LPL Investment Holdings Inc.
Form 4
December 05, 2011

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
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(Print or Type Responses)

1. Name and Address of Reporting Person *
SCHIFTER RICHARD P

(Last) (First) (Middle)

C/O TPG CAPITAL, L.P.,, 301 COMMERCE STREET, SUITE 3300

(Street)

FORT WORTH, TX 76102

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
LPL Investment Holdings Inc. [LPLA]

3. Date of Earliest Transaction (Month/Day/Year)
12/01/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	12/01/2011		A		1,667 (1)	A	$ 0	3,180	D (2)	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SCHIFTER RICHARD P C/O TPG CAPITAL, L.P., 301 COMMERCE STREET, SUITE 3300 FORT WORTH, TX 76102	X			

Signatures

/s/ Stephanie L. Brown, as Attorney-in-Fact	12/05/2011
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) These shares represent restricted stock that was granted under the Issuer's 2010 Omnibus Equity Incentive Plan. This restricted stock shall be fully vested on the second anniversary of the transaction date.

(2) Mr. Schifter is a partner of TPG Capital, L.P., which is affiliated with TPG Partners IV, L.P. ("TPG IV"), a Delaware limited partnership. As disclosed on a Form 3 filed with the Securities and Exchange Commission on April 24, 2009 by TPG Advisors IV, Inc., an affiliate of TPG IV, TPG IV directly holds 34,210,185.1 shares of Common Stock. Mr. Schifter disclaims beneficial ownership of the shares of Common Stock that are or may be beneficially owned by TPG IV or any of its affiliates, including TPG Advisors IV, Inc. or TPG Group Holdings (SBS) Advisors, Inc. Pursuant to Rule 16a-1(a)(4) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), this filing shall not be deemed an admission that Mr. Schifter is, for purposes of Section 16 of the Exchange Act or otherwise, the beneficial owner of any equity securities of the Issuer directly held by TPG IV or any of its affiliates.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ue is estimated by discounting the expected future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and similar remaining maturities. Expected cash flows were projected based on contractual cash flows, adjusted for estimated prepayments.

Accrued interest receivable: The carrying value of accrued interest receivable approximates fair value due to the short-term duration and has been excluded from the table above.

Other assets: The investment in bank-owned life insurance represents the cash surrender value of the policies at June 30, 2015 and December 31, 2014 as determined by the each insurance carrier. The carrying value of accrued interest receivable approximates fair values due to the short-term duration.

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Deposits: The fair value of demand, money market savings and regular savings deposits, which have no stated maturity, were considered equal to their carrying amount, representing the amount payable on demand. While management believes that the Bank’s core deposit relationships provide a relatively stable, low-cost funding source that has a substantial intangible value separate from the value of the deposit balances, these estimated fair values do not include the intangible value of core deposit relationships, which comprise a significant portion of the Bank’s deposit base.

Short-term borrowings: The carrying values of short-term borrowings, including overnight, securities sold under agreements to repurchase and federal funds purchased approximates the fair values due to the short maturities of those instruments.

Long-term borrowings: The fair value of the Federal Home Loan Bank of Atlanta (“FHLB”) advances and subordinated debentures was estimated by computing the discounted value of contractual cash flows payable at current interest rates for obligations with similar remaining terms. The Company's credit risk is not material to calculation of fair value because the FHLB borrowings are collateralized. The Company classifies advances from the Federal Home Loan Bank of Atlanta within Level 2 of the fair value hierarchy since the fair value of such borrowings is based on rates currently available for borrowings with similar terms and remaining maturities. Subordinated debentures are classified as Level 3 in the fair value hierarchy due to the lack of market activity of such instruments.

Accrued interest payable: The carrying value of accrued interest payable approximates fair value due to the short-term duration and has been excluded from the previous table.

Note 15 - Segment Reporting

Currently, the Company conducts business in three operating segments—Community Banking, Insurance and Investment Management. Each of the operating segments is a strategic business unit that offers different products and services. The Insurance and Investment Management segments were businesses that were acquired in separate transactions where management of acquisition was retained. The accounting policies of the segments are the same as those of the Company. However, the segment data 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 on sales of investment products and service charges on deposit accounts. Expenses include personnel, occupancy, marketing, equipment and other expenses. Non-cash charges associated with amortization of intangibles related to the acquired entities was not significant for the three and six ended June 30, 2015 and 2014, respectively.

The Insurance segment is conducted through Sandy Spring Insurance Corporation, a subsidiary of the Bank, and offers annuities as an alternative to traditional deposit accounts. Sandy Spring Insurance Corporation operates Sandy Spring Insurance, a general insurance agency located in Annapolis, Maryland, and Neff and Associates, located in Ocean City, Maryland. Major sources of revenue are insurance commissions from commercial lines, personal lines, and medical liability lines. Expenses include personnel and support charges. Non-cash charges associated with amortization of intangibles related to the acquired entities was not significant for the three and six ended June 30, 2015 and 2014, 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 $1.1 billion in assets under management. Major revenue sources include non-interest income earned on the above services. Expenses include personnel and support charges. Non-cash charges associated with amortization of intangibles related to the acquired entities was not significant for the three and six ended June 30, 2015 and 2014, 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, 2015				
(In thousands)	**Community Banking**	**Insurance**	**Investment Mgmt.**	**Inter-Segment Elimination**	**Total**
Interest income	**$ 38,849**	**$ -**	**$ 2**	**$ (2)**	**$ 38,849**
Interest expense	**4,918**	**-**	**-**	**(2)**	**4,916**
Provision for loan and lease losses	**1,218**	**-**	**-**	**-**	**1,218**
Noninterest income	**24,945**	**984**	**1,754**	**(15,574)**	**12,109**
Noninterest expenses	**42,958**	**1,169**	**924**	**(15,574)**	**29,477**
Income before income taxes	**14,700**	**(185)**	**832**	**-**	**15,347**
Income tax expense	**4,763**	**(74)**	**325**	**-**	**5,014**
Net income	**$ 9,937**	**$ (111)**	**$ 507**	**$ -**	**$ 10,333**
Assets	**$ 4,508,858**	**$ 5,647**	**$ 10,672**	**$ (17,810)**	**$ 4,507,367**

	Three Months Ended June 30, 2014				
(In thousands)	Community Banking	Insurance	Investment Mgmt.	Inter-Segment Elimination	Total
Interest income	$ 36,991	$ 3	$ 5	$ (8)	$ 36,991
Interest expense	4,690	-	-	(8)	4,682
Provision for loan and lease losses	158	-	-	-	158
Non-interest income	12,108	1,045	1,717	(3,176)	11,694
Non-interest expenses	35,305	1,125	887	(3,176)	34,141
Income before income taxes	8,946	(77)	835	-	9,704
Income tax expense	2,427	(30)	325	-	2,722
Net income	$ 6,519	$ (47)	$ 510	$ -	$ 6,982
Assets	$ 4,257,129	$ 6,025	$ 10,927	$ (39,739)	$ 4,234,342

	Six Months Ended June 30, 2015				
(In thousands)	**Community Banking**	**Insurance**	**Investment Mgmt.**	**Inter-Segment Elimination**	**Total**
Interest income	**$ 76,920**	**$ 1**	**$ 3**	**$ (3)**	**$ 76,921**
Interest expense	**9,618**	**-**	**-**	**(3)**	**9,615**
Provision for loan and lease losses	**1,815**	**-**	**-**	**-**	**1,815**
Noninterest income	**34,781**	**2,678**	**3,564**	**(15,755)**	**25,268**
Noninterest expenses	**69,975**	**2,552**	**1,949**	**(15,755)**	**58,721**
Income before income taxes	**30,293**	**127**	**1,618**	**-**	**32,038**
Income tax expense	**9,797**	**52**	**631**	**-**	**10,480**

Net income	**$**	**20,496**	**$**	**75**	**$**	**987**	**$**	**-**	**$**	**21,558**
Assets	**$**	**4,508,858**	**$**	**5,647**	**$**	**10,672**	**$**	**(17,810)**	**$**	**4,507,367**

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	Six Months Ended June 30, 2014				
(In thousands)	Community Banking	Insurance	Investment Mgmt.	Inter-Segment Elimination	Total
Interest income	$ 73,241	$ 5	$ 9	$ (14)	$ 73,241
Interest expense	9,354	-	-	(14)	9,340
Provision (credit) for loan and lease losses	(824)	-	-	-	(824)
Non-interest income	20,123	2,776	3,395	(3,351)	22,943
Non-interest expenses	60,917	2,317	1,807	(3,351)	61,690
Income before income taxes	23,917	464	1,597	-	25,978
Income tax expense	7,258	188	622	-	8,068
Net income	$ 16,659	$ 276	$ 975	$ -	$ 17,910
Assets	$ 4,257,129	$ 6,025	$ 10,927	$ (39,739)	$ 4,234,342

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. The Bank is independent, community oriented, and conducts a full-service commercial banking business through 44 community offices located in Central Maryland and Northern Virginia. 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.

With $4.5 billion in assets, the Company is a community banking organization that focuses its lending and other services on businesses and consumers in the local market area. Through its subsidiaries, Sandy Spring Insurance Corporation and West Financial Services, Inc., Sandy Spring Bank offers a comprehensive menu of insurance and investment management services.

Overview

Net income for the Company for the second quarter of 2015 totaled $10.3 million ($0.42 per diluted share) as compared to net income of $7.0 million ($0.28 per diluted share) for the second quarter of 2014. For the first six months of 2015, net income totaled $21.6 million ($0.87 per diluted share), compared to net income of $17.9 million ($0.71 per diluted share), for the first six months of 2014. During the second quarter of 2014, the Company recognized accrued litigation expenses of $6.1 million due to an adverse jury verdict. These results reflect the following events:

- Average total loans for the second quarter of 2015 increased 12% compared to the second quarter of 2014 due to organic growth in each of the three major portfolio segments.

- Combined noninterest-bearing and interest-bearing transaction account balances increased 11% to $1.6 billion at June 30, 2015 as compared to $1.5 billion at June 30,2014.

- The provision for loan and lease losses was a charge of $1.2 million for the second quarter of 2015 as compared to a charge of $0.2 million for the second quarter of 2014 and a charge of $0.6 million for the first quarter of 2015. The increase in the provision for the second quarter of 2015 was driven primarily by loan growth over the prior year period.

- The net interest margin was 3.42% in the second quarter of 2015, compared to 3.48% for the second quarter of 2014 and 3.44% for the first quarter of 2015. The decrease compared to the prior year's quarter was the result of declining loan yields, primarily in the commercial loan portfolio.

- Non-interest income increased $0.4 million or 4% for the second quarter of 2015 compared to the second quarter of 2014 due largely to increases in wealth management income and income from mortgage banking activities.

- During the first six months of 2015, the Company repurchased 575,472 shares of its common stock at an average price of $25.92 per share as part of its existing share repurchase program.

In the first six months of 2015, the Mid-Atlantic region in which the Company operates continued to show economic improvement. While the national economy improved during the first half of the year, international economic concerns together with volatile oil prices impeded both the regional and national economic outlook. Positive trends in housing, consumer spending and unemployment have been offset by concerns over a lack of wage growth and the strength of the dollar compared to other major currencies. These factors have caused uncertainty on the part of both large and small businesses and have thus restricted economic expansion. Slowing economic growth and stock market declines in China together with continuing default concerns in Greece and Puerto Rico have served as underlying volatility factors in financial markets. Together with state and municipal budget challenges across the country, these factors have caused enough economic uncertainty, particularly among individual consumers and small and medium-sized businesses, to suppress confidence and thus constrain the pace of economic expansion. Despite this challenging business environment, the Company has emphasized the fundamentals of community banking as it has maintained strong levels of liquidity and capital while overall credit quality has continued to improve.

Liquidity remained strong due to the borrowing lines with the Federal Home Loan Bank of Atlanta and the Federal Reserve and the size and composition of the investment portfolio.

The Company's non-performing assets decreased to $41.8 million at June 30, 2015 from $43.7 million at June 30, 2014. This decrease was due primarily to problem loan pay-offs and a reduction in restructured loans. Non-performing assets represented 0.93% of total assets at June 30, 2015 compared to 1.03% at June 30, 2014. The ratio of net charge-offs to average loans and leases was insignificant for the second quarter of 2015, compared to 0.03% for the prior year quarter.

Non-interest income increased 4% in the second quarter of 2015 compared to the second quarter of 2014. This increase was driven by a 9% increase in wealth management income due primarily to higher assets under management. Income from mortgage banking activities increased 44% for the quarter due primarily to higher volumes of loan originations.

Non-interest expenses decreased 14% in the second quarter of 2015 compared to the prior year quarter due mainly to litigation expenses incurred in the second quarter of 2014. Excluding such expenses, non-interest expenses increased 5% due to higher salaries and benefits and other non-interest expenses.

Total assets at June 30, 2015 increased 3% compared to December 31, 2014. Loan balances increased 5% compared to the prior year end due to growth of 7% in commercial loans while both consumer and residential mortgage loans increased 3% compared to the prior year end. Customer funding sources, which include deposits plus other short-term borrowings from core customers, increased 7% compared to balances at December 31, 2014. The increase in customer funding sources was driven primarily by increases of 10% in certificates of deposit, 6% in noninterest-bearing and interest-bearing transaction accounts and 6% in regular savings accounts. Retail repurchase agreements also increased 50% as the Company increased its emphasis on the sale of cash management services. The Company continued to manage its net interest margin, primarily by utilizing short-term FHLB borrowings, deposit growth and retail repurchase agreements to fund loans during this extended period of historically low interest rates. During the same period, stockholders' equity decreased $3 million to $519 million as the payment of dividends and repurchases of stock under the Company's share repurchase program exceeded net income during the period.

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

	Six Months Ended June 30,					
		2015			2014	
(Dollars in thousands and tax-equivalent)	**Average Balances**	**(1) Interest**	**Annualized Average Yield/Rate**	Average Balances	(1) Interest	An A Yi
Assets						
Residential mortgage loans	**$ 729,343**	**$12,279**	**3.37%**	$ 640,155	$11,061	
Residential construction loans	**134,849**	**2,489**	**3.72**	140,147	2,612	
Commercial ADC loans	**212,257**	**4,862**	**4.62**	165,319	4,253	
Commercial investor real estate loans	**657,088**	**15,350**	**4.71**	566,275	13,872	
Commercial owner occupied real estate loans	**618,100**	**15,200**	**4.96**	582,042	14,213	
Commercial business loans	**390,853**	**8,507**	**4.39**	349,162	8,091	
Leasing	**36**	**1**	**3.76**	459	12	
Consumer loans	**429,746**	**7,106**	**3.35**	383,983	6,326	
Total loans and leases (2)	**3,172,272**	**65,794**	**4.18**	2,827,542	60,440	
Loans held for sale	**10,583**	**208**	**3.94**	6,083	130	
Taxable securities	**617,861**	**7,722**	**2.50**	699,460	8,715	
Tax-exempt securities (3)	**294,024**	**6,305**	**4.29**	302,398	6,527	
Interest-bearing deposits with banks	**35,273**	**44**	**0.25**	33,853	42	
Federal funds sold	**473**	**1**	**0.22**	475	-	
Total interest-earning assets	**4,130,486**	**80,074**	**3.90**	3,869,811	75,854	
Less: allowance for loan and lease losses	**(37,833)**			(38,864)		
Cash and due from banks	**46,663**			45,268		
Premises and equipment, net	**51,127**			45,787		
Other assets	**215,567**			209,535		
Total assets	**$4,406,010**			$4,131,537		
Liabilities and Stockholders' Equity						
Interest-bearing demand deposits	**$ 525,692**	**207**	**0.08%**	$ 468,677	194	
Regular savings deposits	**274,220**	**71**	**0.05**	255,667	97	
Money market savings deposits	**832,549**	**590**	**0.14**	871,464	546	
Time deposits	**455,147**	**1,693**	**0.75**	462,591	1,540	
Total interest-bearing deposits	**2,087,608**	**2,561**	**0.25**	2,058,399	2,377	
Other borrowings	**98,228**	**110**	**0.23**	65,889	75	
Advances from FHLB	**614,254**	**6,502**	**2.13**	573,619	6,451	
Subordinated debentures	**35,000**	**442**	**2.53**	35,000	437	
Total interest-bearing liabilities	**2,835,090**	**9,615**	**0.68**	2,732,907	9,340	
Noninterest-bearing demand deposits	**1,004,965**			862,830		
Other liabilities	**46,824**			27,984		
Stockholders' equity	**519,131**			507,816		
Total liabilities and stockholders' equity	**$4,406,010**			$4,131,537		
Net interest income and spread		**$70,459**	**3.22%**		$66,514	
Less: tax-equivalent adjustment		**3,153**			2,613	

Net interest income	**$67,306**		$63,901
Interest income/earning assets		**3.90%**	
Interest expense/earning assets		**0.47**	
Net interest margin		**3.43%**	

(1) Tax-equivalent income has been adjusted using the combined marginal federal and state rate of 39.88% for 2015 and 2014. annualized taxable-equivalent
adjustments utilized in the above table to compute yields aggregated to $3.2 million and $2.6 million in 2015 and 2014, res
(2) Non-accrual loans are included in the average balances.
(3) Includes only investments that are exempt from federal taxes.

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Results of Operations

For the Six Months Ended June 30, 2015 Compared to the Six Months Ended June 30, 2014

Net income for the Company for the first six months of 2015 totaled $21.6 million ($0.87 per diluted share) compared to net income of $17.9 million ($0.71 per diluted share) for the first six months of 2014.

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 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 preceding table.

Net interest income for the first six months of 2015 was $67.3 million compared to $63.9 million for the first six months of 2014. On a tax-equivalent basis, net interest income for the first six months of 2015 was $70.5 million compared to $66.5 million for the first six months of 2014, an increase of 6%. The preceding table provides an analysis of net interest income performance that reflects a net interest margin that decreased to 3.43% for the first six months of 2015 compared to 3.48% for the prior year period. Year-to-date 2015 average interest-earning assets increased by 7% while average interest-bearing liabilities increased 4% compared to the year ago period. Average noninterest-bearing deposits increased 16% in the first six months of 2015 while the percentage of average noninterest-bearing deposits to total deposits increased to 32% for the first six months of 2015 compared to 30% for the first six months of 2014.The decrease in the net interest margin was caused by the effect of lower rates on interest-earning assets that exceeded the benefit of lower rates on interest-bearing deposits and borrowings and the increase in noninterest-bearing deposits.

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:

	2015 vs. 2014			2014 vs. 2013		
	Increase			Increase		
		Due to Change In			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:						

Loans and leases	**$ 5,354**	**$ 7,598**	**$ (2,244)**	$ 1,582	$ 5,680	$ (4,098)
Loans held for sale	**78**	**89**	**(11)**	(532)	(681)	149
Securities	**(1,215)**	**(1,382)**	**167**	124	(700)	824
Other earning assets	**3**	**3**	**-**	(1)	(1)	-
Total interest income	**4,220**	**6,308**	**(2,088)**	1,173	4,298	(3,125)
Interest expense on funding of earning assets:						
Interest-bearing demand deposits	**13**	**15**	**(2)**	11	21	(10)
Regular savings deposits	**(26)**	**8**	**(34)**	(9)	8	(17)
Money market savings deposits	**44**	**(21)**	**65**	(243)	(11)	(232)
Time deposits	**153**	**(26)**	**179**	(233)	(140)	(93)
Total borrowings	**91**	**721**	**(630)**	14	1,333	(1,319)
Total interest expense	**275**	**697**	**(422)**	(460)	1,211	(1,671)
Net interest income	**$ 3,945**	**$ 5,611**	**$ (1,666)**	$ 1,633	$ 3,087	$ (1,454)

* 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.

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Interest Income

The Company's total tax-equivalent interest income for the first six months of 2015 increased 6% compared to the first six months of 2014. The previous table shows that, in 2015, the increase in average loans and leases more than offset the decline in earning asset yields with respect to the loan portfolio.

The average balance of the loan portfolio increased 12% for the first six months of 2015 compared to the prior year period. This growth was primarily in the commercial investor real estate and residential mortgage portfolios. These increases were driven by organic loan growth as the regional economy improved. The yield on average loans and leases decreased by 16 basis points due to the pay-off of higher rate loans and the origination of new loans at comparatively lower rates. The decline in the portfolio yield was driven primarily by a decrease of 24 basis points in the yield on the commercial loan portfolio together with a decrease of 9 basis points in the yield in the residential mortgage portfolio.

The average yield on total investment securities increased 4 basis points while the average balance of the portfolio decreased 9% for the first six months of 2015 compared to the first six months of 2014. The increase in the yield on investments was due primarily to a change in the mix of the overall portfolio as principal amortization reduced the relative size of the lower-yielding mortgage-backed securities while the balance of tax-exempt securities remained essentially unchanged.

Interest Expense

Interest expense increased 3% in the first six months of 2015 compared to the first half of 2014. The increase in the expense was due to the cost of interest-bearing deposits increasing primarily due to growth in the average balances at relatively the same rates, while the increase in the average balances of Federal Home Loan Bank advances was largely offset by a 14 basis point decrease in the average rates paid. Average deposits increased 6% in the first six months of 2015 compared to the prior year period. This increase was primarily due to increases of $199 million or 15% in average noninterest-bearing and interest-bearing checking accounts together with an increase of $19 million or 7% in regular savings accounts as clients kept funds in short-term instruments to preserve liquidity. This growth was partially offset by a decrease in average certificates of deposit of $7 million or 2% in the first six months of 2015 compared to the prior year-to-date. Average balances of money market accounts decreased 4% in the first six months of 2015 compared to the first six months of 2014 as clients generally maintained liquidity.

Non-interest Income

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

	Six Months Ended June 30,		2015/2014	2015/2014
(Dollars in thousands)	**2015**	2014	$ Change	% Change

Securities gains	**$ 19**	$ -	$ 19	-
Service charges on deposit accounts	**3,721**	4,061	(340)	(8.4) %
Mortgage banking activities	**2,000**	886	1,114	125.7
Wealth management income	**10,077**	9,207	870	9.4
Insurance agency commissions	**2,499**	2,601	(102)	(3.9)
Income from bank owned life insurance	**1,319**	1,206	113	9.4
Bank card fees	**2,277**	2,147	130	6.1
Other income	**3,356**	2,835	521	18.4
Total non-interest income	**$ 25,268**	$ 22,943	$ 2,325	10.1

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Total non-interest income was $25.3 million for the first six months of 2015 compared to $22.9 million for the first six months of 2014. The primary drivers of non-interest income for the first six months of 2015 were increases in wealth management income, income from mortgage banking activities and other non-interest income. Further detail by type of non-interest income follows:

- Wealth management income is comprised of income from trust and estate services, investment management fees earned by West Financial Services, the Company's investment management subsidiary, and fees on sales on investment products and services. Trust services fees increased 15% for the first six months of 2015 compared to the prior year period due to an increase in assets under management and one-time estate fees. Investment management fees in West Financial Services increased 5% in 2015 compared to the first six months of 2014, also due to higher assets under management. Fees on sales of investment products increased 5% for the first six months of 2015 compared to the prior year period, due to higher assets under management. Overall total assets under management increased to $2.9 billion at June 30, 2015 compared to $2.7 billion at June 30, 2014 as a result of positive market movements and additions from new and existing clients.

- Income from mortgage banking activities increased in 2015 compared to 2014 due primarily to higher loan origination volumes from refinancing activity as mortgage rates remained at historic lows.

- Other non-interest income increased during 2015 compared to 2014 due mainly to increases in loan prepayment fees and gains on sales of SBA loans.

- Income from bank owned life insurance increased in the first six months of 2015 compared to the first half of 2014 due primarily to policy proceeds recognized during 2015.

- Income from service charges on deposits decreased due to a decrease in return check charges for 2015 compared to the prior year period.

- Insurance agency commissions decreased due primarily to a decline in annual contingency commissions based on policy performance.

- Income from bank card fees increased 6% due to a higher volume of electronic transactions.

Non-interest Expense

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

	Six Months Ended June 30,		2015/2014	2015/2014
(Dollars in thousands)	**2015**	2014	$ Change	% Change
Salaries and employee benefits	**$ 34,833**	$ 32,829	$ 2,004	6.1 %
Occupancy expense of premises	**6,662**	6,746	(84)	(1.2)
Equipment expenses	**2,863**	2,518	345	13.7
Marketing	**1,473**	1,344	129	9.6
Outside data services	**2,363**	2,432	(69)	(2.8)
FDIC insurance	**1,285**	1,093	192	17.6
Amortization of intangible assets	**213**	594	(381)	(64.1)

Litigation Expenses	**362**	6,128	(5,766)	(94.1)
Professional fees	**2,408**	2,206	202	9.2
Other real estate owned	**14**	9	5	55.6
Other expenses	**6,245**	5,791	454	7.8
Total non-interest expense	**$ 58,721**	$ 61,690	$ (2,969)	(4.8)

Non-interest expenses totaled $58.7 million in the first six months of 2015 compared to $61.7 million in the first six months of 2014, a decrease of 5%. Excluding the litigation expenses from both years, non-interest expenses increased 5% compared to the prior year period. This increase in expenses was driven primarily by higher salaries and benefits and other non-interest expenses, which were partially offset by a decrease in intangibles amortization. Further detail by category of non-interest expense follows:

- Salaries and employee benefits, the largest component of non-interest expenses, increased in the first six months of 2015 due primarily to higher compensation expenses as a result of merit increases and increased health insurance expenses. In addition, pension expense increased over the first six months of 2014 due to a change in actuarial assumptions. The average number of full-time equivalent employees was 718 in the first six months of 2015 compared to 722 in the prior year period.

- Equipment expenses increased in 2015 compared to 2014 due to higher software amortization expense.

- FDIC expenses increased in 2015 compared to 2014 due to growth in assets.

- Intangibles amortization decreased in 2015 due to the costs of prior year acquisitions being fully amortized during the period.

- Other non-interest expenses increased in 2015 compared to the prior year-to-date due mainly to an increase in fraudulent bankcard activity.

- Marketing expenses increased in 2015 due to increases in targeted advertising initiatives.

Income Taxes

The Company had income tax expense of $10.5 million in the first six months of 2015, compared to income tax expense of $8.1 million in the first six months of 2014. The resulting effective tax rates were 33% for the first six months of 2015 compared to 31% for the first six months of 2014. The effective rate increased in 2015 compared to 2014 due to tax exempt income comprising a lower proportion of income before taxes.

Results of Operations

For the Three Months Ended June 30, 2015 Compared to the Three Months Ended June 30, 2014

Net income for the Company for the second quarter of 2015 totaled $10.3 million ($0.42 per diluted share) compared to net income of $7.0 million ($0.28 per diluted share) for the second quarter of 2014.

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 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 preceding table.

Net interest income for the second quarter of 2015 was $33.9 million compared to $32.3 million for the second quarter of 2014. On a tax-equivalent basis, net interest income for the second quarter of 2015 was $35.5 million compared to $33.6 million for the second quarter of 2014, an increase of 6%. The preceding table provides an analysis of net interest income performance that reflects a net interest margin that decreased to 3.42% for the second quarter of 2015 compared to 3.48% for the prior year period. Quarterly average interest-earning assets increased by 7% and average interest-bearing liabilities increased 5% compared to the second quarter of 2014. Average noninterest-bearing deposits increased 14% for the quarter compared to the same quarter of the prior year. The percentage of average noninterest-bearing deposits to total deposits increased to 33% for the second quarter of 2015 compared to 30% for the second quarter of 2014. The decrease in the net interest margin was caused by the effect of lower rates on interest-earning assets that exceeded the benefit of lower rates on interest-bearing deposits and borrowings and the increase in noninterest-bearing deposits.

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

	Three Months Ended June 30,					
		2015			2014	
(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	**$ 734,382**	**$ 6,155**	**3.35%**	$ 652,232	$ 5,614	3.44%
Residential construction loans	**137,216**	**1,268**	**3.71**	145,968	1,359	3.73
Commercial ADC loans	**218,341**	**2,525**	**4.64**	168,063	2,180	5.20
Commercial investor real estate loans	**668,883**	**7,771**	**4.66**	575,283	7,139	4.98
Commercial owner occupied real estate loans	**624,407**	**7,669**	**4.93**	579,953	7,146	5.09
Commercial business loans	**398,510**	**4,369**	**4.40**	348,597	4,054	4.69
Leasing	**28**	**-**	**1.49**	352	6	6.30
Consumer loans	**434,011**	**3,606**	**3.35**	390,076	3,208	3.32
Total loans and leases (2)	**3,215,778**	**33,363**	**4.16**	2,860,524	30,706	4.34
Loans held for sale	**14,075**	**132**	**3.76**	6,940	71	4.12
Taxable securities	**606,581**	**3,786**	**2.50**	688,793	4,263	2.48
Tax-exempt securities (3)	**291,656**	**3,135**	**4.30**	302,342	3,260	4.32
Interest-bearing deposits with banks	**34,400**	**22**	**0.25**	34,770	22	0.25
Federal funds sold	**473**	**-**	**0.22**	474	-	0.22
Total interest-earning assets	**4,162,963**	**40,438**	**3.89**	3,893,843	38,322	3.97
Less: allowance for loan and lease losses	**(38,217)**			(38,342)		
Cash and due from banks	**46,894**			44,987		
Premises and equipment, net	**51,591**			45,696		
Other assets	**215,439**			211,375		
Total assets	**$4,438,670**			$4,157,559		
Liabilities and Stockholders' Equity						
Interest-bearing demand deposits	**$ 527,307**	**101**	**0.08%**	$ 477,018	102	0.09%
Regular savings deposits	**278,199**	**37**	**0.05%**	262,078	49	0.07%
Money market savings deposits	**833,382**	**317**	**0.15%**	865,134	273	0.13%
Time deposits	**466,632**	**912**	**0.78%**	461,812	769	0.67%
Total interest-bearing deposits	**2,105,520**	**1,367**	**0.26%**	2,066,042	1,193	0.23%
Other borrowings	**106,180**	**60**	**0.23%**	68,880	37	0.22%
Advances from FHLB	**605,714**	**3,266**	**2.16%**	546,615	3,233	2.37%
Subordinated debentures	**35,000**	**223**	**2.55%**	35,000	219	2.50%
Total interest-bearing liabilities	**2,852,414**	**4,916**	**0.69%**	2,716,537	4,682	0.69%
Noninterest-bearing demand deposits	**1,023,042**			899,287		
Other liabilities	**46,274**			29,997		
Stockholders' equity	**516,940**			511,738		
Total liabilities and stockholders' equity	**$4,438,670**			$4,157,559		
Net interest income and spread		**$35,522**	**3.20%**		$33,640	3.28%
Less: tax-equivalent adjustment		**1,589**			1,331	

Net interest income	**$33,933**	$32,309
Interest income/earning assets	**3.89%**	3.97%
Interest expense/earning assets	**0.47**	0.49
Net interest margin	**3.42%**	3.48%

(1) Tax-equivalent income has been adjusted using the combined marginal federal and state rate of 39.88% for 2015 and 2014. The annualized taxable-equivalent adjustments utilized in the above table to compute yields aggregated to $1.6 million and $1.3 million in 2015 and 2014, respectively.
(2) Non-accrual loans are included in the average balances.
(3) Includes only investments that are exempt from federal taxes.

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Interest Income

The Company's total tax-equivalent interest income increased 6% for the second quarter of 2015 compared to the prior year quarter. The previous table shows that, in 2015, the increase in average loans and leases more than offset the decline in earning asset yields with respect to the loan portfolio.

The average balance of the loan portfolio increased 12% for the second quarter of 2015 compared to the second quarter of 2014. This growth was primarily in the commercial investor real estate and residential mortgage portfolios. These increases were driven by organic loan growth, as the regional economy improved, together with the possibility of Federal Reserve action to increase interest rates by the end of 2015. The yield on average loans and leases decreased by 18 basis points due to the continued prevailing low interest rate environment as relatively higher rate loans were paid off and new loans were originated at comparatively lower rates. The decline in the portfolio yield was driven primarily by a decrease of 29 basis points in the yield on the commercial loan portfolio together with a decrease of 9 basis points in the yield in the residential mortgage portfolio.

The average yield on total investment securities increased 5 basis points while the average balance of the portfolio decreased 9% for the second quarter of 2015 compared to the second quarter of 2014. The increase in the yield on investments was due primarily to a change in the mix of the overall portfolio as principal amortization reduced the relative size of the lower-yielding mortgage-backed securities while the balance of tax-exempt securities remained essentially unchanged.

Interest Expense

Interest expense increased $0.2 million or 5% in the second quarter of 2015 compared to the second quarter of 2014 primarily due to growth in interest-bearing deposits together with an increase of 3 basis points in the cost of such deposits. Higher average balances of Federal Home Loan Bank advances was largely offset by a 21 basis point decrease in the average rates paid. Average deposits increased 6% in the second quarter of 2015 compared to the prior year quarter. This increase was primarily due to increases of $174 million or 13% in average noninterest-bearing and interest-bearing checking accounts together with an increase of $16 million or 6% in regular savings accounts. Average certificates of deposit increased 1% in the second quarter of 2015 compared to the prior year quarter as the Company increased rates offered on selected products in response to a rise in rates paid as part of the Company’s liquidity management program. Average balances of money market accounts decreased 4% in the second quarter of 2015 compared to the second quarter of 2014 as clients generally maintained liquidity.

Non-interest Income

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

	2015/2014	2015/2014

(Dollars in thousands)	Three Months Ended June 30,			
	2015	2014	$ Change	% Change
Securities gains	**$ 19**	$ -	$ 19	- %
Service charges on deposit accounts	**1,839**	2,089	(250)	(12.0)
Mortgage banking activities	**822**	570	252	44.2
Wealth management income	**5,161**	4,741	420	8.9
Insurance agency commissions	**881**	961	(80)	(8.3)
Income from bank owned life insurance	**606**	608	(2)	(0.3)
Bank card fees	**1,220**	1,169	51	4.4
Other income	**1,561**	1,556	5	0.3
Total non-interest income	**$ 12,109**	$ 11,694	$ 415	3.5

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Total non-interest income was $12.1 million for the second quarter of 2015 compared to $11.7 million for the second quarter of 2014. The primary drivers of non-interest income for the second quarter of 2015 were increases in wealth management income and income from mortgage banking activities. Further detail by type of non-interest income follows:

- Wealth management income is comprised of income from trust and estate services, investment management fees earned by West Financial Services, the Company's investment management subsidiary, and fees on sales on investment products and services. Trust services fees increased 13% for the second quarter compared to the prior year period due to an increase in assets under management and one-time estate fees. Investment management fees in West Financial Services increased 2% for the second quarter of 2015 compared to the second quarter of 2014, as higher assets under management were somewhat offset by lower average fees. Fees on sales of investment products increased 11% for the second quarter compared to the prior year quarter, also due to growth in assets under management. Overall total assets under management increased to $2.9 billion at June 30, 2015 compared to $2.7 billion at June 30, 2014 as a result of positive market movements and additions from new and existing clients.

- Income from mortgage banking activities increased in 2015 compared 2014 due primarily to higher loan origination volumes as mortgage rates remained at historic lows.

- Other non-interest income increased during 2015 compared to 2014 due mainly to increases in loan prepayment fees and gains on sales of SBA loans.

- Income from service charges on deposits decreased 12% in 2015 compared to 2014 due to a decline in return check charges.

- Bank card fees increased 4% over the prior year quarter due to an increased volume of electronic transactions.

Non-interest Expense

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

	Three Months Ended June 30,		2015/2014	2015/2014
(Dollars in thousands)	**2015**	2014	$ Change	% Change
Salaries and employee benefits	**$ 17,534**	$ 16,474	$ 1,060	6.4 %
Occupancy expense of premises	**3,173**	3,274	(101)	(3.1)
Equipment expenses	**1,490**	1,262	228	18.1
Marketing	**942**	802	140	17.5
Outside data services	**1,102**	1,216	(114)	(9.4)
FDIC insurance	**654**	573	81	14.1
Amortization of intangible assets	**106**	224	(118)	(52.7)
Litigation expenses	**162**	6,128	(5,966)	(97.4)
Professional fees	**1,199**	1,292	(93)	(7.2)
Other real estate owned	**4**	9	(5)	(55.6)
Other expenses	**3,111**	2,887	224	7.8
Total non-interest expense	**$ 29,477**	$ 34,141	$ (4,664)	(13.7)

Non-interest expenses totaled $29.5 million in the second quarter of 2015 compared to $34.1 million in the second quarter of 2014, a decrease of 14%. This decrease in expenses was due to $6.1 million in litigation expenses resulting from an adverse jury verdict in the second quarter of 2014. Excluding such expenses, non-interest expenses for the second quarter increased 5% over the prior year quarter. This increase was driven primarily by higher salaries and benefits, equipment and marketing expenses. Further detail by category of non-interest expense follows:

- Salaries and employee benefits, the largest component of non-interest expenses, increased in 2015 due primarily to higher compensation expenses as a result of merit increases and increased health insurance expenses. In addition, pension expense increased over 2014 due to a change in actuarial assumptions. The average number of full-time equivalent employees was 722 in the second quarter of 2015 compared to 723 in the second quarter of 2014.

- Equipment expenses increased in 2015 compared to 2014 due to higher software amortization expense.

- FDIC expenses increased in 2015 compared to 2014 due to growth in assets.

- Intangibles amortization decreased in 2015 due to the costs of prior year acquisitions being fully amortized during the period.

- Marketing expenses increased in 2015 due to increases in targeted advertising initiatives.

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 goodwill impairment losses, the amortization of intangibles, and 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 non-recurring gains. The measure is different from the GAAP efficiency ratio, which also is presented in this report. The GAAP measure is calculated using non-interest expense and income amounts as shown on the face of the Consolidated Statements of Income. The GAAP and non-GAAP efficiency ratios are reconciled and provided in the following table. The GAAP efficiency ratio improved in the second of 2015 compared to the second of the 2014 due to the litigation expenses mentioned previously. The non-GAAP efficiency ratio remained essentially the same in the second quarter of 2015 compared to the second quarter of 2014.

In addition, the Company uses pre-tax, pre-provision income 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 (subtracting) the provision (credit) for loan and lease losses, and the provision for income taxes back to net income.

GAAP and Non-GAAP Efficiency Ratios

(Dollars in thousands)	Three Months Ended June 30, **2015**	2014	Six Months Ended June 30, **2015**	2014
Pre-tax pre-provision income:				
Net income	**$ 10,333**	$ 6,982	**$ 21,558**	$ 17,910
Plus non-GAAP adjustment:				
Litigation expenses	**162**	6,128	**362**	6,128
Income taxes	**5,014**	2,722	**10,480**	8,068
Provision (credit) for loan and lease losses	**1,218**	158	**1,815**	(824)
Pre-tax pre-provision income	**$ 16,727**	$ 15,990	**$ 34,215**	$ 31,282
Efficiency ratio - GAAP basis:				
Non-interest expenses	**$ 29,477**	$ 34,141	**$ 58,721**	$ 61,690
Net interest income plus non-interest income	**$ 46,042**	$ 44,003	**$ 92,574**	$ 86,844
Efficiency ratio - GAAP basis:	**64.02%**	77.59%	**63.43%**	71.04%
Efficiency ratio - Non-GAAP basis:				
Non-interest expenses	**$ 29,477**	$ 34,141	**$ 58,721**	$ 61,690
Less non-GAAP adjustment:				
Amortization of intangible assets	**106**	224	**213**	594
Litigation expenses	**162**	6,128	**362**	6,128
Non-interest expenses - as adjusted	**$ 29,209**	$ 27,789	**$ 58,146**	$ 54,968
Net interest income plus non-interest income	**$ 46,042**	$ 44,003	**$ 92,574**	$ 86,844
Plus non-GAAP adjustment:				
Tax-equivalent income	**1,589**	1,331	**3,153**	2,613
Less non-GAAP adjustments:				
Securities gains	**19**	-	**-**	-
Net interest income plus non-interest income - as adjusted	**$ 47,612**	$ 45,334	**$ 95,727**	$ 89,457
Non-GAAP efficiency ratio	**61.35%**	61.30%	**60.74%**	61.45%

Income Taxes

The Company had income tax expense of $5.0 million in the second quarter of 2015, compared to income tax expense of $2.7 million in the second quarter of 2014. The resulting effective tax rate was 33% for the second quarter of 2015 and 28% for the second quarter of 2014. The effective rate increased in 2015 compared to 2014 due to tax exempt income comprising a lower proportion of income before taxes.

FINANCIAL CONDITION

The Company's total assets were $4.5 billion at June 30, 2015, an increase of $110 million or 3% compared to December 31, 2014. Total loans increased 5% compared to the fourth quarter of 2014. This increase was funded by a 6% decrease in the investment portfolio and a 6% increase in deposits.

Analysis of Loans and Leases

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

	June 30, 2015		December 31, 2014		Period-to-Period Change	
(Dollars in thousands)	**Amount**	**%**	Amount	%	$ Change	% Change
Residential real estate:						
Residential mortgage	**$ 744,195**	**22.6%**	$ 717,886	22.9%	$ 26,309	3.7%
Residential construction	**137,134**	**4.2**	136,741	4.4	393	0.3
Commercial real estate:						
Commercial owner occupied real estate	**643,973**	**19.6**	611,061	19.5	32,912	5.4
Commercial investor real estate	**694,179**	**21.1**	640,193	20.5	53,986	8.4
Commercial acquisition, development and construction	**223,103**	**6.8**	205,124	6.6	17,979	8.8
Commercial Business	**409,795**	**12.4**	390,781	12.5	19,014	4.9
Leases	**21**	**-**	54	-	(33)	(61.1)
Consumer	**436,465**	**13.3**	425,552	13.6	10,913	2.6
Total loans and leases	**$3,288,865**	**100.0%**	$3,127,392	100.0%	$161,473	5.2

Total loans and leases, excluding loans held for sale, increased 5% at June 30, 2015 compared to December 31, 2014. The commercial loan portfolio increased 7% at June 30, 2015 compared to the prior year end due primarily to increases in all categories of commercial lending.

The residential real estate portfolio, which is comprised of residential construction and permanent residential mortgage loans, increased 3% at June 30, 2015 compared to December 31, 2014. This increase was due to a 4% increase in permanent residential mortgages, most of which are loans on 1-4 family dwellings.

The consumer loan portfolio increased 3% at June 30, 2015 compared to December 31, 2014, primarily due to growth in home equity lines of credit.

Analysis of Investment Securities

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

	June 30, 2015	December 31, 2014

(Dollars in thousands)		**Amount**	**%**	Amount	%
Available-for-Sale:					
U.S. government agencies and corporations	U.S. government agencies and corporations	**$137,980**	**15.7%**	$141,679	15.2%
State and municipal	State and municipal	**161,953**	**18.5**	167,052	17.9
Mortgage-backed	Mortgage-backed	**324,145**	**37.0**	361,519	38.7
Trust preferred	Trust preferred	**1,018**	**0.1**	1,236	0.1
Marketable equity securities	Marketable equity securities	**723**	**-**	723	0.1
	Total available-for-sale securities	**625,819**	**71.3**	672,209	72.0
Held-to-Maturity and Other Equity					
U.S. government agencies and corporations	U.S. government agencies and corporations	**64,515**	**7.3**	64,512	6.9
State and municipal	State and municipal	**150,069**	**17.1**	155,261	16.6
Mortgage-backed	Mortgage-backed	**182**	**-**	200	-
	Corporate debt	**2,100**	**0.2**	-	-
Other equity securities	Other equity securities	**35,599**	**4.1**	41,437	4.5
	Total held-to-maturity and other equity	**252,465**	**28.7**	261,410	28.0
Total Securities		**$878,284**	**100.0%**	$933,619	100.0%

Available-for-sale securities decreased 7% at June 30, 2015 compared to December 31, 2014 due to amortization of mortgage-backed securities and calls, while held-to-maturity and other equity securities decreased 3% due to calls and maturities and the redemption of FHLB stock.

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. The duration of the portfolio was 3.2 years at June 30, 2015 and 3.4 years at December 31, 2014. 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 required liquidity needed to meet increased 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.

At June 30, 2015, the trust preferred portfolio included one pooled trust preferred security backed by debt issued by banks and thrifts, which totaled $1.1 million, with a fair value of $1.0 million. The fair value of this security was determined by a third party valuation specialist due to the limited trading activity for this security in the marketplace. The specialist used an income valuation approach technique (present value) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. The methodology, observable inputs and significant assumptions employed by the specialist to determine fair value are provided in Note 2 – Investments in the Notes to the Condensed Consolidated Financial Statements.

As a result of this valuation, it was determined that the pooled trust preferred security had not incurred any credit-related OTTI for the three months ended June 30, 2015. Cumulative credit-related OTTI of $0.5 million has been recognized in earnings through June 30, 2015. Non-credit related OTTI on this security, which is not expected to be sold and which the Company has the ability to hold until maturity, was $0.1 million at June 30, 2015. This non-credit related OTTI was recognized in accumulated other comprehensive income (“OCI”) at June 30, 2015.

Other Earning Assets

Residential mortgage loans held for sale increased $8 million to $19 million as of June 30, 2015 from $11 million as of December 31, 2014 due to higher mortgage loan origination volumes resulting from low market interest rates. The aggregate of federal funds sold and interest-bearing deposits with banks decreased $7 million to $36 million at June 30, 2015 compared to December 31, 2014.

Deposits

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

	June 30, 2015		December 31, 2014		Period-to-Period Change	
(Dollars in thousands)	**Amount**	**%**	Amount	%	$ Change	% Change

Noninterest-bearing deposits	**$ 1,092,413**	**33.6%**	$ 993,737	32.4%	$ 98,676	9.9%
Interest-bearing deposits:						
Demand	**525,584**	**16.2**	534,605	17.4	(9,021)	(1.7)
Money market savings	**860,315**	**26.5**	828,494	27.0	31,821	3.8
Regular savings	**280,143**	**8.6**	264,751	8.6	15,392	5.8
Time deposits of less than $100,000	**245,347**	**7.6**	239,857	7.8	5,490	2.3
Time deposits of $100,000 or more	**243,544**	**7.5**	205,065	6.8	38,479	18.8
Total interest-bearing deposits	**2,154,933**	**66.4**	2,072,772	67.6	82,161	4.0
Total deposits	**$ 3,247,346**	**100.0%**	$ 3,066,509	100.0%	$ 180,837	5.9

Deposits and Borrowings

Total deposits increased $181 million or 6% at June 30, 2015 compared to December 31, 2014. This increase was due primarily to a 10% increase in noninterest-bearing checking accounts compared to the prior year end. In addition, certificates of deposit also increased 10% compared to December 31, 2014. Money market accounts increased 4% and regular savings accounts increased 6% compared to December 31, 2014. The activity in these deposit products can be attributed primarily to clients' emphasis on safety and liquidity considering the current extended period of low interest rates. Total borrowings decreased 9% at June 30, 2015 compared to December 31, 2014.

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. During the first six months of 2015, total stockholders' equity decreased to $519 million at June 30, 2015 compared to $522 million at December 31, 2014 as the payment of dividends and stock repurchases exceeded net income during the period. The ratio of average equity to average assets was 11.78% for the first six months of 2015, as compared to 12.29% for the first six months of 2014.

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, in addition to the ratios required to be categorized as “well capitalized”, are summarized for the Company in the following table.

Risk-Based Capital Ratios

	Ratios at		Minimum Regulatory Requirements
	June 30, 2015	December 31, 2014	
Total Capital to risk-weighted assets	**14.65%**	15.06%	8.00%
Tier 1 Capital to risk-weighted assets	**13.54%**	13.95%	6.00%
Common Equity Tier 1 Capital	**12.53%**	n.a.	4.50%
Tier 1 Leverage	**10.83%**	11.26%	4.00%

Tier 1 capital of $472 million and total qualifying capital of $510 million each included $35.0 million in trust preferred securities that are considered regulatory capital for purposes of determining the Company’s Tier 1 capital ratio. As of June 30, 2015, 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.

In July 2013, the Federal Reserve Board approved revisions to its capital adequacy guidelines and prompt corrective action rules that implement the revised standards of the Basel Committee on Banking Supervision, commonly called Basel III, and address relevant provisions of the Dodd-Frank Act. The rules include new risk-based capital and leverage ratios, which were effective January 1, 2015, and revise the definition of what constitutes “capital” for calculating those ratios. The new minimum capital level requirements applicable to the Company and the Bank are: (1) a new common equity Tier 1 capital ratio of 4.5%; (2) a Tier 1 capital ratio of 6% (increased from 4%); (3) a total capital ratio of 8% (unchanged from current rules); and (4) a Tier 1 leverage ratio of 4%. The rules eliminate the inclusion of certain instruments, such as trust preferred securities, from Tier 1 capital. Instruments issued prior to May

19, 2010 are grandfathered for companies with consolidated assets of $15 billion or less. The rules also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The new capital conservation buffer requirement will be 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 will 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 action.

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, 2015**		December 31, 2014
Tangible common equity ratio:				
Total stockholders' equity	**$**	**518,873**	$	521,751
Accumulated other comprehensive income (loss)		**592**		823
Goodwill		**(84,171)**		(84,171)
Other intangible assets, net		**(296)**		(510)
Tangible common equity	**$**	**434,998**	$	437,893
Total assets	**$**	**4,507,367**	$	4,397,132
Goodwill		**(84,171)**		(84,171)
Other intangible assets, net		**(296)**		(510)
Tangible assets	**$**	**4,422,900**	$	4,312,451
Tangible common equity ratio		**9.84%**		10.15%
Tangible book value per share	**$**	**17.71**	$	17.48

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 and lease 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. Home 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.

Current economic data has shown that while the Mid-Atlantic region remains one of the stronger markets in the nation, the Company is continuing to deal with the challenging economy and its resulting effects on its borrowers, particularly in the real estate sector. Total non-performing loans increased 10% to $37 million at June 30, 2015

compared to the balance at December 31, 2014. 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 volatility 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 aggressive management of problem credits. As part of the oversight and review process, the Company maintains an allowance for loan and lease losses (the “allowance”).

The allowance represents an estimation of the losses that are inherent in the loan and lease portfolio. The adequacy of the allowance is determined through careful and ongoing evaluation of the credit portfolio, and involves consideration of a number of factors, as outlined below, to establish an adequate allowance for loan losses. Determination of the allowance is inherently subjective and requires significant estimates, including estimated losses on pools of homogeneous loans and leases based on historical loss experience and consideration of current economic trends, which may be susceptible to significant change. Loans and leases 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 and lease 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, as adjusted, by credit category, and (2) a specific allowance for impaired credits on an individual or portfolio basis. This methodology is further described in “Note 1 – Significant Accounting Policies” of the Notes to the Consolidated Financial Statements included in the Company’s 2014 Annual Report on Form 10-K. The amount of the allowance is reviewed monthly and approved 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 leases, residential real estate and consumer loans. Typically, all payments received on non-accrual loans are applied to the remaining principal balance of the loans. 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. At such time an action plan is agreed upon for the particular loan and an appraisal will be ordered depending on the time elapsed since the prior appraisal, the loan balance and/or the result of the internal evaluation. 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 insure 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. In certain cases the Company may establish a larger reserve due to knowledge of current market conditions or the existence of an offer for the collateral that will facilitate a more timely resolution of the loan.

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

Loans that have their terms restructured (e.g., interest rates, loan maturity date, payment and amortization period, etc.) in circumstances that provide payment relief or other concessions, to a borrower experiencing financial difficulty are considered troubled debt restructured loans (TDR's). All restructurings that constitute concessions to a borrower experiencing financial difficulties 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 there is a sufficient period of payment performance in accordance with the restructure terms. Loans may be removed from disclosure as an impaired loan if their revised loans terms 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 and lease 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 and lease 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 and lease 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 and lease losses was a charge of $1.8 million for the first six months of 2015 compared to a credit of $0.8 million for the first six months of 2014. Historical net charge-offs represent a principal component in the application of the Company's allowance methodology. The charge to the provision in the first six months of 2015 was driven primarily by growth in the loan portfolio. The credit to the provision in the first six months of 2014 was driven by a decline in historical losses, improvement in the overall credit quality of the loan portfolio and problem loan resolutions and recoveries whose impact more than offset the effect of loan growth.

Substantially all of the fixed-rate residential mortgage loans originated by the Company are sold in the secondary mortgage market. Concurrent with such sales, the Company is required to make customary representations and warranties to the purchasers about the mortgage loans and the manner in which they were originated. The related sale agreements grant the purchasers recourse back to the Company, which could require the Company to repurchase loans or to share in any losses incurred by the purchasers. This recourse exposure typically extends for a period of nine to eighteen months after the sale of the loan although the time frame for repurchase requests can extend for an indefinite period. Such transactions could be due to a number of causes including borrower fraud or early payment default. The Company has seen a very limited number of repurchase and indemnity demands from purchasers for such events and routinely monitors its exposure in this regard. The Company maintains a liability of $0.5 million for probable losses due to repurchases. The Company believes that this reserve is adequate.

Allowance for Loan and Lease Losses

During the second quarter of 2015, there were no changes in the Company's methodology for assessing the appropriateness of the allowance for loan and lease 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. No portion of the allowance was unallocated at June 30, 2015 or December 31, 2014.

At June 30, 2015, total non-performing loans and leases were $37.3 million, or 1.13% of total loans and leases, compared to $34.0 million, or 1.09% of total loans and leases, at December 31, 2014. The allowance represented 104% of non-performing loans and leases at June 30, 2015 as compared to 111% at December 31, 2014. The allowance for loan and lease losses as a percent of total loans and leases was 1.18% at June 30, 2015 as compared to 1.21% at December 31, 2014.

Continued analysis of the actual loss history on the problem credits in 2014 and 2015 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, the reduced inflow of non-accruals and criticized loans in addition to the significant decline in early stage delinquencies. The improvement in these credit metrics supports management's outlook for continued improved credit quality performance.

The balance of impaired loans was $28.7 million, with specific allowances of $2.9 million against those loans at June 30, 2015, as compared to $29.4 million with allowances of $2.9 million, at December 31, 2014.

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 76% of total loans and leases at June 30, 2015 and at December 31, 2014. 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.

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Summary of Loan and Lease Loss Experience

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

(Dollars in thousands)	**Six Months Ended June 30, 2015**	Year Ended December 31, 2014
Balance, January 1	**$ 37,802**	$ 38,766
Provision for loan and lease losses	**1,815**	(163)
Loan charge-offs:		
Residential real estate:		
Residential mortgage	**(78)**	(323)
Residential construction	**-**	(4)
Commercial real estate:		
Commercial investor	**(90)**	(3)
Commercial owner occupied	**(212)**	(265)
Commercial AD&C	**(739)**	(529)
Commercial business	**(181)**	(729)
Leases	**-**	-
Consumer	**(537)**	(834)
Total charge-offs	**(1,837)**	(2,687)
Loan recoveries:		
Residential real estate:		
Residential mortgage	**31**	121
Residential construction	**15**	79
Commercial real estate:		
Commercial investor	**10**	38
Commercial owner occupied	**1**	6
Commercial AD&C	**580**	-
Commercial business	**197**	1,477
Leases	**-**	-
Consumer	**99**	165
Total recoveries	**933**	1,886
Net charge-offs	**(904)**	(801)
Balance, period end	**$ 38,713**	$ 37,802
Net charge-offs to average loans and leases	**0.06%**	0.03%
Allowance for loan losses to loans	**1.18%**	1.21%

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, 2015**	December 31, 2014
Non-accrual loans and leases:		
Residential real estate:		
Residential mortgage	**$ 7,780**	$ 3,012
Residential construction	**780**	1,105
Commercial real estate:		
Commercial investor	**10,023**	8,156
Commercial owner occupied	**8,423**	8,941
Commercial AD&C	**194**	2,464
Commercial business	**3,285**	3,184
Leases	**-**	-
Consumer	**1,214**	1,668
Total non-accrual loans and leases	**31,699**	28,530
Loans and leases 90 days past due		
Residential real estate:		
Residential mortgage	**-**	-
Residential construction	**-**	-
Commercial real estate:		
Commercial investor	**-**	-
Commercial owner occupied	**-**	-
Commercial AD&C	**-**	-
Commercial business	**-**	-
Leases	**2**	-
Consumer	**7**	-
Total 90 days past due loans and leases	**9**	-
Restructured loans and leases (accruing)	**5,620**	5,497
Total non-performing loans and leases	**37,328**	34,027
Other real estate owned, net	**4,514**	3,195
Total non-performing assets	**$ 41,842**	$ 37,222

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 imbedded in investment and loan portfolio contracts. As with any method of gauging interest rate risk, there are certain shortcomings inherent in the interest rate modeling methodology used by the Company. When interest rates change, actual movements in different categories of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from assumptions used in the model. As an example, certain money market deposit accounts are assumed to reprice at 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, 2015	**(2.37%)**	**(0.74%)**	**0.47%**	**0.17%**	**N/A**	**N/A**	**N/A**	**N/A**
December 31, 2014	(5.12%)	(2.62%)	(0.89%)	(0.52%)	N/A	N/A	N/A	N/A

As shown above, measures of net interest income at risk improved from December 31, 2014 at all rising interest rate shock levels. All measures remained well within prescribed policy limits.

The decrease in the risk position with respect to net interest income from December 31, 2014 to June 30, 2015 was the result of a decline in short-term FHLB borrowings which will reduce the Company's exposure to increases in interest rates. The decline in short-term borrowings was partially offset by an increase in repurchase agreements.

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, 2015	**(8.47%)**	**(5.91%)**	**(3.07%)**	**(1.81%)**	**N/A**	**N/A**	**N/A**	**N/A**
December 31, 2014	(9.97%)	(6.75%)	(4.17%)	(1.97%)	N/A	N/A	N/A	N/A

Measures of the economic value of equity ("EVE") at risk improved from December 31, 2014 to June 30, 2015 in all rising shock scenarios. The positive impact in EVE was driven by longer durations on several deposit categories, especially noninterest-bearing and interest-bearing checking accounts and time deposits, resulting in higher market value premiums should rates increase.

Liquidity Management

Liquidity is measured by a financial institution's ability to raise funds through loan and lease 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, 2015. 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 71% of total interest-earning assets at June 30, 2015. In addition, loan and lease 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, 2015, show short-term investments exceeding short-term borrowings by $24 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 $1.3 billion, of which $1.2 billion was available for borrowing based on pledged collateral, with $550 million borrowed against it as of June 30, 2015. The line of credit at the Federal Reserve totaled $335 million, all of which was available for borrowing based on pledged collateral, with no borrowings against it as of June 30, 2015. Other external sources of liquidity available to the Company in the form of unsecured lines of credit granted by correspondent banks totaled $55 million at June 30,

2015, 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, 2015. Based upon its liquidity analysis, including external sources of liquidity available, management believes the liquidity position was appropriate at June 30, 2015.

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 funding stock repurchases and 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, 2015, the Bank could have declared a dividend of $39 million to Bancorp. At June 30, 2015, Bancorp had liquid assets of $15 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, 2015**	December 31, 2014
Commercial	**$ 234,223**	$ 212,628
Real estate-development and construction	**81,817**	100,264
Real estate-residential mortgage	**30,529**	12,667
Lines of credit, principally home equity and business lines	**857,704**	810,552
Standby letters of credit	**60,073**	58,144
Total Commitments to extend credit and available credit lines	**$ 1,264,346**	$ 1,194,255

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, 2015, 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 2014 Annual Report on Form 10-K.

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

The Company re-approved a stock repurchase program in August 2013 that permits the repurchase of up to 5% of the Company's outstanding shares of common stock or approximately 1,260,000 shares. Repurchases which will be conducted through open market purchases or privately negotiated transactions, will be made depending on market conditions and other factors. The following table provides information regarding repurchase transactions executed during the quarter ended June 30, 2015.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number that May Yet Be Purchased Under the Plans or Programs
April 1, 2015 through April 30, 2015	100,576	$26.25	100,576	759,008
May 1, 2015 through May 31, 2015	110,302	$26.19	110,302	648,706
June 1, 2015 through June 30, 2015	13,225	$26.37	13,225	635,481

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

Exhibit 31(b) Certification of Chief Financial Officer

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, 2015 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 6, 2015

By: /s/ Philip J. Mantua___________

Philip J. Mantua

Executive Vice President and Chief Financial Officer

Date: August 6, 2015

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