.06
Federal funds sold	**1,972**	**7**	**1.44**	2,538	6	0.96
Total interest-earning assets	**7,311,272**	**79,774**	**4.37**	4,922,389	50,477	4.11
Less: allowance for loan losses	**(47,694)**			(43,679)		
Cash and due from banks	**66,420**			47,517		
Premises and equipment, net	**61,900**			53,449		
Other assets	**534,837**			222,722		
Total assets	**$7,926,735**			$5,202,398		
Liabilities and Stockholders' Equity						
Interest-bearing demand deposits	**$ 729,948**	**222**	**0.12%**	$ 615,141	123	0.08%
Regular savings deposits	**356,077**	**94**	**0.11**	325,634	57	0.07
Money market savings deposits	**1,554,304**	**4,571**	**1.18**	983,185	1,076	0.44
Time deposits	**1,220,447**	**3,964**	**1.30**	634,824	1,767	1.12
Total interest-bearing deposits	**3,860,776**	**8,851**	**0.92**	2,558,784	3,023	0.47
Other borrowings	**148,542**	**108**	**0.29**	132,553	79	0.24
Advances from FHLB	**1,011,180**	**5,338**	**2.12**	668,791	3,148	1.89
Subordinated debentures	**37,518**	**482**	**5.14**	-	-	-
Total interest-bearing liabilities	**5,058,016**	**14,779**	**1.17**	3,360,128	6,250	0.75
Noninterest-bearing demand deposits	**1,796,644**			1,251,396		
Other liabilities	**58,994**			43,645		
Stockholders' equity	**1,013,081**			547,229		
Total liabilities and stockholders' equity	**$7,926,735**			$5,202,398		

Net interest income and spread	**64,995**	**3.20%**	44,227	3.36%
Less: tax-equivalent adjustment	**1,177**		1,901	
Net interest income	**$63,818**		$42,326	
Interest income/earning assets		**4.37%**		4.11%
Interest expense/earning assets		**0.81**		0.51
Net interest margin		**3.56%**		3.60%

(1) Tax-equivalent income has been adjusted using the combined marginal federal and state rate of 26.13% and 39.88% for 2018 and 2017, respectively. The annualized

taxable-equivalent adjustments utilized in the above table to compute yields aggregated to $1.2 million and $1.9 million in 2018 and 2017, respectively.

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

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

Interest Income

The Company's total tax-equivalent interest income increased 58% for the second quarter of 2018 compared to the prior year quarter. The previous table reflects the growth in the various categories of interest-earning assets due primarily to the WashingtonFirst acquisition and, to a lesser degree, organic loan and investment portfolio growth during the previous twelve months.

The average balance of the loan portfolio increased 52% for the second quarter of 2018 compared to the prior year period. A significant amount of this growth was concentrated in the commercial real estate loan portfolios. The yield on average loans increased by 33 basis points compared to the prior year quarter. The increase in the yield on loans was the primary driver of the 26 basis point rise in the yield on interest-earning assets from period to period.

The average yield on total investment securities decreased 23 basis points while the average balance of the investment portfolio increased 22% for the second quarter of 2018 compared to the second quarter of 2017. The decrease in the yield on investments was driven by the impact on tax-exempt securities of the recently enacted tax legislation. The reduction in corporate income tax rates resulted in the 69 basis point decline in the tax-equivalent yield on these investments while the average size of the portfolio remained level from period to period.

Interest Expense

Interest expense increased 136% in the second quarter of 2018 compared to the second quarter of 2017. The majority of the increase from period to period was mainly attributable to the acquired balances coupled with rates that were either increased or, due to pre-existing rates structures, maintained on various categories of deposits to perpetuate deposit relationships and provide funding for loan growth. The cost of interest-bearing deposits increased due predominantly to the 58% growth in money market and 92% growth in time deposit average balances coupled with the substantial increase in money market deposit rates. Money market rates were directly affected by changes in certain pricing indices in addition to the maintenance of the pricing structure associated with the money market accounts acquired from WashingtonFirst. Average borrowings increased 49% as the average rate paid increased 37 basis points from period to period. The overall impact was an increase of 42 basis points in the rate paid on interest-bearing liabilities in the second quarter of 2018 compared to second quarter of 2017.

Non-interest Income

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

	Three Months Ended June 30,		2018/2017	2018/2017
(Dollars in thousands)	**2018**	2017	$ Change	% Change
Securities gains	**$ -**	$ 1,273	$ (1,273)	n.m. %
Service charges on deposit accounts	**2,290**	2,017	273	13.5

Mortgage banking activities	**2,064**	840	1,224	145.7
Wealth management income	**5,387**	4,744	643	13.6
Insurance agency commissions	**1,180**	1,222	(42)	(3.4)
Income from bank owned life insurance	**670**	605	65	10.7
Bank card fees	**1,393**	1,253	140	11.2
Other income	**1,884**	1,617	267	16.5
Total non-interest income	**$ 14,868**	$ 13,571	$ 1,297	9.6

Total non-interest income was $14.9 million for the second quarter of 2018 compared to $13.6 million for the second quarter of 2017, an increase of 10%. The second quarter of 2017 included gains of $1.3 million on the sales of investment securities. Excluding the gains, non-interest income increased 21% due to an increase in mortgage banking activities, and to a lesser extent, income from wealth management activities and service charges on deposit accounts. Further detail by type of non-interest income follows:

- Gains on sales of investment securities declined by $1.3 million for the three months ended June 30, 2018 compared to the same period last year. During the first six months of 2017 the Company sold specific equity securities for gains that were applied to offset the impact of prepayment penalties incurred on FHLB advances during the second quarter of 2017.

- Income from mortgage banking activities increased by $1.2 million in the second quarter of 2018 as compared to the second quarter of 2017. The increase in mortgage banking activities is attributable to the increased origination volume associated with the mortgage lending operations acquired as part of the WashingtonFirst acquisition.

- Wealth management income increased 14% in the second quarter of 2018 as compared to the second quarter of 2017. Revenue from wealth management is comprised of income from trust and estate services and investment management fees earned by West Financial Services, the Company's investment management subsidiary. Investment management fees in West Financial Services increased 14% for the second quarter of 2018 compared to the same period of 2017, also due to an increase in assets under management. Overall total assets under management increased to $2.9 billion at June 30, 2018 compared to $2.6 billion at June 30, 2017 due to positive market movements and additions from new and existing clients.

- Bank card income grew 11% in the second quarter of 2018 compared to the second quarter of 2017 as transaction volume increased from the prior year.

Non-interest Expense

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

	Three Months Ended June 30,		2018/2017	2018/2017
(Dollars in thousands)	**2018**	2017	$ Change	% Change
Salaries and employee benefits	**$ 24,664**	$ 18,282	$ 6,382	34.9 %
Occupancy expense of premises	**4,642**	3,211	1,431	44.6
Equipment expenses	**2,243**	1,767	476	26.9
Marketing	**945**	776	169	21.8
Outside data services	**1,707**	1,367	340	24.9
FDIC insurance	**1,390**	823	567	68.9
Amortization of intangible assets	**541**	25	516	n.m.
Merger expenses	**2,228**	987	1,241	125.7
Professional fees	**1,699**	1,045	654	62.6
Other real estate owned	**41**	(6)	47	n.m.
Other expense	**4,982**	4,591	391	8.5

Total non-interest expense	**$ 45,082**	$ 32,868	$ 12,214	37.2

Non-interest expenses totaled $45.1 million in the second quarter of 2018 compared to $32.9 million in the second quarter of 2017, an increase of 37%. The current quarter included $2.2 million in merger costs compared to $1.0 million in the prior year quarter. Additionally, the prior year quarter included $1.3 million in penalties on the early payoff of high rate FHLB advances. Exclusive of these expenses, non-interest expense increased 42%. Further detail by category of non-interest expense follows:

- Salaries and employee benefits, the largest component of non-interest expenses, increased 35% in the second quarter of 2018 due to the increase in the average number of full-time equivalent employees, which increased to 920 in the second quarter of 2018 compared to 735 in the second quarter of 2017 as a direct result of the WashingtonFirst acquisition.

- Occupancy and equipment expenses for the quarter increased 38% compared to the prior year quarter due to the addition of acquired branches and business offices.

- Marketing expense increased 22% from the prior year quarter due to an increase in focused advertising campaigns.
- FDIC insurance expense increased due to the higher asset assessment base.
- Merger expenses are the direct result of costs associated with the Washington First acquisition. The majority of the quarterly expenses were comprised of professional and consulting fees directly related to the acquisition transaction and branch closure costs.
- Professional fees increased in the second quarter of 2018 due to increases in various professional and consulting fees associated with processes and procedures in various business units.

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 GAAP and non-GAAP efficiency ratios are reconciled and provided in the following table. The GAAP efficiency ratio in the second quarter of 2018 improved compared to the second quarter of 2017, notwithstanding that merger expenses were included in non-interest expenses, due to the significant growth in net interest income. The exclusion of merger expenses, in addition to the traditional exclusions, resulted in a significant improvement in the non-GAAP efficiency ratio in the current period compared to the prior year period.

In addition, the Company uses pre-tax, pre-provision income, excluding merger expenses, as a measure of the level of recurring income before taxes. Management believes this provides financial statement users with a useful metric of the run-rate of revenues and expenses which is readily comparable to other financial institutions. This measure is calculated by adding the provision for loan losses, merger expenses and the provision for income taxes back to net income. This metric increased in the second quarter of 2018 compared to the second quarter of 2017 primarily due to an increase in net interest income.

(Dollars in thousands)	Three Months Ended June 30, **2018**	2017
Pre-tax pre-provision income:		
Net income	**$ 24,399**	$ 14,741
Plus non-GAAP adjustments:		
Merger expenses	**2,228**	987
Income taxes	**7,472**	6,966
Provision for loan losses	**1,733**	1,322
Pre-tax pre-provision income	**$ 35,832**	$ 24,016
Efficiency ratio - GAAP basis:		
Non-interest expense	**$ 45,082**	$ 32,868
Net interest income plus non-interest income	**$ 78,686**	$ 55,897
Efficiency ratio - GAAP basis	**57.29%**	58.80%
Efficiency ratio - Non-GAAP basis:		
Non-interest expense	**$ 45,082**	$ 32,868
Less non-GAAP adjustments:		
Amortization of intangible assets	**541**	25
Loss on FHLB redemption	**-**	1,275
Merger expenses	**2,228**	987
Non-interest expenses - as adjusted	**$ 42,313**	$ 30,581
Net interest income plus non-interest income	**$ 78,686**	$ 55,897
Plus non-GAAP adjustment:		
Tax-equivalent income	**1,177**	1,901
Less non-GAAP adjustment:		
Securities gains	**-**	1,273
Net interest income plus non-interest income - as adjusted	**$ 79,863**	$ 56,525
Efficiency ratio - Non-GAAP basis	**52.98%**	54.10%
Supplemental Non-GAAP Performance Measurements:		
Net income - GAAP	**24,399**	14,741
Plus non-GAAP adjustment:		
Merger expenses - net of tax	**1,646**	593
Less non-GAAP adjustment:		
Accretion of acquisition fair value marks - net of tax	**1,631**	22
Net income - Non-GAAP	**$ 24,414**	$ 15,312
Diluted net income per share - Non-GAAP	**$ 0.68**	$ 0.63
Return on average assets - Non-GAAP	**1.24%**	1.18%
Return on average common equity - Non-GAAP	**9.67%**	11.22%

FINANCIAL CONDITION

The Company's total assets were $8.2 billion at June 30, 2018, an increase of $2.7 billion or 50% compared to December 31, 2017. The increase was primarily due to the acquisition of WashingtonFirst that was completed on January 1, 2018. At the acquisition date, WashingtonFirst had assets of $2.1 billion, loans of $1.7 billion and deposits of $1.6 billion.

Analysis of Loans

A comparison of the loan portfolio at the dates indicated is presented in the following table:

	June 30, 2018		December 31, 2017		Period-to-Period Change	
(Dollars in thousands)	**Amount**	**%**	Amount	%	Amount	%
Residential real estate:						
Residential mortgage	**$1,106,674**	**17.7%**	$ 921,435	21.4%	$ 185,239	20.1%
Residential construction	**197,372**	**3.2**	176,687	4.1	20,685	11.7
Commercial real estate:						
Commercial owner occupied real estate	**1,184,421**	**19.0**	857,196	19.9	327,225	38.2
Commercial investor real estate	**1,923,827**	**30.8**	1,112,710	25.8	811,117	72.9
Commercial AD&C	**609,266**	**9.7**	292,443	6.8	316,823	108.3
Commercial business	**702,939**	**11.2**	497,948	11.5	204,991	41.2
Consumer	**525,574**	**8.4**	455,829	10.5	69,745	15.3
Total loans	**$6,250,073**	**100.0%**	$4,314,248	100.0%	$1,935,825	44.9

Total loans, excluding loans held for sale, increased 45% at June 30, 2018 compared to December 31, 2017. The commercial loan portfolio increased 60% during the period driven by an increase in each category of commercial loans. The mortgage and consumer loan portfolios also reflect significant growth. The vast majority of the increase in these individual portfolios was due to the WashingtonFirst acquisition. Organic loan growth was 6% from December 31, 2017 through June 30, 2018. The composition of the acquired loan portfolio was comparable to the Company’s and did not cause a significant redistribution of the Company’s pre-acquisition portfolio.

Analysis of Investment Securities

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

	June 30, 2018		December 31, 2017		Period-to-Period Change	
(Dollars in thousands)	**Amount**	**%**	Amount	%	Amount	%

Investments available-for-sale:						
U.S. government agencies and corporations	**$ 206,448**	**20.3%**	$ 106,568	13.8%	$ 99,880	93.7%
State and municipal	**322,506**	**31.7**	312,253	40.3	10,253	3.3
Mortgage-backed	**403,762**	**39.7**	300,040	38.7	103,722	34.6
Corporate debt	**9,238**	**0.9**	9,432	1.2	(194)	(2.1)
Trust preferred	**310**	**-**	1,002	0.1	(692)	(69.1)
Marketable equity securities	**568**	**0.1**	212	-	356	167.9
Total available-for-sale securities	**942,832**	**92.7**	729,507	94.1	213,325	29.2
Investments held-to-maturity and other equity:						
Other equity securities	**74,442**	**7.3**	45,518	5.9	28,924	63.5
Total held-to-maturity and other equity	**74,442**	**7.3**	45,518	5.9	28,924	63.5
Total securities	**$1,017,274**	**100.0%**	$ 775,025	100.0%	$ 242,249	31.3

The investment portfolio consists primarily of U.S. Agency securities, U.S. Agency mortgage-backed securities, U.S. Agency collateralized mortgage obligations and state and municipal securities. As a result of the acquisition, the portfolio increased 31% at June 30, 2018 compared to December 31, 2017. An effect of this growth was a shift in the allocation of the portfolio to a greater proportion being placed in U.S. government agencies and corporation securities. Recent tax legislation has had an impact on the tax advantages associated with earnings streams from state and municipal securities. The Company intends to continue to retain a significant portion of the portfolio in these securities.

The Company considers the duration of the portfolio to be adequate for liquidity purposes. This investment strategy has resulted in a portfolio with low credit risk that would provide the liquidity necessary to meet loan demand. 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. The duration of the portfolio was 3.8 years at June 30, 2018 and 3.7 years at December 31, 2017. This increase in the duration is attributable to rising interest rate environment.

Other Earning Assets

Residential mortgage loans held for sale were $40 million at June 30, 2018 compared to $10 million at December 31, 2017 due to higher origination volumes associated with the WashingtonFirst acquisition and, to a lesser extent, the timing of loan sales on the amounts held for sale at quarter end. The aggregate of federal funds sold and interest-bearing deposits with banks increased by $169 million to $225 million at June 30, 2018 compared to December 31, 2017 due to the timing of cash flows.

Deposits

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

	June 30, 2018		December 31, 2017		Period-to-Period Change	
(Dollars in thousands)	**Amount**	**%**	Amount	%	Amount	%
Noninterest-bearing deposits	**$1,910,690**	**32.7%**	$1,264,392	31.9%	$ 646,298	51.1%
Interest-bearing deposits:						
Demand	**722,476**	**12.4**	658,716	16.6	63,760	9.7
Money market savings	**1,603,902**	**27.5**	1,030,432	26.0	573,470	55.7
Regular savings	**355,569**	**6.1**	321,171	8.1	34,398	10.7
Time deposits of less than $100,000	**427,635**	**7.3**	293,201	7.4	134,434	45.9
Time deposits of $100,000 or more	**817,554**	**14.0**	395,750	10.0	421,804	106.6
Total interest-bearing deposits	**3,927,136**	**67.3**	2,699,270	68.1	1,227,866	45.5
Total deposits	**$5,837,826**	**100.0%**	$3,963,662	100.0%	$1,874,164	47.3

Deposits and Borrowings

Total deposits increased $1.9 billion or 48% at June 30, 2018 compared to December 31, 2017. This increase was due primarily from deposits acquired with the WashingtonFirst transaction. Organic deposit growth during the period was 6%, primarily in money market and time deposit products. The acquisition did not significantly alter the relative composition of the deposit portfolio. Interest-bearing deposits represented 68% with the remaining 32% in noninterest-bearing balances at March 31, 2018. This compares to 68% and 32% for interest-bearing and noninterest-bearing balances December 31, 2017. Total borrowings increased 40% at June 30, 2018 compared to December 31, 2017 primarily in advances from the FHLB and the subordinated debentures of $38 million as a result of the acquisition.

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. Total stockholders' equity was $1.0 billion at June 30, 2018 compared to $564 million at December 31, 2017. The growth in stockholders' equity was the result of the $447 million in equity issued in connection with the WashingtonFirst acquisition in addition to net income during the period exceeding the payment of dividends. The ratio of average equity to average assets was 12.83% for the six months ended June 30, 2018, as compared to 10.50% for the first six months of 2017.

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		Minimum Regulatory
	June 30, 2018	December 31, 2017	Requirements
Total capital to risk-weighted assets	**12.19%**	11.85%	8.00%
Tier 1 capital to risk-weighted assets	**11.01%**	10.84%	6.00%
Common equity tier 1 capital	**10.85%**	10.84%	4.50%
Tier 1 leverage	**9.27%**	9.24%	4.00%

As of June 30, 2018, 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%. The rules also establish a "capital conservation buffer" of 2.5% above the regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer requirement is being phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. 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. 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

(Dollars in thousands, except per share data)	**June 30, 2018**	December 31, 2017
Tangible common equity ratio:		
Total stockholders' equity	**$ 1,026,349**	$ 563,816

	Accumulated other comprehensive loss		**20,556**	6,857
	Goodwill		**(346,312)**	(85,768)
	Other intangible assets, net		**(10,868)**	(580)
Tangible common equity		**$**	**689,725**	$ 484,325
Total assets		**$**	**8,152,600**	$ 5,446,675
	Goodwill		**(346,312)**	(85,768)
	Other intangible assets, net		**(10,868)**	(580)
Tangible assets		**$**	**7,795,420**	$ 5,360,327
Tangible common equity ratio			**8.85%**	9.04%
Tangible book value per share		**$**	**19.42**	$ 20.18

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 Condensed Consolidated Financial Statements.

Total non-performing loans decreased to $28.8 million at June 30, 2018 compared to $29.4 million at December 31, 2017. While 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, local economic conditions and levels of non-performing loans may continue to be influenced by the conditions being experienced in various business sectors of the economy on both a regional and national level.

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 losses that are inherent in the loan portfolio. The adequacy of the allowance is determined through the 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 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. 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. 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. Any further collateral deterioration results 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 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 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.

- 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.

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 first 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. 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 $3.7 million in the first six months of 2018 compared to $1.5 million in the first six months of 2017. The increase in the provision in the first six months of 2018 reflects the impact of organic loan production and the impact of acquired loans being refinanced as they reached maturity under the original lending arrangements and ceased to be accounted for as acquired loans.

The Company typically sells a substantial 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 six to twelve 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 $0.8 million for probable losses due to repurchases.

The Company periodically engages in whole loan sale transactions of its residential mortgage loans as a part its interest rate risk management strategy. The Company sold $60.0 million of loans on a servicing-retained basis during the first six months of 2018. The gain on the sale was not significant. The servicing asset associated with these sales was $0.5 million. Income earned by the Company on its loan servicing rights, which is derived primarily from contractually specified servicing fees and other ancillary fees, is not significant.

Mortgage loan servicing rights are accounted for at amortized cost and are monitored for impairment on an ongoing basis. At June 30, 2018 and December 31, 2017, the amortized cost of the Company's mortgage loan servicing rights was $1.1 million and $0.7 million, respectively. The Company did not incur any impairment losses during the current period.

Allowance for Loan Losses

During the second quarter of 2018, there were no changes in the Company’s methodology for assessing the appropriateness of the allowance for loan losses from the prior year. Variations can occur over time in the estimation of the allowance as a result of the credit performance of borrowers.

At June 30, 2018, total non-performing loans, excluding credit deteriorated loans from acquisitions, were $28.8 million, or 0.46% of total loans, compared to $29.4 million, or 0.68% of total loans, at December 31, 2017. This decline in the ratio was due to the increase in the size of the loan portfolio. Non-performing loans include accruing loans 90 days or more past due and restrucutred loans, but exclude acquired non-performing loans. The allowance represented 168% of non-performing loans at June 30, 2018 as compared to 154% at December 31, 2017. The allowance for loan losses as a percent of total loans was 0.78% at June 30, 2018 as compared to 1.05% at December 31, 2017.

Continued analysis of the actual loss history on the problem credits in 2017 and 2018 provided an indication that the coverage of the inherent losses on the problem credits was adequate. The Company continues to monitor the impact of the economic conditions on our commercial customers together with the reduced inflow of non-accruals and criticized loans. The improvement in these credit metrics supports management’s outlook for continued improved credit quality performance.

The balance of impaired loans was $18.9 million, with specific allowances of $4.5 million against those loans at June 30, 2018, as compared to $20.8 million with specific allowances of $4.0 million, at December 31, 2017.

The Company's borrowers are concentrated in nine counties in Maryland, three counties in Virginia and in Washington D.C. Commercial and residential mortgages, including home equity loans and lines, represented 88% of total loans at June 30, 2018 and 77% of total loans at December 31, 2017. 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:

(Dollars in thousands)	**Six Months Ended June 30, 2018**	Year Ended December 31, 2017
Balance, January 1	**$ 45,257**	$ 44,067
Provision for loan losses	**3,730**	2,977
Loan charge-offs:		
Residential real estate:		
Residential mortgage	**(26)**	(87)
Residential construction	**-**	-
Commercial real estate:		
Commercial owner occupied	**-**	(248)
Commercial AD&C	**-**	-
Commercial business	**(378)**	(1,538)
Consumer	**(414)**	(693)
Total charge-offs	**(818)**	(2,566)
Loan recoveries:		
Residential real estate:		
Residential mortgage	**35**	150
Residential construction	**11**	26
Commercial real estate:		
Commercial investor	**16**	101
Commercial owner occupied	**-**	-
Commercial AD&C	**62**	103
Commercial business	**129**	94
Consumer	**71**	305
Total recoveries	**324**	779
Net charge-offs	**(494)**	(1,787)
Balance, period end	**$ 48,493**	$ 45,257
Net charge-offs to average loans	**0.02%**	0.04%
Allowance for loan losses to loans	**0.78%**	1.05%

Analysis of Credit Risk

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

(Dollars in thousands)	**June 30, 2018**	December 31, 2017
Non-accrual loans:		
Residential real estate:		
Residential mortgage	**$ 6,251**	$ 7,196
Residential construction	**168**	177
Commercial real estate:		
Commercial investor	**5,878**	5,575
Commercial owner occupied	**3,440**	3,582
Commercial AD&C	**136**	136
Commercial business	**6,883**	6,703
Consumer	**4,298**	2,967
Total non-accrual loans	**27,054**	26,336
Loans 90 days past due		
Residential real estate:		
Residential mortgage	**-**	225
Residential construction	**-**	-
Commercial real estate:		
Commercial investor	**-**	-
Commercial owner occupied	**112**	-
Commercial AD&C	**-**	-
Commercial business	**6**	-
Consumer	**-**	-
Total 90 days past due loans	**118**	225
Restructured loans (accruing)	**1,663**	2,788
Total non-performing loans	**28,835**	29,349
Other real estate owned, net	**2,361**	2,253
Total non-performing assets	**$ 31,196**	$ 31,602
Non-performing loans to total loans	**0.46%**	0.68%
Non-performing assets to total assets	**0.38%**	0.58%
Allowance for loan to non-performing loans	**168.17%**	154.20%

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 margin 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 embedded 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 100% 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 statement of condition is subject to quarterly testing for eight alternative interest rate shock possibilities to indicate the inherent interest rate risk. Average 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. If a measure of risk produced by the alternative simulations of the entire balance sheet violates policy guidelines, ALCO is required to develop a plan to restore the measure of risk to a level that complies with policy limits within two quarters.

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%
June 30, 2018	**8.02%**	**6.41%**	**4.44%**	**2.33%**	**(2.36%)**	**N/A**	**N/A**	**N/A**
December 31, 2017	(7.36%)	(4.93%)	(2.82%)	(1.13%)	(2.24%)	N/A	N/A	N/A

As shown above, measures of net interest income at risk improved from December 31, 2017 at all shock levels. All measures remained well within prescribed policy limits. The significant improvement in the risk position from December 31, 2017 to June 30, 2018 was driven by the reduction in the assumed sensitivity of the Bank's premier money market product to interest rate changes. Durations of loans and deposits lengthened while securities and borrowing experience shortened durations. Loan duration grew due to the impact of fixed loans in the loan portfolio while deposit duration grew due to the impact of a reduced decay rate.

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. The difference between these discounted values of the assets and liabilities is the economic value of equity, which, in theory, approximates the fair value of the Company's net assets.

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%
June 30, 2018	**(7.18%)**	**(3.41%)**	**(0.33%)**	**1.40%**	**(0.78%)**	**N/A**	**N/A**	**N/A**
December 31, 2017	(21.09%)	(14.75%)	(8.58%)	(3.39%)	(0.98%)	N/A	N/A	N/A

Measures of the economic value of equity ("EVE") at risk decreased from December 31, 2017 to June 30, 2018 in all of the shock scenarios. The improvement in the EVE risk position was a result that higher market rates had on deposit decay assumptions which had the effect of lengthening the durations on core deposits. The risk position also benefited from the decreased assumed sensitivity of the bank's premier money market deposits to changes in market rates.

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 June 30, 2018. 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 June 30, 2018. 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.

Liquidity is measured using an approach designed to take into account, in addition to factors already discussed above, the Company's growth and mortgage banking activities. Also considered are changes in the liquidity of the investment portfolio due to fluctuations in interest rates. 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 June 30, 2018, show short-term investments exceeding short-term borrowings by $88 million over the subsequent 360 days. This projected excess of liquidity versus requirements provides the Company with flexibility in how it funds loans and other earning assets.

The Company also has external sources of funds, which 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 $2.0 billion, all of which was available for borrowing based on pledged collateral, with $1.1 billion borrowed against it as of June 30, 2018. The line of credit at the Federal Reserve totaled $371 million, all of which was available for borrowing based on pledged collateral, with no borrowings against it as of June 30, 2018. Additionally, at June 30, 2018, the Company has the approved capacity to borrow up to $260 million in federal funds. Other external sources of liquidity available to the Company in the

form of unsecured lines of credit granted by correspondent banks totaled $75 million at June 30, 2018, against which there were no outstanding borrowings. In addition, the Company had a secured line of credit with a correspondent bank of $20 million as of June 30, 2018. Based upon its liquidity analysis, including external sources of liquidity available, management believes the liquidity position was appropriate at June 30, 2018.

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 June 30, 2018, the Bank could have declared a dividend of $59 million to Bancorp. At June 30, 2018, Bancorp had liquid assets of $24 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.

Commitments to extend credit in the form of consumer, commercial real estate and business at the dates indicated were as follows:

(In thousands)	**June 30, 2018**	December 31, 2017
Commercial real estate development and construction	**$ 520,911**	$ 390,646
Residential real estate-development and construction	**143,051**	130,751
Real estate-residential mortgage	**64,325**	18,238
Lines of credit, principally home equity and business lines	**1,247,328**	1,044,949
Standby letters of credit	**63,251**	62,937
Total commitments to extend credit and available credit lines	**$ 2,038,866**	$ 1,647,521

Commitments to extend credit are agreements to provide financing to a customer with the provision that there are no violations of any condition established in the agreement. Commitments generally have interest rates determined by current market rates, expirations dates or other termination clauses and may require payment of a fee. Lines of credit typically represent unused portions of lines of credit that were provided and remain available as long as there is no violation of any contractual condition. Commitments to extend credit are evaluated on a case by case basis periodically. Many of the commitments are expected to expire without being drawn upon. It would be highly unlikely that all customers would draw on their lines of credit in full at any time and, therefore, the total commitment amount or line of credit amounts do not necessarily represent future cash requirements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Financial Condition - Market Risk and Interest Rate Sensitivity” in Management’s Discussion and Analysis of Financial Condition and Results of Operations, above, which is incorporated herein by reference.

Item 4. CONTROLS AND PROCEDURES

The Company’s management, under the supervision and with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, evaluated as of the last day of the period covered by this report, the effectiveness of the design and operation of the Company’s disclosure controls and procedures, as defined in Rule 13a-15 under the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer

concluded that the Company's disclosure controls and procedures were effective. There were no changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15 under the Securities Act of 1934) during the three months ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. 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 from these matters will have a material effect on the Company's financial condition, operating results or liquidity.

Item 1A. Risk Factors

There have been no material changes in the risk factors as discussed in the 2017 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company's 2015 stock repurchase program expired on August 31, 2017 and has not been renewed.

Item 3. Defaults Upon Senior Securities – None

Item 4. Mine Safety Disclosures – Not applicable

Item 5. Other Information - None

Item 6. Exhibits

Exhibit 31(a)	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)
Exhibit 31(b)	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)
Exhibit 32(a)	Certification of Chief Executive Officer pursuant to 18 U.S. Section 1350
Exhibit 32(b)	Certification of Chief Financial Officer pursuant to 18 U.S. Section 1350
Exhibit 101	The following materials from the Sandy Spring Bancorp, Inc. Quarterly Report on Form 10-Q for the quarter end June 30, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Condition; (ii) The Condensed Consolidated Statements of Income; (iii) The Condensed Consolidated Statements of Comprehensive Income; (iv) The Condensed Consolidated Statements of Cash Flows; (v) The Condensed Consolidated Statements of Changes in Stockholders' Equity; (vi) related notes.

Signatures

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this quarterly 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: August 3, 2018

By: /s/ Philip J. Mantua

Philip J. Mantua

Executive Vice President and Chief Financial Officer

Date: August 3, 2018