

SANDY SPRING BANCORP INC  
Form 10-Q  
November 09, 2018

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

**FORM 10-Q**

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

**For the Quarterly Period Ended September 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  No

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Indicate by check mark whether the registrant has submitted electronically 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 such files).

Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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  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 November 6, 2018

**Common stock, \$1.00 par value – 35,523,703 shares**

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**SANDY SPRING BANCORP, INC.**

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## Forward-Looking Statements

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

Forward-looking statements reflect our expectation or prediction of future conditions, events or results based on information currently available. These forward-looking statements are subject to significant risks and uncertainties that may cause actual results to differ materially from those in such statements. These 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**

<i>(Dollars in thousands)</i>	<b>September 30, 2018</b>	<b>December 31, 2017</b>
<b>Assets</b>		
Cash and due from banks	\$ 63,380	\$ 55,693
Federal funds sold	2,055	2,845
Interest-bearing deposits with banks	13,142	53,962
Cash and cash equivalents	78,577	112,500
Residential mortgage loans held for sale (at fair value)	31,581	9,848
Investments available-for-sale (at fair value)	926,723	729,507
Other equity securities	66,074	45,518
Total loans	6,388,959	4,314,248
Less: allowance for loan losses	(50,409)	(45,257)
Net loans	6,338,550	4,268,991
Premises and equipment, net	62,098	54,761
Other real estate owned	2,118	2,253
Accrued interest receivable	24,058	15,480
Goodwill	345,422	85,768
Other intangible assets, net	10,327	580
Other assets	149,037	121,469
<b>Total assets</b>	<b>\$ 8,034,565</b>	<b>\$ 5,446,675</b>
<b>Liabilities</b>		
Noninterest-bearing deposits	\$ 1,902,537	\$ 1,264,392
Interest-bearing deposits	3,995,857	2,699,270
Total deposits	5,898,394	3,963,662
Securities sold under retail repurchase agreements and federal funds purchased	142,669	119,359
Advances from FHLB	866,445	765,833
Subordinated debentures	37,460	-
Accrued interest payable and other liabilities	46,881	34,005
Total liabilities	6,991,849	4,882,859
<b>Stockholders' Equity</b>		
Common stock -- par value \$1.00; shares authorized 100,000,000; shares issued and outstanding 35,521,541 and 23,996,293 at September 30, 2018 and December 31, 2017, respectively	35,522	23,996
Additional paid in capital	605,623	168,188
Retained earnings	425,991	378,489
Accumulated other comprehensive loss	(24,420)	(6,857)
Total stockholders' equity	1,042,716	563,816
<b>Total liabilities and stockholders' equity</b>	<b>\$ 8,034,565</b>	<b>\$ 5,446,675</b>



The accompanying notes are an integral part of these statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
<i>(Dollars in thousands, except per share data)</i>	<b>2018</b>	2017	<b>2018</b>	2017
<b>Interest income:</b>				
Interest and fees on loans	<b>\$ 76,786</b>	\$ 43,891	<b>\$ 215,050</b>	\$ 126,861
Interest on loans held for sale	<b>336</b>	119	<b>983</b>	273
Interest on deposits with banks	<b>211</b>	108	<b>1,082</b>	289
Interest and dividends on investment securities:				
Taxable	<b>5,112</b>	3,410	<b>15,297</b>	10,572
Exempt from federal income taxes	<b>1,921</b>	2,053	<b>6,035</b>	6,110
Interest on federal funds sold	<b>8</b>	8	<b>28</b>	18
Total interest income	<b>84,374</b>	49,589	<b>238,475</b>	144,123
<b>Interest expense:</b>				
Interest on deposits	<b>10,773</b>	3,701	<b>26,583</b>	9,212
Interest on retail repurchase agreements and federal funds purchased	<b>383</b>	83	<b>599</b>	238
Interest on advances from FHLB	<b>5,141</b>	3,108	<b>15,557</b>	9,385
Interest on subordinated debt	<b>486</b>	-	<b>1,436</b>	12
Total interest expense	<b>16,783</b>	6,892	<b>44,175</b>	18,847
<b>Net interest income</b>	<b>67,591</b>	42,697	<b>194,300</b>	125,276
Provision for loan losses	<b>1,890</b>	934	<b>5,620</b>	2,450
Net interest income after provision for loan losses	<b>65,701</b>	41,763	<b>188,680</b>	122,826
<b>Non-interest income:</b>				
Investment securities gains	<b>82</b>	-	<b>145</b>	1,275
Service charges on deposit accounts	<b>2,316</b>	2,140	<b>6,865</b>	6,121
Mortgage banking activities	<b>1,672</b>	632	<b>5,943</b>	2,080
Wealth management income	<b>5,344</b>	4,864	<b>15,792</b>	14,092
Insurance agency commissions	<b>2,016</b>	1,950	<b>5,020</b>	4,924
Income from bank owned life insurance	<b>663</b>	609	<b>3,664</b>	1,808
Bank card fees	<b>1,436</b>	1,211	<b>4,199</b>	3,609
Other income	<b>1,504</b>	1,340	<b>5,391</b>	5,040
Total non-interest income	<b>15,033</b>	12,746	<b>47,019</b>	38,949
<b>Non-interest expense:</b>				
Salaries and employee benefits	<b>24,488</b>	18,442	<b>73,064</b>	54,525
Occupancy expense of premises	<b>4,355</b>	3,294	<b>13,939</b>	9,907
Equipment expense	<b>2,441</b>	1,722	<b>6,909</b>	5,213
Marketing	<b>770</b>	784	<b>2,863</b>	2,223
Outside data services	<b>1,736</b>	1,286	<b>4,840</b>	4,045
FDIC insurance	<b>1,257</b>	850	<b>3,840</b>	2,478
Amortization of intangible assets	<b>540</b>	25	<b>1,622</b>	76
Merger expenses	<b>580</b>	345	<b>11,766</b>	1,332
Other expense	<b>6,226</b>	4,443	<b>18,273</b>	14,241
Total non-interest expense	<b>42,393</b>	31,191	<b>137,116</b>	94,040
Income before income taxes	<b>38,341</b>	23,318	<b>98,583</b>	67,735
Income tax expense	<b>9,107</b>	8,229	<b>23,285</b>	22,793
<b>Net income</b>	<b>\$ 29,234</b>	\$ 15,089	<b>\$ 75,298</b>	\$ 44,942

**Per share information:**

Basic net income per share	\$	<b>0.82</b>	\$	0.62	\$	<b>2.11</b>	\$	1.86
Diluted net income per share	\$	<b>0.82</b>	\$	0.62	\$	<b>2.11</b>	\$	1.86
Dividends declared per common share	\$	<b>0.28</b>	\$	0.26	\$	<b>0.82</b>	\$	0.78

The accompanying notes are an integral part of these statements

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

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30, <b>2018</b>	2017	September 30, <b>2018</b>	2017
Net income	<b>\$ 29,234</b>	\$ 15,089	<b>\$ 75,298</b>	\$ 44,942
Other comprehensive income:				
Investments available-for-sale:				
Net change in unrealized gains/(losses) on investments available-for-sale	<b>(5,399)</b>	113	<b>(22,318)</b>	5,618
Related income tax (expense)/benefit	<b>1,411</b>	(45)	<b>5,839</b>	(2,236)
Net investment gains reclassified into earnings	<b>(82)</b>	-	<b>(145)</b>	(1,275)
Related income tax expense	<b>22</b>	-	<b>38</b>	508
Net effect on other comprehensive income/(loss) for the period	<b>(4,048)</b>	68	<b>(16,586)</b>	2,615
Defined benefit pension plan:				
Recognition of unrealized loss	<b>250</b>	296	<b>750</b>	886
Related income tax benefit	<b>(66)</b>	(129)	<b>(250)</b>	(364)
Net effect on other comprehensive income for the period	<b>184</b>	167	<b>500</b>	522
Total other comprehensive income/(loss)	<b>(3,864)</b>	235	<b>(16,086)</b>	3,137
Comprehensive income	<b>\$ 25,370</b>	\$ 15,324	<b>\$ 59,212</b>	\$ 48,079

The accompanying notes are an integral part of these statements

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

<i>(Dollars in thousands)</i>	Nine Months Ended September 30,	
	<b>2018</b>	2017
<b>Operating activities:</b>		
Net income	\$ 75,298	\$ 44,942
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,265	5,939
Provision for loan losses	5,620	2,450
Stock based compensation expense	1,941	1,611
Tax benefits associated with share based compensation	250	700
Deferred income tax expense	6,959	163
Origination of loans held for sale	(321,224)	(105,970)
Proceeds from sales of loans held for sale	331,212	114,474
Gains on sales of loans held for sale	(5,809)	(2,653)
(Gains)/losses on sales of other real estate owned	104	(82)
Investment securities gains	(145)	(1,275)
Net increase in accrued interest receivable	(2,072)	(1,456)
Net decrease/(increase) in other assets	1,653	(5,314)
Net increase/(decrease) in accrued expenses and other liabilities	(3,160)	19
Other – net	3,988	3,521
Net cash provided by operating activities	<b>103,880</b>	57,069
<b>Investing activities:</b>		
(Purchases of)/proceeds from other equity securities	(3,659)	6,241
Purchases of investments available-for-sale	(55,251)	(125,028)
Proceeds from sales of investment available-for-sale	34,691	2,251
Proceeds from maturities, calls and principal payments of investments available-for-sale	83,789	103,775
Net increase in loans	(454,760)	(306,755)
Proceeds from the sales of other real estate owned	759	1,228
Proceeds from sales of loans previously held for investment	59,945	40,031
Acquisition of business activity, net of cash paid	32,552	-
Expenditures for premises and equipment	(8,545)	(4,589)
Net cash used in investing activities	<b>(310,479)</b>	(282,846)
<b>Financing activities:</b>		
Net increase in deposits	323,890	378,248
Net increase in retail repurchase agreements and federal funds purchased	16,424	21,450
Proceeds from advances from FHLB	4,930,000	3,080,000
Repayment of advances from FHLB	(5,068,745)	(3,237,083)
Retirement of subordinated debt	-	(30,000)
Proceeds from issuance of common stock	1,140	1,015
Stock tendered for payment of withholding taxes	(760)	(953)
Dividends paid	(29,273)	(18,844)
Net cash provided by financing activities	<b>172,676</b>	193,833
Net decrease in cash and cash equivalents	<b>(33,923)</b>	(31,944)
Cash and cash equivalents at beginning of period	<b>112,500</b>	134,125

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Cash and cash equivalents at end of period	\$	<b>78,577</b>	\$	102,181
<b>Supplemental disclosures:</b>				
Interest payments	\$	<b>42,279</b>	\$	19,244
Income tax payments		<b>19,092</b>		22,927
Transfer from loans to residential mortgage loans held for sale		<b>60,043</b>		39,744
Transfer from loans to other real estate owned		<b>289</b>		700

The accompanying notes are an integral part of these statements

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

	Common	Additional Paid-In	Retained	Accumulated Other Comprehensive Income	Total Stockholders' Equity
<i>(Dollars in thousands, except per share data)</i>	Stock	Capital	Earnings	(Loss)	Equity
<b>Balances at January 1, 2018</b>	<b>\$ 23,996</b>	<b>\$ 168,188</b>	<b>\$ 378,489</b>	<b>\$ (6,857)</b>	<b>\$ 563,816</b>
Net income	-	-	75,298	-	75,298
Other comprehensive loss, net of tax	-	-	-	(16,086)	(16,086)
Common stock dividends - \$0.82 per share	-	-	(29,273)	-	(29,273)
Stock compensation expense	-	1,941	-	-	1,941
Common stock issued pursuant to:					
Acquisition of WashingtonFirst Bankshares, Inc. - 11,446,197 shares	11,446	435,194	-	-	446,640
Stock option plan - 19,918 shares	20	403	-	-	423
Employee stock purchase plan - 21,428 shares	22	695	-	-	717
Restricted stock - 37,705 shares	38	(798)	-	-	(760)
Reclassification of tax effects from other comprehensive income	-	-	1,477	(1,477)	-
<b>Balances at September 30, 2018</b>	<b>\$ 35,522</b>	<b>\$ 605,623</b>	<b>\$ 425,991</b>	<b>\$ (24,420)</b>	<b>\$ 1,042,716</b>
Balance at January 1, 2017	\$ 23,901	\$ 165,871	\$ 350,414	\$ (6,614)	\$ 533,572
Net income	-	-	44,942	-	44,942
Other comprehensive income, net of tax	-	-	-	3,137	3,137
Common stock dividends - \$0.78 per share	-	-	(18,844)	-	(18,844)
Stock compensation expense	-	1,611	-	-	1,611
Common stock issued pursuant to:					
Stock option plan - 28,736 shares	29	521	-	-	550
Employee stock purchase plan - 13,486 shares	13	452	-	-	465
Restricted stock - 47,064 shares	47	(1,000)	-	-	(953)
<b>Balances at September 30, 2017</b>	<b>\$ 23,990</b>	<b>\$ 167,455</b>	<b>\$ 376,512</b>	<b>\$ (3,477)</b>	<b>\$ 564,480</b>

