SANDY SPRING BANCORP INC
Form 10-Q
May 03, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2019

OR

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

For the transition period from ____________ to ____________

Commission File Number: 0-19065

SANDY SPRING BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland **52-1532952**

(State of incorporation) (I.R.S. Employer Identification Number)

17801 Georgia Avenue, Olney, Maryland **20832**

(Address of principal executive office) (Zip Code)

301-774-6400

(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value $1.00 per share	SASR	The NASDAQ Stock Market, LLC

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

Yes X No __

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

Yes X No ___

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

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

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

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

Yes No X

The number of outstanding shares of common stock outstanding as of April 30, 2019

Common stock, $1.00 par value – 35,602,868 shares

SANDY SPRING BANCORP, INC.

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Forward-Looking Statements

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

Forward-looking statements reflect our expectation or prediction of future conditions, events or results based on information currently available. These forward-looking statements are subject to significant risks and uncertainties that may cause actual results to differ materially from those in such statements. These risks and uncertainties include, but are not limited to, the risks identified in Item 1A of the Company's 2018 Annual Report on Form 10-K, Item 1A of Part II of this report and the following:

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

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

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

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

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

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

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

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

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

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

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

(Dollars in thousands)	**March 31, 2019**	December 31, 2018
Assets		
Cash and due from banks	**$ 67,282**	$ 67,014
Federal funds sold	**481**	609
Interest-bearing deposits with banks	**65,886**	33,858
Cash and cash equivalents	**133,649**	101,481
Residential mortgage loans held for sale (at fair value)	**24,998**	22,773
Investments available-for-sale (at fair value)	**926,530**	937,335
Other equity securities	**60,769**	73,389
Total loans	**6,569,990**	6,571,634
Less: allowance for loan losses	**(53,089)**	(53,486)
Net loans	**6,516,901**	6,518,148
Premises and equipment, net	**61,003**	61,942
Other real estate owned	**1,410**	1,584
Accrued interest receivable	**26,182**	24,609
Goodwill	**347,149**	347,149
Other intangible assets, net	**9,297**	9,788
Other assets	**220,012**	145,074
Total assets	**$ 8,327,900**	**$** 8,243,272
Liabilities		
Noninterest-bearing deposits	**$ 1,813,708**	$ 1,750,319
Interest-bearing deposits	**4,410,815**	4,164,561
Total deposits	**6,224,523**	5,914,880
Securities sold under retail repurchase agreements and federal funds purchased	**122,626**	327,429
Advances from FHLB	**726,278**	848,611
Subordinated debentures	**37,389**	37,425
Accrued interest payable and other liabilities	**121,236**	47,024
Total liabilities	**7,232,052**	7,175,369
Stockholders' Equity		
Common stock -- par value $1.00; shares authorized 100,000,000; shares issued and outstanding 35,557,110 and 35,530,734 at March 31, 2019 and December 31, 2018, respectively	**35,557**	35,531
Additional paid in capital	**607,479**	606,573
Retained earnings	**461,862**	441,553
Accumulated other comprehensive loss	**(9,050)**	(15,754)
Total stockholders' equity	**1,095,848**	1,067,903
Total liabilities and stockholders' equity	**$ 8,327,900**	**$** 8,243,272

The accompanying notes are an integral part of these statements

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

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	**2019**	2018
Interest Income:		
Interest and fees on loans	**$ 80,397**	$ 67,592
Interest on loans held for sale	**192**	368
Interest on deposits with banks	**194**	357
Interest and dividends on investment securities:		
Taxable	**5,685**	5,102
Exempt from federal income taxes	**1,710**	2,072
Interest on federal funds sold	**5**	13
Total interest income	**88,183**	75,504
Interest Expense:		
Interest on deposits	**14,480**	6,959
Interest on retail repurchase agreements and federal funds purchased	**398**	108
Interest on advances from FHLB	**6,064**	5,078
Interest on subordinated debt	**491**	468
Total interest expense	**21,433**	12,613
Net interest income	**66,750**	62,891
Provision (credit) for loan losses	**(128)**	1,997
Net interest income after provision for loan losses	**66,878**	60,894
Non-interest Income:		
Investment securities gains	**-**	63
Service charges on deposit accounts	**2,307**	2,259
Mortgage banking activities	**2,863**	2,207
Wealth management income	**5,236**	5,061
Insurance agency commissions	**1,900**	1,824
Income from bank owned life insurance	**1,189**	2,331
Bank card fees	**1,252**	1,370
Other income	**2,222**	2,003
Total non-interest income	**16,969**	17,118
Non-interest Expenses:		
Salaries and employee benefits	**25,976**	23,912
Occupancy expense of premises	**5,231**	4,942
Equipment expenses	**2,576**	2,225
Marketing	**943**	1,148
Outside data services	**1,778**	1,397
FDIC insurance	**1,136**	1,193
Amortization of intangible assets	**491**	541
Merger expenses	**-**	8,958
Professional fees and services	**1,245**	1,040
Other expenses	**4,816**	4,285
Total non-interest expenses	**44,192**	49,641
Income before income taxes	**39,655**	28,371
Income tax expense	**9,338**	6,706

Net income	**$ 30,317**	$ 21,665
Net Income Per Share Amounts:		
Basic net income per share	**$ 0.85**	$ 0.61
Diluted net income per share	**$ 0.85**	$ 0.61
Dividends declared per common share	**$ 0.28**	$ 0.26

The accompanying notes are an integral part of these statements

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

	Three Months Ended March 31,	
(In thousands)	**2019**	2018
Net income	**$ 30,317**	$ 21,665
Other comprehensive income:		
Investments available-for-sale:		
Net change in unrealized gains (losses) on investments available-for-sale	**8,814**	(12,689)
Related income tax expense	**(2,306)**	3,321
Net investment gains reclassified into earnings	**-**	(63)
Related income tax expense	**-**	16
Net effect on other comprehensive income for the period	**6,508**	(9,415)
Defined benefit pension plan:		
Recognition of unrealized loss	**265**	250
Related income tax expense	**(69)**	(119)
Net effect on other comprehensive income for the period	**196**	131
Total other comprehensive income (loss)	**6,704**	(9,284)
Comprehensive income	**$ 37,021**	**$** 12,381

The accompanying notes are an integral part of these statements

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

	Three Months Ended March 31,	
(Dollars in thousands)	**2019**	2018
Operating activities:		
Net income	**$ 30,317**	$ 21,665
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**3,326**	2,990
Provision (credit) for loan losses	**(128)**	1,997
Stock based compensation expense	**690**	582
Tax benefits associated with share based compensation	**41**	34
Deferred income tax expense	**1,069**	(1,673)
Origination of loans held for sale	**(97,286)**	(47,975)
Proceeds from sales of loans held for sale	**97,456**	58,121
Gains on sales of loans held for sale	**(2,395)**	(2,872)
Losses on sales of other real estate owned	**-**	90
Investment securities gains	**-**	(63)
Net increase in accrued interest receivable	**(1,573)**	(397)
Net decrease in other assets	**5,191**	11,407
Net decrease in accrued expenses and other liabilities	**(10,381)**	(403)
Other – net	**992**	754
Net cash provided by operating activities	**27,319**	44,257
Investing activities:		
(Purchases of)/proceeds from other equity securities	**12,620**	(700)
Purchases of investments available-for-sale	**(15,919)**	(497)
Proceeds from sales of investment available-for-sale	**-**	994
Proceeds from maturities, calls and principal payments of investments available-for-sale	**34,829**	23,975
Net (increase)/ decrease in loans	**1,644**	(123,945)
Proceeds from the sales of other real estate owned	**-**	292
Proceeds from sales of loans previously held for investment	**-**	59,945
Acquisition of business activity, net of cash acquired	**-**	32,552
Expenditures for premises and equipment	**(1,066)**	(2,842)
Net cash provided by/ (used in) investing activities	**32,108**	(10,226)
Financing activities:		
Net increase in deposits	**309,643**	52,702
Net increase/ (decrease) in retail repurchase agreements and federal funds purchased	**(204,803)**	23,078
Proceeds from advances from FHLB	**1,079,000**	1,990,000
Repayment of advances from FHLB	**(1,201,333)**	(1,984,081)
Proceeds from issuance of common stock	**343**	456
Stock tendered for payment of withholding taxes	**(101)**	-
Dividends paid	**(10,008)**	(9,267)
Net cash provided by/ (used in) financing activities	**(27,259)**	72,888
Net increase in cash and cash equivalents	**32,168**	106,919
Cash and cash equivalents at beginning of period	**101,481**	112,500
Cash and cash equivalents at end of period	**$ 133,649**	$ 219,419

Supplemental disclosures:				
Interest payments	**$**	**21,455**	$	11,680
Income tax payments		**-**		15
Transfer from loans to residential mortgage loans held for sale		**-**		60,043
Transfer from loans to other real estate owned		**-**		289

The accompanying notes are an integral part of these statements

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

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(Dollars in thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at January 1, 2019	**$ 35,531**	**$ 606,573**	**$ 441,553**	**$ (15,754)**	**$ 1,067,903**
Net income	**-**	**-**	**30,317**	**-**	**30,317**
Other comprehensive income, net of tax	**-**	**-**	**-**	**6,704**	**6,704**
Common stock dividends - $0.28 per share	**-**	**-**	**(10,008)**	**-**	**(10,008)**
Stock compensation expense	**-**	**690**	**-**	**-**	**690**
Common stock issued pursuant to:					
Stock option plan - 6,755 shares	**7**	**122**	**-**	**-**	**129**
Employee stock purchase plan - 7,662 shares	**7**	**207**	**-**	**-**	**214**
Restricted stock - 11,959 shares	**12**	**(113)**	**-**	**-**	**(101)**
Balances at March 31, 2019	**$ 35,557**	**$ 607,479**	**$ 461,862**	**$ (9,050)**	**$ 1,095,848**
Balance at January 1, 2018	$ 23,996	$ 168,188	$ 378,489	$ (6,857)	$ 563,816
Net income	-	-	21,665	-	21,665
Other comprehensive income, net of tax	-	-	-	(9,284)	(9,284)
Common stock dividends - $0.26 per share	-	-	(9,267)	-	(9,267)
Stock compensation expense	-	582	-	-	582
Common stock issued pursuant to:					
Acquisition of WashingtonFirst - 11,446,197 shares	11,446	435,194	-	-	446,640
Stock option plan - 12,353 shares	12	220	-	-	232
Employee stock purchase plan - 6,912 shares	7	217	-	-	224
Restricted stock - 1,514 shares	2	(2)	-	-	-
Reclassification of tax effects from other comprehensive income	-	-	1,477	(1,477)	-
Balances at March 31, 2018	$ 35,463	$ 604,399	$ 392,364	$ (17,618)	$ 1,014,608

The accompanying notes are an integral part of these statements

Sandy Spring Bancorp, Inc. and Subsidiaries

Notes to the CONDENSED Consolidated Financial Statements - UNAUDITED

Note 1 – Significant Accounting Policies

Nature of Operations

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

Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“GAAP”) and prevailing practices within the financial services industry for interim financial information and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements and prevailing practices within the banking industry. The following summary of significant accounting policies of the Company is presented to assist the reader in understanding the financial and other data presented in this report. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for any future periods or for the year ending December 31, 2019. In the opinion of management, all adjustments (comprising only normal recurring accruals) necessary for a fair presentation of the results of the interim periods have been included. Certain reclassifications have been made to prior period amounts, as necessary, to conform to the current period presentation. The Company has evaluated subsequent events through the date of the issuance of its financial statements.

These statements should be read in conjunction with the financial statements and accompanying notes included in the Company’s 2018 Annual Report on Form 10-K as filed with the Securities and Exchange Commission (“SEC”) on February 22, 2019. There have been no significant changes to the Company’s accounting policies as disclosed in the 2018 Annual Report on Form 10-K.

Principles of Consolidation

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

Use of Estimates

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

Cash Flows

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

Revenue from Contracts with Customers

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

Wealth Management Income

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

Insurance Agency Commissions

Sandy Spring Insurance, a subsidiary of the Bank, performs the function of an insurance intermediary by introducing the policyholder and insurer and is compensated by a commission fee for placement of an insurance policy. Sandy Spring Insurance does not provide any captive management services or any claim handling services. Commission fees are set as a percentage of the premium for the insurance policy for which the Sandy Spring Insurance is a producer. The Company recognizes revenue when the insurance policy has been contractually agreed to by the insurer and policyholder (at transaction date).

Service Charges on Deposit Accounts

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

Loans Acquired with Deteriorated Credit Quality

Acquired loans with evidence of credit deterioration since their origination as of the date of the acquisition are recorded at their initial fair value. Credit deterioration is determined based on the probability of collection of all contractually required principal and interest payments. The historical allowance for loan losses related to the acquired loans is not carried over to the Company’s financial statements. The determination of credit quality deterioration as of the purchase date may include parameters such as past due and non-accrual status, commercial risk ratings, cash flow projections, type of loan and collateral, collateral value and recent loan-to-value ratios or appraised values. For loans acquired with evidence of credit deterioration, the Company determines at the acquisition date the excess of the loan’s contractually required payments over all cash flows expected to be collected as an amount that should not be accreted into interest income (nonaccretable difference). The remaining amount, representing the difference in the expected cash flows of acquired loans and the initial investment in the acquired loans, is accreted into interest income over the remaining life of the loan or pool of loans (accretable yield). Subsequent to the purchase date, increases in expected cash flows over those expected at the purchase date are recognized prospectively as interest income over the remaining life of the loan as an adjustment to the accretable yield. The present value of any decreases in expected cash flows after the purchase date is recognized as impairment through addition to the valuation allowance.

Leases

The Company determines if an arrangement is a lease at inception. All of the Company’s leases are currently classified as operating leases and are included in other assets and other liabilities on the Company’s Condensed Consolidated Statements of Condition.

Right-of-use (“ROU”) assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease arrangements. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of the expected future lease payments over the remaining lease term. In determining the present value of future lease payments, the Company uses its incremental borrowing rate based on the information available at the lease commencement date. The operating ROU assets are adjusted for any lease payments made at or before lease commencement date, initial direct costs and any lease incentives received. The Company’s lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options. Lease expense is recognized on a straight line basis over the expected lease term.

Lease agreements that include lease and non-lease components, such as common area maintenance charges, are accounted for separately.

Adopted Accounting Pronouncements

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

The standard had a material impact on the Company's Condensed Consolidated Statements of Condition, but did not have a material impact on Condensed Consolidated Statements of Income. The most significant impact at the adoption date was the recognition of ROU assets and lease liabilities for operating leases which totaled $77.7 million and $85.1 million, respectively. Refer to Note 12 – Leases for other required disclosures.

Pending Accounting Pronouncements

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

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

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The FASB issued Update No. 2016-13, *Current Expected Credit Losses (CECL)*, in June 2016. This guidance changes the impairment model for most financial assets measured at amortized cost and certain other instruments. Entities will be required to use an expected loss model, replacing the incurred loss model that is currently in use. Under the new guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. This will result in earlier recognition of loss allowances in most instances. Credit losses related to available-for-sale debt securities (regardless of whether the impairment is considered to be other-than-temporary) will be measured in a manner similar to the present, except that such losses will be recorded as allowances rather than as reductions in the amortized cost of the related securities. With respect to trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures, the guidance requires that an entity estimate its lifetime expected credit loss and record an allowance resulting in the net amount expected to be collected to be reflected as the financial asset. Entities will also be required to provide significantly more disclosures, including information used to track credit quality by year of origination for most financing receivables. This guidance is effective for public business entities for the first interim or annual period beginning after December 15, 2019. The standard's provisions will be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. Early adoption by public business entities is permitted for the first interim or annual period beginning after December 15, 2018. The Company assessed the guidance and has identified the available historical loan level information and completed a data gap analysis. The Company is in process of designing calculation methodologies under the new guidance and quantifying the approximate impact on the Company's financial position and results of operations.

Note 2 – Investments

Investments available-for-sale

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

	March 31, 2019				December 31, 2018			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. treasuries and government agencies	**$314,928**	**$ 546**	**$(1,886)**	**$313,588**	$300,338	$ 370	$ (4,030)	$296,678
State and municipal	**261,126**	**3,491**	**(37)**	**264,580**	280,725	2,080	(781)	282,024
Mortgage-backed and asset-backed	**340,657**	**1,037**	**(3,597)**	**338,097**	355,267	653	(7,405)	348,515
Corporate debt	**9,100**	**287**	**-**	**9,387**	9,100	140	-	9,240
Trust preferred	**310**	**-**	**-**	**310**	310	-	-	310
Total debt securities	**926,121**	**5,361**	**(5,520)**	**925,962**	945,740	3,243	(12,216)	936,767
Marketable equity securities	**568**	**-**	**-**	**568**	568	-	-	568
	$926,689	**$ 5,361**	**$(5,520)**	**$926,530**	$946,308	$ 3,243	$(12,216)	$937,335

Total
investments
available-for-sale

Any unrealized losses in the U.S. treasuries and government agencies, state and municipal, mortgage-backed and asset-backed investment securities at March 31, 2019 are not the result of credit related events but due to changes in interest rates. These declines in fair market value are considered temporary in nature and are expected to recover over time as these securities approach maturity.

The mortgage-backed securities portfolio at March 31, 2019 is composed entirely of either the most senior tranches of GNMA, FNMA or FHLMC collateralized mortgage obligations ($117.6 million), GNMA, FNMA or FHLMC mortgage-backed securities ($170.4 million) and SBA asset-backed securities ($50.1 million). The Company does not intend to sell these securities and has sufficient liquidity to hold these securities for an adequate period of time to allow for any anticipated recovery in fair value.

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

			March 31, 2019		
			Continuous Unrealized Losses Existing for:		
(Dollars in thousands)	**Number of Securities**	**Fair Value**	**Less than 12 months**	**More than 12 months**	**Total Unrealized Losses**
U.S. treasuries and government agencies	**27**	**$ 186,675**	**$ 204**	**$ 1,682**	**$ 1,886**
State and municipal	**9**	**8,724**	**-**	**37**	**37**
Mortgage-backed and asset-backed	**78**	**254,545**	**23**	**3,574**	**3,597**
Total	**114**	**$ 449,944**	**$ 227**	**$ 5,293**	**$ 5,520**

			December 31, 2018		
			Continuous Unrealized Losses Existing for:		
(Dollars in thousands)	Number of Securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
U.S. treasuries and government agencies	33	$ 194,135	$ 452	$ 3,578	$ 4,030
State and municipal	80	78,232	569	212	781
Mortgage-backed and asset-backed	110	308,254	1,592	5,813	7,405
Total	223	$ 580,621	$ 2,613	$ 9,603	$ 12,216

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

	March 31, 2019		December 31, 2018	
(In thousands)	**Amortized Cost**	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Due in one year or less	**$ 57,794**	**$ 58,089**	$ 63,482	$ 63,747
Due after one year through five years	**283,422**	**284,235**	277,297	276,830
Due after five years through ten years	**190,435**	**191,473**	212,825	210,386
Due after ten years	**394,470**	**392,165**	392,136	385,804
Total debt securities available for sale	**$ 926,121**	**$ 925,962**	$ 945,740	$ 936,767

At March 31, 2019 and December 31, 2018, investments available-for-sale with a book value of $446.3 million and $477.3 million, respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law. The outstanding balance of no single issuer, except for U.S. Agencies securities, exceeded ten percent of stockholders' equity at March 31, 2019 and December 31, 2018.

Equity securities

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

(In thousands)	**March 31, 2019**	December 31, 2018
Federal Reserve Bank stock	**$ 22,496**	$ 22,456
Federal Home Loan Bank of Atlanta stock	**38,273**	50,933
Total equity securities	**$ 60,769**	$ 73,389

Note 3 – LOANS

Outstanding loan balances at March 31, 2019 and December 31, 2018 are net of unearned income including net deferred loan fees of $0.6 million and $0.9 million, respectively. The loan portfolio segment balances at the dates indicated are presented in the following table:

(In thousands)	**March 31, 2019**	December 31, 2018
Residential real estate:		
Residential mortgage	**$ 1,249,968**	$ 1,228,247
Residential construction	**176,388**	186,785
Commercial real estate:		
Commercial owner occupied real estate	**1,216,713**	1,202,903
Commercial investor real estate	**1,962,879**	1,958,395
Commercial AD&C	**688,939**	681,201
Commercial business	**769,660**	796,264
Consumer	**505,443**	517,839
Total loans	**$ 6,569,990**	$ 6,571,634

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

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

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

The following table presents the acquired credit impaired loans receivable as of January 1, 2018 (the “Acquisition Date”):

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

The outstanding balance of purchased credit impaired loans receivable totaled $41.9 million, $26.0 million and $19.1 million at January 1, 2018, December 31, 2018 and March 31, 2019, respectively. The fair value of purchased credit impaired loans was $11.2 million and $15.3 million at March 31, 2019 and December 31, 2018, respectively. The decrease in the outstanding amounts of purchased credit impaired loans receivable from the acquisition date through the current period was driven by the efforts of credit management function to resolve the most material credit deteriorated borrowers. During 2018, liquidation of the collateral resulted in full pay-off of the outstanding principal balances of $12.4 million and the related release of accretable and non-accretable adjustments into interest income in the total amounts of $0.9 million and $1.3 million, respectively. During the current quarter, the Company settled two additional purchased credit impaired loans with total outstanding balances of $4.4 million resulting in the related release of accretable and non-accretable adjustments into interest income in the total amounts of $0.2 million and $1.6 million, respectively.

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

(Dollars in thousands)	For the Period Ended, **March 31, 2019**	December 31, 2018
Accretable yield at the beginning of the period	$ 1,279	$ -
Addition of accretable yield due to acquisition	-	3,988
Accretion into interest income	(292)	(1,860)
Disposals (including maturities, foreclosures, and charge-offs)	(199)	(849)
Accretable yield at the end of the period.	$ 788	$ 1,279

Note 4 – CREDIT QUALITY ASSESSMENT

Allowance for Loan Losses

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

(In thousands)	Three Months Ended March 31, **2019**	2018
Balance at beginning of year	**$ 53,486**	$ 45,257
Provision (credit) for loan losses	**(128)**	1,997
Loan charge-offs	**(356)**	(477)
Loan recoveries	**87**	154
Net charge-offs	**(269)**	(323)
Balance at period end	**$ 53,089**	$ 46,931

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

For the Three Months Ended March 31, 2019

		Commercial Real Estate				Residential Real Estate		
(Dollars in thousands)	**Commercial Business**	**Commercial AD&C**	**Commercial Investor R/E**	**Commercial Owner Occupied R/E**	**Consumer**	**Residential Mortgage**	**Residential Construction**	**Total**
Balance at beginning of year	**$ 11,377**	**$ 5,944**	**$ 17,603**	**$ 6,307**	**$ 2,113**	**$ 8,881**	**$ 1,261**	**$ 53,486**
Provision (credit)	**(422)**	**497**	**(329)**	**(139)**	**212**	**253**	**(200)**	**(128)**
Charge-offs	**(17)**	**-**	**-**	**-**	**(226)**	**(113)**	**-**	**(356)**
Recoveries	**10**	**-**	**7**	**-**	**44**	**24**	**2**	**87**
Net recoveries (charge-offs)	**(7)**	**-**	**7**	**-**	**(182)**	**(89)**	**2**	**(269)**
Balance at end of period	**$ 10,948**	**$ 6,441**	**$ 17,281**	**$ 6,168**	**$ 2,143**	**$ 9,045**	**$ 1,063**	**$ 53,089**
Total loans	**$769,660**	**$688,939**	**$1,962,879**	**$1,216,713**	**$505,443**	**$1,249,968**	**$176,388**	**$6,569,990**
Allowance for loans losses to total loans ratio	**1.42%**	**0.93%**	**0.88%**	**0.51%**	**0.42%**	**0.72%**	**0.60%**	**0.81%**

Balance of loans specifically evaluated for impairment	**$ 8,286**	**$ 3,306**	**$ 6,845**	**$ 5,992**	**na.**	**$ 1,711**	**$ -**	**$ 26,140**
Allowance for loans specifically evaluated for impairment	**$ 3,624**	**$ 151**	**$ 1,315**	**$ 251**	**na.**	**$ -**	**$ -**	**$ 5,341**
Specific allowance to specific loans ratio	**43.74%**	**-**	**19.21%**	**4.19%**	**na.**	**-**	**-**	**20.43%**
Balance of loans collectively evaluated	**$754,019**	**$685,633**	**$1,945,061**	**$1,210,721**	**$504,219**	**$1,248,247**	**$176,388**	**$6,524,288**
Allowance for loans collectively evaluated	**$ 7,324**	**$ 6,290**	**$ 15,966**	**$ 5,917**	**$ 2,143**	**$ 9,045**	**$ 1,063**	**$ 47,748**
Collective allowance to collective loans ratio	**0.97%**	**0.92%**	**0.82%**	**0.49%**	**0.43%**	**0.72%**	**0.60%**	**0.73%**
Balance of loans acquired with deteriorated credit quality	**$ 7,355**	**$ -**	**$ 10,973**	**$ -**	**$ 1,224**	**$ 10**	**$ -**	**$ 19,562**
Allowance for loans acquired with deteriorated credit quality	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**-**
Allowance to loans acquired with deteriorated credit quality ratio	**na.**	**na.**	**na.**	**na.**	**na.**	**na.**	**na.**	**na.**

	For the Year Ended December 31, 2018							
		Commercial Real Estate				Residential Real Estate		
(Dollars in thousands)	Commercial Business	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Consumer	Residential Mortgage	Residential Construction	Total
Balance at beginning of year	$ 8,711	$ 3,501	$ 14,970	$ 7,178	$ 2,383	$ 7,268	$ 1,246	$ 45,257
Provision (credit)	2,857	2,381	2,677	(871)	203	1,776	-	9,023
Charge-offs	(449)	-	(131)	-	(611)	(225)	-	(1,416)
Recoveries	258	62	87	-	138	62	15	622
Net recoveries (charge-offs)	(191)	62	(44)	-	(473)	(163)	15	(794)
Balance at end of period	$ 11,377	$ 5,944	$ 17,603	$ 6,307	$ 2,113	$ 8,881	$ 1,261	$ 53,486
Total loans	$796,264	$681,201	$1,958,395	$1,202,903	$517,839	$1,228,247	$186,785	$6,571,634
Allowance for loan losses to total loans ratio	1.43%	0.87%	0.90%	0.52%	0.41%	0.72%	0.68%	0.81%
Balance of loans specifically evaluated for impairment	$ 7,586	$ 3,306	$ 5,355	$ 4,234	na.	$ 1,729	$ -	$ 22,210
Allowance for loans specifically evaluated for impairment	$ 3,594	$ -	$ 1,207	$ 123	na.	$ -	$ -	$ 4,924
Specific allowance to specific loans ratio	47.38%	-	22.54%	2.91%	na.	-	-	22.17%
Balance of loans collectively evaluated	$780,523	$677,895	$1,938,712	$1,196,487	$516,567	$1,226,508	$186,785	$6,523,477
Allowance for loans collectively evaluated	$ 7,783	$ 5,944	$ 16,396	$ 6,184	$ 2,113	$ 8,881	$ 1,261	$ 48,562
Collective allowance to collective loans ratio	1.00%	0.88%	0.85%	0.52%	0.41%	0.72%	0.68%	0.74%
Balance of loans acquired with deteriorated credit quality	$ 8,155	$ -	$ 14,328	$ 2,182	$ 1,272	$ 10	$ -	$ 25,947
Allowance for loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Allowance to loan acquired with deteriorated credit quality ratio	na.	na.	na.	na.	na.	na.	na.	na.

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

(In thousands)	**March 31, 2019**		December 31, 2018	
Impaired loans with a specific allowance	**$**	**17,848**	$	12,876
Impaired loans without a specific allowance		**8,292**		9,334
Total impaired loans	**$**	**26,140**	$	22,210
Allowance for loan losses related to impaired loans	**$**	**5,341**	$	4,924
Allowance for loan losses related to loans collectively evaluated		**47,748**		48,562
Total allowance for loan losses	**$**	**53,089**	$	53,486
Average impaired loans for the period	**$**	**24,175**	$	20,211
Contractual interest income due on impaired loans during the period	**$**	**646**	$	2,513
Interest income on impaired loans recognized on a cash basis	**$**	**110**	$	506
Interest income on impaired loans recognized on an accrual basis	**$**	**42**	$	138

The following tables present the recorded investment with respect to impaired loans, the associated allowance by the applicable portfolio segment and the principal balance of the impaired loans prior to amounts charged-off at the dates indicated:

	March 31, 2019					
		Commercial Real Estate				Total Recorded Investment in Impaired
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	Loans
Impaired loans with a specific allowance						
Non-accruing	$ 4,706	$ 1,261	$ 5,117	$ 2,950	$ -	$ 14,034
Restructured accruing	105	-	-	-	-	105
Restructured non-accruing	2,151	-	789	769	-	3,709
Balance	$ 6,962	$ 1,261	$ 5,906	$ 3,719	$ -	$ 17,848
Allowance	$ 3,624	$ 151	$ 1,315	$ 251	$ -	$ 5,341
Impaired loans without a specific allowance						
Non-accruing	$ 214	$ 1,910	$ 165	$ 840	$ -	$ 3,129
Restructured accruing	168	-	774	-	1,432	2,374
Restructured non-accruing	942	135	-	1,433	279	2,789
Balance	$ 1,324	$ 2,045	$ 939	$ 2,273	$ 1,711	$ 8,292
Total impaired loans						
Non-accruing	$ 4,920	$ 3,171	$ 5,282	$ 3,790	$ -	$ 17,163
Restructured accruing	273	-	774	-	1,432	2,479
Restructured non-accruing	3,093	135	789	2,202	279	6,498
Balance	$ 8,286	$ 3,306	$ 6,845	$ 5,992	$ 1,711	$ 26,140
Unpaid principal balance in total impaired loans	$11,421	$ 4,419	$ 11,397	$ 8,434	$ 3,066	$ 38,737

	March 31, 2019					
		Commercial Real Estate				Total Recorded Investmen in Impaired
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	Loans
Average impaired loans for the period	$ 7,936	$ 3,306	$ 6,100	$ 5,113	$ 1,720	$ 24,175
Contractual interest income due on impaired loans during the period	$ 127	$ 184	$ 179	$ 122	$ 34	
Interest income on impaired loans recognized on a cash basis	$ 49	$ -	$ 4	$ 52	$ 5	
Interest income on impaired loans recognized on an accrual basis	$ 13	$ -	$ 10	$ -	$ 19	

	December 31, 2018					
		Commercial Real Estate				Total Recorded Investment in Impaired
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	Loans
Impaired loans with a specific allowance						
Non-accruing	$ 4,126	$ -	$ 5,117	$ 767	$ -	$ 10,010
Restructured accruing	328	-	-	-	-	328
Restructured non-accruing	1,766	-	-	772	-	2,538
Balance	$ 6,220	$ -	$ 5,117	$ 1,539	$ -	$ 12,876
Allowance	$ 3,594	$ -	$ 1,207	$ 123	$ -	$ 4,924
Impaired loans without a specific allowance						
Non-accruing	$ 220	$ 3,170	$ 238	$ 1,216	$ -	$ 4,844
Restructured accruing	172	-	-	-	1,442	1,614
Restructured non-accruing	974	136	-	1,479	287	2,876
Balance	$ 1,366	$ 3,306	$ 238	$ 2,695	$ 1,729	$ 9,334
Total impaired loans						
Non-accruing	$ 4,346	$ 3,170	$ 5,355	$ 1,983	$ -	$ 14,854
Restructured accruing	500	-	-	-	1,442	1,942
Restructured non-accruing	2,740	136	-	2,251	287	5,414
Balance	$ 7,586	$ 3,306	$ 5,355	$ 4,234	$ 1,729	$ 22,210
Unpaid principal balance in total impaired loans	$11,056	$ 4,419	$ 9,909	$ 6,656	$ 3,081	$ 35,121

	December 31, 2018					
		Commercial Real Estate				Total Recorded Investment in Impaired
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	Loans
Average impaired loans for the period	$ 7,685	$ 770	$ 5,696	$ 3,823	$ 2,237	$ 20,211
Contractual interest income due on impaired loans during the period	$ 858	$ 495	$ 610	$ 407	$ 143	
Interest income on impaired loans recognized on a cash basis	$ 215	$ -	$ 20	$ 175	$ 96	
Interest income on impaired loans recognized on an accrual basis	$ 63	$ -	$ -	$ -	$ 75	

Credit Quality

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

	March 31, 2019							
		Commercial Real Estate				Residential Real Estate		
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Consumer	Residential Mortgage	Residential Construction	Total
Non-performing loans and assets:								
Non-accrual loans (1)	**$ 8,013**	**$ 3,306**	**$ 6,071**	**$ 5,992**	**$ 4,081**	**$ 9,704**	**$ 156**	**$ 37,323**
Loans 90 days past due	**-**	**-**	**-**	**90**	**-**	**221**	**-**	**311**
Restructured loans	**273**	**-**	**774**	**-**	**-**	**1,432**	**-**	**2,479**
Total non-performing loans	**8,286**	**3,306**	**6,845**	**6,082**	**4,081**	**11,357**	**156**	**40,113**
Other real estate owned	**39**	**315**	**409**	**-**	**-**	**647**	**-**	**1,410**
Total non-performing assets	**$ 8,325**	**$ 3,621**	**$ 7,254**	**$ 6,082**	**$ 4,081**	**$ 12,004**	**$ 156**	**$ 41,523**

(1) Includes $5.4 million of loans acquired from WashingtonFirst considered performing at the Acquisition Date, the majority of which are collateralized by real estate properties.

	December 31, 2018							
		Commercial Real Estate				Residential Real Estate		
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Consumer	Residential Mortgage	Residential Construction	Total
Non-performing loans and assets:								
Non-accrual loans (1)	$ 7,086	$ 3,306	$ 5,355	$ 4,234	$ 4,107	$ 9,336	$ 159	$ 33,583
Loans 90 days past due	49	-	-	-	219	221	-	489
Restructured loans	500	-	-	-	-	1,442	-	1,942
Total non-performing loans	7,635	3,306	5,355	4,234	4,326	10,999	159	36,014
Other real estate owned	39	315	409	-	-	821	-	1,584
Total non-performing assets	$ 7,674	$ 3,621	$ 5,764	$ 4,234	$ 4,326	$ 11,820	$ 159	$ 37,598

(1) Includes $4.8 million of loans acquired from WashingtonFirst considered performing at the Acquisition Date, the majority of which are collateralized by real estate properties.

	March 31, 2019	
	Commercial Real Estate	Residential Real Estate

(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Consumer	Residential Mortgage	Residential Construction	Total
Past due loans								
31-60 days	$ 1,417	$ 277	$ 3,669	$ 1,506	$ 1,863	$ 12,508	$ 1,219	$ 22,459
61-90 days	2,682	-	1,815	-	1,572	2,612	477	9,158
> 90 days	-	-	-	90	-	221	-	311
Total past due	4,099	277	5,484	1,596	3,435	15,341	1,696	31,928
Non-accrual loans (1)	8,013	3,306	6,071	5,992	4,081	9,704	156	37,323
Loans acquired with deteriorated credit quality	7,355	-	10,973	-	1,224	10	-	19,562
Current loans	750,193	685,356	1,940,351	1,209,125	496,703	1,224,913	174,536	6,481,177
Total loans	$769,660	$688,939	$1,962,879	$1,216,713	$505,443	$1,249,968	$176,388	$6,569,990

(1) Includes $5.4 million of loans acquired from WashingtonFirst considered performing at the Acquisition Date, the majority of which are collateralized by real estate properties.

	December 31, 2018							
	Commercial Real Estate					Residential Real Estate		
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Consumer	Residential Mortgage	Residential Construction	Total
Past due loans								
31-60 days	$ 2,737	$ 474	$ 3,041	$ 433	$ 3,871	$ 8,181	$ 3,226	$ 21,963
61-90 days	-	-	789	-	1,477	2,517	-	4,783
> 90 days	49	-	-	-	219	221	-	489
Total past due	2,786	474	3,830	433	5,567	10,919	3,226	27,235
Non-accrual loans (1)	7,086	3,306	5,355	4,234	4,107	9,336	159	33,583
Loans acquired with deteriorated credit quality	8,155	-	14,328	2,182	1,272	10	-	25,947
Current loans	778,237	677,421	1,934,882	1,196,054	506,893	1,207,982	183,400	6,484,869
Total loans	$796,264	$681,201	$1,958,395	$1,202,903	$517,839	$1,228,247	$186,785	$6,571,634

(1) Includes $4.8 million of loans acquired from WashingtonFirst considered performing at the Acquisition Date, majority of which are collateralized by real estate properties.

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

	March 31, 2019				
		Commercial Real Estate			
(In thousands)	**Commercial**	**Commercial AD&C**	**Commercial Investor R/E**	**Commercial Owner Occupied R/E**	**Total**
Pass	**$747,335**	**$685,313**	**$ 1,942,814**	**$ 1,204,269**	**$4,579,731**
Special Mention (1)	**2,162**	**320**	**1,980**	**2,140**	**6,602**
Substandard (2)	**20,163**	**3,306**	**18,085**	**10,304**	**51,858**
Doubtful	**-**	**-**	**-**	**-**	**-**
Total	**$769,660**	**$688,939**	**$ 1,962,879**	**$ 1,216,713**	**$4,638,191**

(1) Includes $2.0 million of loans acquired from WashingtonFirst and considered performing at the Acquisition Date.

(2) Includes $17.9 million of purchased credit impaired loans acquired from WashingtonFirst and $9.2 million of loans acquired from WashingtonFirst and considered performing at the Acquisition Date.

	December 31, 2018				
		Commercial Real Estate			
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	Total
Pass	$773,958	$677,574	$ 1,934,886	$ 1,189,903	$4,576,321
Special Mention (1)	1,942	321	3,826	2,738	8,827
Substandard (2)	20,364	3,306	19,683	10,262	53,615
Doubtful	-	-	-	-	-
Total	$796,264	$681,201	$ 1,958,395	$ 1,202,903	$4,638,763

(1) Includes $4.2 million of loans acquired from WashingtonFirst and considered performing at the Acquisition Date.

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

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

		March 31, 2019		
		Residential Real Estate		
		Residential	**Residential**	
(In thousands)	**Consumer**	**Mortgage**	**Construction**	**Total**
Performing	**$ 501,362**	**$ 1,238,611**	**$ 176,232**	**$ 1,916,205**
Non-performing:				
90 days past due	**-**	**221**	**-**	**221**
Non-accruing (1)	**4,081**	**9,704**	**156**	**13,941**
Restructured loans	**-**	**1,432**	**-**	**1,432**
Total	**$ 505,443**	**$ 1,249,968**	**$ 176,388**	**$ 1,931,799**

(1) Includes $1.1 million of consumer loans acquired from WashingtonFirst considered performing at the Acquisition Date.

		December 31, 2018		
		Residential Real Estate		
		Residential	Residential	
(In thousands)	Consumer	Mortgage	Construction	Total
Performing	$ 513,513	$ 1,217,248	$ 186,626	$ 1,917,387
Non-performing:				
90 days past due	219	221	-	440
Non-accruing (1)	4,107	9,336	159	13,602
Restructured loans	-	1,442	-	1,442
Total	$ 517,839	$ 1,228,247	$ 186,785	$ 1,932,871

(1) Includes $1.3 million of consumer loans acquired from WashingtonFirst considered performing at the Acquisition Date.

During the three months ended March 31, 2019, the Company restructured $1.8 million in loans that were designated as troubled debt restructurings. No modifications resulted in the reduction of the principal in the associated loan balances. Restructured loans are subject to periodic credit reviews to determine the necessity and adequacy of a specific loan loss allowance based on the collectability of the recorded investment in the restructured loan. Loans restructured during the three months ended March 31, 2019 had specific reserves of $0.3 million. For the year ended December 31, 2018, the Company restructured $1.6 million in loans. Modifications consisted principally of interest rate concessions and no modifications resulted in the reduction of the recorded investment in the associated loan balances. Loans restructured during 2018 had specific reserves of $0.6 million at December 31, 2018. The commitments to lend additional funds on loans that have been restructured at March 31, 2019 and December 31, 2018 were not significant.

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

For the Three Months Ended March 31, 2019		
Commercial Real Estate		
	Commercial	**All**

(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Owner Occupied R/E	Other Loans	Total
Troubled debt restructurings						
Restructured accruing	$ -	$ -	$ 775	$ -	$ -	$ 775
Restructured non-accruing	261	-	789	-	-	1,050
Balance	$ 261	$ -	$ 1,564	$ -	$ -	$ 1,825
Specific allowance	$ 184	$ -	$ 108	$ -	$ -	$ 292
Restructured and subsequently defaulted	$ -	$ -	$ -	$ -	$ -	$ -

	For the Year Ended December 31, 2018					
		Commercial Real Estate				
(In thousands)	Commercial	Commercial AD&C	Commercial Investor R/E	Commercial Owner Occupied R/E	All Other Loans	Total
Troubled debt restructurings						
Restructured accruing	$ -	$ -	$ -	$ -	$ -	$ -
Restructured non-accruing	1,464	-	-	158	-	1,622
Balance	$ 1,464	$ -	$ -	$ 158	$ -	$ 1,622
Specific allowance	$ 563	$ -	$ -	$ -	$ -	$ 563
Restructured and subsequently defaulted	$ -	$ -	$ -	$ -	$ -	$ -

Other Real Estate Owned

Other real estate owned totaled $1.4 million and $1.6 million at March 31, 2019 and December 31, 2018, respectively. There were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process as of March 31, 2019.

Note 5 – Goodwill and Other Intangible Assets

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

	March 31, 2019			**Weighted**	December 31, 2018			Weighted
(Dollars in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Average Remaining Life**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Average Remaining Life
Amortizing intangible assets:								
Core deposit intangibles	**$ 10,678**	**$ (2,378)**	**$ 8,300**	**8.8 years**	$ 10,678	$ (1,941)	$ 8,737	9.0 years
Other identifiable intangibles	**1,478**	**(481)**	**997**	**10.4 years**	1,478	(427)	1,051	10.6 years
Total amortizing intangible assets	**$ 12,156**	**$ (2,859)**	**$ 9,297**		$ 12,156	$ (2,368)	$ 9,788	
Goodwill	**$ 347,149**		**$ 347,149**		$ 347,149		$ 347,149	

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

	Community	**Investment**

(Dollars in thousands)		**Banking**		**Insurance**		**Management**		**Total**
Balance December 31, 2018	$	331,173	$	6,788	$	9,188	$	347,149
No Activity		-		-		-		-
Balance March 31, 2019	$	331,173	$	6,788	$	9,188	$	347,149

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

(In thousands)		Amount
2019	$	1,453
2020		1,720
2021		1,507
2022		1,295
Thereafter		3,322
Total amortizing intangible assets	$	9,297

Note 6 – Deposits

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

(In thousands)	**March 31, 2019**	December 31, 2018
Noninterest-bearing deposits	**$ 1,813,708**	$ 1,750,319
Interest-bearing deposits:		
Demand	**755,676**	703,145
Money market savings	**1,686,178**	1,605,024
Regular savings	**336,950**	330,231
Time deposits of less than $100,000	**433,944**	427,421
Time deposits of $100,000 or more	**1,198,067**	1,098,740
Total interest-bearing deposits	**4,410,815**	4,164,561
Total deposits	**$ 6,224,523**	$ 5,914,880

Note 7 – SUBORDINATED DEBENTURES

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

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

In 2003, Alliance Bankshares Corporation, which was acquired by WashingtonFirst in 2012, issued $10.3 million of junior subordinated debt securities to Alliance Virginia Capital Trust I, of which Alliance Bankshares Corporation owned all of the common securities. The trust used the proceeds from the issuance of its underlying common securities and preferred securities, which were sold to third parties, to purchase the debt securities. These debt securities are the trust's only assets and the interest payments from the debentures finance the distributions paid on the preferred securities. The obligations under the debt securities were assumed by the Company at the date of acquisition. The debt securities are due on June 30, 2033 and are callable at any time, without penalty. The interest rate associated with the debt securities is three month LIBOR plus 3.15% subject to quarterly interest rate adjustments. The interest rate as of March 31, 2019 was 5.75%. Under the indenture governing the debt securities, the Company has the right to defer payments of interest for up to twenty consecutive quarterly periods. During any such extension period, distributions on the trust's preferred securities will also be deferred, and the Company's ability to pay dividends on its common stock will be restricted. The trust's preferred securities are mandatorily redeemable upon maturity of the debt securities, or upon earlier redemption as provided in the indenture. If the debt securities are redeemed prior to maturity, the redemption price will be the principal amount and any accrued but unpaid interest. The Company unconditionally guarantees payment of accrued and unpaid distributions required to be paid on the trust securities subject to certain exceptions, the redemption price with respect to any trust securities called for redemption and amounts due if the trust is liquidated or terminated. As of March 31, 2019, the Company was current on all interest payments. Under current regulatory guidelines the trust preferred securities are considered to be Tier 1 capital.

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

	As of,	
(In thousands)	**March 31, 2019**	December 31, 2018
Subordinated debentures	$ **25,000**	**$** 25,000
Add: Purchase accounting premium	**1,989**	2,023
Trust preferred securities	**10,310**	10,310
Add: Purchase accounting premium	**90**	92
Total subordinated debentures	$ **37,389**	**$** 37,425

Note 8 – Share Based Compensation

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

The Company's Omnibus Incentive Plan was approved on May 6, 2015 and provides for the granting of incentive stock options, non-qualifying stock options, stock appreciation rights, restricted stock grants, restricted stock units and performance awards to selected employees on a periodic basis at the discretion of the board. The Omnibus Incentive Plan authorizes the issuance of up to 1,500,000 shares of common stock, of which 1,151,509 are available for issuance at March 31, 2019, has a term of ten years, and is administered by a committee of at least three directors appointed by the board of directors. Options granted under the plan have an exercise price which may not be less than 100% of the fair market value of the common stock on the date of the grant and must be exercised within seven to ten years from the date of grant. The exercise price of stock options must be paid for in full in cash or shares of common stock, or a combination of both. The board committee has the discretion when making a grant of stock options to impose restrictions on the shares to be purchased upon the exercise of such options. The Company generally issues authorized but previously unissued shares to satisfy option exercises.

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

	Three Months Ended March 31,	
	2019	2018
Dividend yield	**-%**	2.64%
Weighted average expected volatility	**-%**	39.13%
Weighted average risk-free interest rate	**-%**	2.61%
Weighted average expected lives (in years)	**-**	5.61
Weighted average grant-date fair value	**$0.00**	$11.73

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

Compensation expense is recognized on a straight-line basis over the vesting period of the respective stock option or restricted stock grant. The Company recognized compensation expense of $0.7 million and $0.5 million for the three months ended March 31, 2019 and 2018, respectively, related to the awards of stock options and restricted stock grants. The intrinsic value of stock options exercised in the three months ended March 31, 2019 and 2018 was $0.1 million and $0.2 million, respectively. The total of unrecognized compensation cost related to stock options was approximately $0.2 million as of March 31, 2019. That cost is expected to be recognized over a weighted average period of approximately 1.7 years. The total of unrecognized compensation cost related to restricted stock was approximately $7.8 million as of March 31, 2019. That cost is expected to be recognized over a weighted average period of approximately 3.3 years. The fair value of the options vested during the three months ended March 31, 2019 and 2018, was not significant.

The Company granted 96,191 shares of restricted stock in the first quarter of 2019, of which 21,390 shares are subject to a three year vesting schedule with one third of the shares vesting on April 1st of each year and 74,801 shares subject to a five year vesting schedule with one fifth of the shares vesting on April 1st of each year. The Company did not grant any stock options during the first quarter of 2019.

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

	Number of Common Shares	Weighted Average Exercise Share Price	Weighted Average Contractual Remaining Life (Years)	Aggregate Intrinsic Value (in thousands)
Balance at January 1, 2019	81,508	$ 29.74		$ 369
Granted	-	$ -		
Exercised	(6,755)	$ 19.02		$ 76
Forfeited	(1,007)	$ 37.11		
Balance at March 31, 2019	73,746	$ 30.62	3.7	$ 283
Exercisable at March 31, 2019	45,046	$ 26.45	2.6	$ 261
Weighted average fair value of options granted during the year		$ -		

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

(In dollars, except share data):	Number of Common Shares	Weighted Average Grant-Date Fair Value
Restricted stock at January 1, 2019	203,603	$ 35.14
Granted	96,191	$ 34.98
Vested	(8,199)	$ 27.95
Forfeited	(3,848)	$ 31.98
Restricted stock at March 31, 2019	287,747	$ 35.33

Note 9 – Pension, Profit Sharing, and Other Employee Benefit Plans

Defined Benefit Pension Plan

The Company has a qualified, noncontributory, defined benefit pension plan (the “Plan”). Benefits after January 1, 2005, are based on the benefit earned as of December 31, 2004, plus benefits earned in future years of service based on the employee’s compensation during each such year. All benefit accruals for employees were frozen as of December 31, 2007 based on past service and thus salary increases and additional years of service after such date no longer affect the defined benefit provided by the plan although additional vesting may continue to occur.

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

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

	Three Months Ended March 31,	
(In thousands)	**2019**	2018
Interest cost on projected benefit obligation	**$ 402**	$ 385
Expected return on plan assets	**(412)**	(465)
Recognized net actuarial loss	**265**	250
Net periodic benefit cost	**$ 255**	$ 170

Contributions

The decision as to whether or not to make a plan contribution and the amount of any such contribution is dependent on a number of factors. Such factors include the investment performance of the plan assets in the current economy and, since the plan is currently frozen, the remaining investment horizon of the plan. Management continues to monitor the funding level of the pension plan and may make additional contributions as necessary during 2019.

Note 10 – Net Income per Common Share

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

	Three Months Ended March 31,	
(Dollars and amounts in thousands, except per share data)	**2019**	2018
Net income	**$ 30,317**	$ 21,665
Basic:		
Basic weighted average EPS shares	**35,794**	35,659
Basic net income per share	**$ 0.85**	$ 0.61
Diluted:		
Basic weighted average EPS shares	**35,794**	35,659
Dilutive common stock equivalents	**13**	25
Dilutive EPS shares	**35,807**	35,684
Diluted net income per share	**$ 0.85**	$ 0.61
Anti-dilutive shares	**12**	4

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

(In thousands)	**Unrealized Gains (Losses) on Investments Available-for-Sale**	**Defined Benefit Pension Plan**	**Total**
Balance at January 1, 2019	**$ (6,630)**	**$ (9,124)**	**$ (15,754)**
	6,508	**-**	**6,508**

Other comprehensive income before reclassification, net of tax			
Reclassifications from accumulated other comprehensive income, net of tax	**-**	**196**	**196**
Current period change in other comprehensive income, net of tax	**6,508**	**196**	**6,704**
Balance at March 31, 2019	**$ (122)**	**$ (8,928)**	**$ (9,050)**

(In thousands)	Unrealized Gains (Losses) on Investments Available-for-Sale	Defined Benefit Pension Plan	Total
Balance at January 1, 2018	$ 687	$ (7,544)	$ (6,857)
Other comprehensive income before reclassification, net of tax	(9,368)	-	(9,368)
Reclassifications from accumulated other comprehensive income, net of tax	(47)	131	84
Current period change in other comprehensive income, net of tax	(9,415)	131	(9,284)
Reclassification of tax effects from accumulated other comprehensive income	148	(1,625)	(1,477)
Balance at March 31, 2018	$ (8,580)	$ (9,038)	$ (17,618)

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

(In thousands)	Three Months Ended March 31, **2019**	2018
Unrealized gains on investments available-for-sale		
Affected line item in the Statements of Income:		
Investment securities gains	**$ -**	$ 63
Income before taxes	**-**	63
Tax expense	**-**	16
Net income	**$ -**	$ 47
Amortization of defined benefit pension plan items		
Affected line item in the Statements of Income:		
Recognized actuarial loss(1)	**$ (265)**	$ (250)
Income before taxes	**(265)**	(250)
Tax benefit	**69**	(119)
Net loss	**$ (196)**	$ (131)

(1) This amount is included in the computation of net periodic benefit cost, see Note 9.

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

NOTE 12 – LEASES

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

As of March 31, 2019, ROU assets and lease liabilities totaled $75.5 million and $83.0 million, respectively. For the three months ended March 31, 2019, the Company recognized total operating lease expense in the amount of $2.9 million. Cash paid for amounts included in the measurement of lease liabilities for the three months ended March 31, 2019 was $2.2 million and is included in Net cash provided by operating activities in our Condensed Consolidated Statements of Cash Flows. There were no new ROU assets obtained in exchange for lease obligations during the three months ended March 31, 2019.

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

(In thousands)		Amount
Maturity:		
One year	$	11,193
Two years		10,682
Three years		10,147
Four years		10,110
Five years		9,997
Thereafter		48,791
Total undiscounted lease payments		100,920
Less: Present value discount		(17,929)
Lease Liability	$	82,991

As of March 31, 2019, the weighted average remaining lease term was 10.8 years and the weighted average operating discount rate to determine the operating lease liability was 3.31%.

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

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

The Company has entered into interest rate swaps (“swaps”) to facilitate customer transactions and meet their financing needs. These swaps qualify as derivatives, but are not designated as hedging instruments. Interest rate swap contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. When the fair value of a derivative instrument contract is positive, this generally indicates that the counterparty or customer owes the Company, and results in credit risk to the Company. When the fair value of a derivative instrument contract is negative, the Company owes the customer or counterparty and therefore, has no credit risk. The notional value of commercial loan swaps outstanding was $43.8 million with a fair value of $0.7 million as of March 31, 2019 compared to $16.6 million with a fair value of $0.4 million as of December 31, 2018. The swap positions are offset to minimize the potential impact on the Company’s financial statements. Fair values of the swaps are carried as both gross assets and gross liabilities in the Condensed Consolidated Statements of Condition. The associated net gains and losses on the swaps are recorded in other non-interest income.

Note 14 – Litigation

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

Note 15 – Fair Value

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

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

Basis of Fair Value Measurement:

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

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

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

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

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

Assets and Liabilities

Mortgage loans held for sale

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

Investments available-for-sale

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

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

State and municipal securities

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

Interest rate swap agreements

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

Assets Measured at Fair Value on a Recurring Basis

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

	March 31, 2019		
	Quoted Prices in Active Markets for	**Significant Other**	**Significant Unobservable Inputs**

(In thousands)	Identical Assets (Level 1)	Observable Inputs (Level 2)	(Level 3)	Total
<u>Assets</u>				
Residential mortgage loans held for sale	$ -	$ 24,998	$ -	$ 24,998
Investments available-for-sale:				
U.S. government agencies	-	313,588	-	313,588
State and municipal	-	264,580	-	264,580
Mortgage-backed and asset-backed	-	338,097	-	338,097
Corporate debt	-	-	9,387	9,387
Trust preferred	-	-	310	310
Marketable equity securities	-	568	-	568
Interest rate swap agreements	-	701	-	701
<u>Liabilities</u>				
Interest rate swap agreements	$ -	$ (701)	$ -	$ (701)

	December 31, 2018			
(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Residential mortgage loans held for sale	$ -	$ 22,773	$ -	$ 22,773
Investments available-for-sale:				
U.S. government agencies	-	296,678	-	296,678
State and municipal	-	282,024	-	282,024
Mortgage-backed and asset-backed	-	348,515	-	348,515
Corporate debt	-	-	9,240	9,240
Trust preferred	-	-	310	310
Marketable equity securities	-	568	-	568
Interest rate swap agreements	-	446	-	446
Liabilities				
Interest rate swap agreements	$ -	$ (446)	$ -	$ (446)

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

(In thousands)	Significant Unobservable Inputs (Level 3)
Investments available-for-sale:	
Balance at January 1, 2019	$ 9,550
Additions of Level 3 assets	-
Sales of Level 3 assets	-
Total unrealized gain included in other comprehensive income	147
Balance at March 31, 2019	$ 9,697

Assets Measured at Fair Value on a Nonrecurring Basis

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

March 31, 2019

(In thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**		**Significant Other Observable Inputs (Level 2)**		**Significant Unobservable Inputs (Level 3)**		**Total**		**Total Losses**	
Impaired loans	**$**	**-**	**$**	**-**	**$**	**6,748**	**$**	**6,748**	**$**	**(10,862)**
Other real estate owned		**-**		**-**		**1,410**		**1,410**		**(436)**
Total	**$**	**-**	**$**	**-**	**$**	**8,158**	**$**	**8,158**	**$**	**(11,298)**

	December 31, 2018									
(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total		Total Losses	
Impaired loans	$	-	$	-	$	6,780	$	6,780	$	(10,932)
Other real estate owned		-		-		1,584		1,584		(262)
Total	$	-	$	-	$	8,364	$	8,364	$	(11,194)

At March 31, 2019, impaired loans totaling $26.1 million were written down to fair value of $20.8 million as a result of specific loan loss allowances of $5.3 million associated with the impaired loans which was included in the allowance for loan losses. Impaired loans totaling $22.2 million were written down to fair value of $17.3 million at December 31, 2018 as a result of specific loan loss allowances of $4.9 million associated with the impaired loans.

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

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

Fair Value of Financial Instruments

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

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

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

Management utilizes internal models used in asset liability management to determine the fair values disclosed below.

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

	March 31, 2019		Fair Value Measurements		
(In thousands)	**Carrying Amount**	**Estimated Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial Assets					
Other equity securities	**$ 60,769**	**$ 60,769**	**$ -**	**$ 60,769**	**$ -**
Loans, net of allowance	**6,516,901**	**6,377,572**	**-**	**-**	**6,377,572**
Other assets (1)	**111,195**	**111,195**	**-**	**111,195**	**-**
Financial Liabilities					
Time deposits	**$1,632,011**	**$1,628,658**	**$ -**	**$1,628,658**	**$ -**
Securities sold under retail repurchase agreements and federal funds purchased	**122,626**	**122,626**	**-**	**122,626**	**-**
Advances from FHLB	**726,278**	**729,767**	**-**	**729,767**	**-**
Subordinated debentures	**37,389**	**35,260**	**-**	**-**	**35,260**

(1) Includes bank owned life insurance products.

	December 31, 2018		Fair Value Measurements		
(In thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					