Corporate Governance Policy

Revised and Adopted by the Board of Directors
January 29, 2014

This policy is intended to bring clarity to the procedures utilized by the board of directors in fulfilling its governance responsibilities. It is not intended to modify or amend Bancorp's articles of incorporation or bylaws. In the event of a discrepancy between this policy and the articles of incorporation and bylaws, the articles of incorporation and bylaws will always govern.

Sandy Spring Bancorp, Inc.
Corporate Governance Policy
Table of Contents

SANDY SPRING BANCORP, INC.
CORPORATE GOVERNANCE POLICY
(Revised January 30, 2013)

I. BOARD ROLE, RESPONSIBILITIES AND GENERAL POLICY

A. BOARD PURPOSE

The board of directors works in partnership with the management of Sandy Spring Bancorp, Inc. (the "Company" or "Bancorp") and on behalf of all shareholder interests to provide policy-level guidance and assurance that the financial and human capital of the Company are managed in a way that performance is optimized, its assets are secure, its legacy is honored and its future roadmap for success is realistic and desirable.

B. BOARD RESPONSIBILITIES

Directors are dutiful in loyalty and in care and diligence in fulfilling their responsibilities for the following:

- Ensuring that the Company has a sound process for creating strategic direction and that directors add a competitive advantage to that process;
- Monitoring key performance indicators (including major loans, capital expenditures, operating budgets, retention of talent and evolution of the culture to support the strategy) and the execution of the Company's strategy against stated objectives through appropriate information, control and audit systems;
- Ensuring that the Company maintains all legal and ethical standards, including taking reasonable and responsible action to ascertain that all financial disclosures accurately represent the Company in conformity with law;
- Selecting and working collaboratively with the Chief Executive Officer (CEO), ensuring that processes exist to provide continuous superlative talent at the executive level;
- Assessing the risk climate of the Company and ensuring that it has rigorous risk management practices;
- Staying abreast of the concerns of shareholders; and
- Creating, evaluating and continuously evolving its governance processes in keeping with the best practices of high performing organizations.

C. STATEMENT OF VALUES

The board expects of itself and all leaders strong, principled and ethical leadership to model the values upon which the Company's heritage is based. Further, the board supports the adoption by the organization of a formal Statement of Values, espousing the practices all board members and employees are expected to exhibit toward staff, clients, vendors and all other constituencies.

D. CORPORATE CITIZENSHIP RESPONSIBILITY

The board believes that the Company, its directors, management and staff, should be good corporate citizens, attentive and responsive to the needs of their community.

II. DIRECTOR SELECTION AND PERFORMANCE

A. COMPETENCIES REQUIRED OF EACH DIRECTOR

Each director of the Company is expected to exhibit the highest standards in exercising his/her duty of loyalty and duty of care and commitment to all shareholders of the Company and to protect the values and legacy of the organization. Additionally, directors must manage themselves well in their personal deportment and display their ability to challenge the thinking of others and to influence them with constructive approaches. Directors must be able to read and act on financial information including but not limited to balance sheets, income statements and cash flow analyses. Finally, directors need to be able to apply informed judgment and long term, conceptual and systemic thinking to all decisions.

B. COMPETENCIES REQUIRED IN SPECIFIC DIRECTORS

The board gathers input from all directors prior to the recruitment of a new director in order to form a collective picture of the competencies needed in the recruit to support the strategy. The board also values diversity and seeks to include women and members of minority groups as well as to maintain a range of thinking and personality styles.

C. DIRECTOR RECRUITMENT, NOMINATION AND INVITATION TO JOIN

The Nominating Committee of the board solicits the thinking of the directors about the competencies needed when a vacancy is forthcoming and recruits based on the profile created by the board as a whole. The Nominating Committee proactively recruits potential candidates and encourages suggestions for candidates from the CEO, chairman, other directors and shareholders. The Nominating Committee interviews and recommends a candidate to the board for consideration. If the board endorses the candidate, it directs the Chairman to extend the invitation to the candidate to serve on the board. When a candidate accepts the offer, s/he stands for election at the next annual shareholders meeting.

D. NEW DIRECTOR ORIENTATION PROCESS

The board believes it is vital to orient new directors effectively and efficiently into their role and responsibilities in order to optimize the return from the new director's contribution quickly. Therefore, the Nominating Committee has created and continuously improves an orientation process to ensure the director will be comfortable, confident and a valued contributor in his/her role within three months of election. Orientation may include sessions facilitated by senior leadership of the Company about strategy and financial information, information about the history and values of the Company, visits to selected facilities, meetings with selected senior officers, and outside seminars concerning Company governance as appropriate. Additionally, new directors will receive a copy of this governance policy and discuss his/her expectations with the Chairman prior to election.

E. ONGOING EDUCATIONAL DEVELOPMENT FOR DIRECTORS

The board is committed to the importance of ongoing education for directors given the ever-changing climate of the financial industry. In keeping with that value, directors are expected to pursue, both individually and collectively, educational development activities that address pertinent business and governance issues. The Executive and Governance Committee will help locate appropriate sources to meet the development needs, maintain records of development activities, and report to the board annually on these activities.

F. TERMS

Directors are elected by the shareholders for three-year terms, with the board divided into three classes of directors so that roughly one third of the terms ends each year. The board realizes the importance of ensuring that it is equipped with the competencies required by the organization's strategy; therefore, it is not the practice of the board to assume that any director will routinely stand for re-election until retirement.

Per the Company's bylaws, directors are required to retire from board service at the annual shareholders meeting immediately following the director's attainment of age 70.

G. REVIEW AND RESIGNATION FROM THE BOARD

Directors may voluntarily resign at any time by sending written notice to the principal office of the Company addressed to the chairman of the board, the president, or the secretary. Unless otherwise specified, the resignation shall take effect upon acceptance by the board of directors.

A director has a duty to advise the Executive and Governance Committee of any change in job responsibility or when he or she leaves any employer.

Further, a director should submit a letter of resignation for consideration by the board any time he or she experiences:

- a diminution of job responsibility,
- a change in profession or business
- retirement from active employment,
- a relocation of his/her principal residence outside of the Baltimore/Washington Consolidated Metropolitan Statistical Area; or
- a change in personal circumstances which might be perceived as compromising his or her ability to be an effective director.

The Executive and Governance Committee will review the appropriateness of such director's ongoing membership under these circumstances, taking into consideration the director's performance, the director's contribution to board deliberations, as well as future employment and community or civic plans of the director. The board may accept such resignation if the Executive and Governance Committee determines that it has become inappropriate for the director to remain on the board.

A proffered resignation, if accepted by the board, becomes effective as of the next annual shareholders meeting or such earlier time as determined by the board.

The CEO of the Bank is also expected to resign from the board upon his/her retirement or resignation as Chief Executive Officer. The Executive and Governance Committee will review the resignation and make a recommendation to the board either to accept or reject the resignation.

H. <u>INDIVIDUAL DIRECTOR EVALUATION PROCESS</u>

The Executive and Governance Committee is responsible for conducting an annual evaluation process for individual directors. The purpose of the process is to ensure optimal effectiveness and accountability for performance among individual directors. The Executive and Governance Committee will report the findings to the chairman and make recommendations for follow-up development and discussions with individual directors and the entire board. The board will report to shareholders that it has undertaken its annual director evaluation process, as a means of affirming its intention to govern itself responsibly. The board may also report the general categories or factors of performance (such as responsibilities or process) that are reviewed, but it shall not report actual findings of the process.

I. <u>INDIVIDUAL DIRECTOR PERFORMANCE DISCUSSION PROCESS</u>

It is the responsibility of the chairman to ensure that performance discussions occur as needed to revisit expectations of the director and performance accountability. On occasion, the chairman may designate another director to hold the discussion. The decision about who will conduct the discussions is to be based on who can best achieve the outcome needed with the individual.

J. DIRECTOR COMPENSATION

The Compensation Committee evaluates director compensation annually in relation to comparable organizations. Changes in director compensation, if any, are recommended by the Compensation Committee, but with open discussion and concurrence by the board. In order to link director compensation to performance, a meaningful portion of the director's compensation will be offered to the director in Bancorp stock. Any officer of the Company who is also a director shall not receive additional compensation for service on the board.

K. DIRECTOR STOCK OWNERSHIP REQUIREMENT

In accordance with the bylaws, in order to qualify to serve on the board, a director must own at least $1,000 of Bancorp common stock. However, the board believes that directors should be shareholders with a meaningful ownership position. Therefore the director is required to increase his or her position as follows and own:

- the lesser of 1,000 shares or $35,000 in market value by January 1 following the first anniversary;
- the lesser of 2,000 shares or $70,000 in market value by January 1 following the second anniversary of service;
- the lesser of 3,000 shares $105,000 in market value by January 1 following the third anniversary of service;
- the lesser of 4,000 shares or $140,000 in market value by January 1 following the fourth anniversary of service;
- the lesser of 5,000 shares or $175,000 in market value by January 1 following the fifth anniversary of service.

III. BOARD STRUCTURE

A. BOARD SIZE

Boards require a certain size in order to create synergy in their thinking and to have sufficient resources to fulfill their responsibilities. Boards also require certain limits on size to ensure accountability and to permit adequate time for thorough discussions. For this reason, the board believes its optimal size is no fewer than 8 directors and no more than 12 directors.

B. BOARD COMMITTEES AND MEMBERS

The board has six standing committees, with primary duties listed below. The charters of each standing committee will be reviewed periodically with a view to delegating to a committee the authority of the board concerning specified matters appropriate to such committee. Such authority will be set forth in board resolutions or bylaws pertaining to the charters of board committees.

- **Audit Committee** – The Audit Committee assists the board in monitoring and assuring the integrity of the financial statements and of financial reporting, including the proper operation of internal and disclosure controls and procedures in accordance with current banking regulations, compliance with legal and regulatory requirements and the independence and performance of internal and external auditors. The Audit Committee reviews major financial reporting forms prior to filing with the Securities and Exchange Commission. Members of the Audit Committee are all independent directors.

- **Executive and Governance Committee -** The Executive and Governance Committee exercises the authority to act on behalf of the board between meetings of the board to the fullest extent permitted by law. Additionally, the Executive and Governance Committee is responsible for governance policy issues and processes, including ongoing development for directors, board and director evaluation processes, and CEO evaluation and succession.

- **Compensation Committee** – Members of the Compensation Committee are all independent directors. This committee's responsibilities include recommending compensation and compensation plans for directors and executive officers for approval by the board; recommending alternative compensation and benefit plans to the board when appropriate; reviewing organizational structure and the plans for succession in the ranks of executive officers, other than CEO, and periodically report to the board on executive officers succession planning to assure alignment with strategy; recommending to the board all equity compensation plans (i.e., stock option, restricted stock, etc.).

- **Credit and Investment Risk Committee** – This committee's responsibilities include the approval of loans requiring board approval; monitoring the performance of the loan portfolio; ensuring the Company's credit risk activities are within policy limits; and reviewing and approving the adequacy of the allowance for credit losses. In addition, the committee also monitors the performance within the investment portfolio, approves securities transactions, and ensures the Company's activities are within policy limits.

- **Nominating Committee** – This committee's responsibilities include the management of the director nomination process in compliance with the articles of incorporation, the bylaws, and federal securities laws, and management of director recruitment and orientation. The members of the Nominating Committee are all independent directors.

- **Stock Option Committee** – The Stock Option Committee is comprised of all independent directors and is charged with reviewing and approving the recommendations submitted by the Compensation Committee regarding equity-based compensation for directors, executives, and management.

The Executive and Governance Committee, after seeking input from the chairman and the CEO, will meet and review committee membership and chairman appointments. This annual discussion occurs prior to the annual organization meeting of the board. The board must approve the Executive and Governance Committee's recommendations. All directors serve on at least one committee. It is customary, but not required, to rotate one member from each committee to a different committee every two to three years in order to infuse different thinking into the committee's work and serve as a director development experience. At the same time, this maintains continuity in the committee's membership and provides directors with valuable experience in the committee's work.

All committee chairmen must be independent directors, with the exception of the Credit and Investment Risk Committee. The board believes it is a beneficial practice to rotate committee chairs and considers five years of service as chair to be appropriate. Special circumstances may overshadow this practice occasionally. When a director completes service as the chairman of a committee, s/he rotates to another committee.

The chairman of the board shall be an ex officio member of all committees and may vote on all matters brought before a committee.

C. DIRECTOR INDEPENDENCE GUIDELINES

The board complies with or exceeds the independence requirements for the board and board committees established by the Nasdaq stock market and federal securities and banking laws.

Interlocking directorships will not be allowed. An interlocking directorship would occur if the CEO or other executive officer were to serve on the board of a company for which a Sandy Spring Bancorp non-employee director serves as an officer.

The Company recognizes that a potential conflict can occur when a board member becomes a substantial borrower, but believes that compliance with the Federal Reserve's Regulation O regarding loans to officers, directors, and their interests will resolve that conflict.

No more than two inside directors may be on the board at any one time. All other directors must be independent. An inside director is defined as a director that is employed as either an officer of Bancorp or the Bank and serves as a member of the board of directors. A director will be considered independent if s/he:

- has not been an officer or employee of the Company or any of its subsidiaries within the past three years;
- has not received during the current year or any of the three previous years any payments from the Company or any of its subsidiaries in excess of

$120,000, other than payments for board service, dividends, or loans made in compliance with Federal Reserve Regulation O.

- In addition, this prohibition extends to the receipt of payments, other than receipt of compensation to non-executive officers, by a family member of the director;
- as a member of the Audit Committee, receives no payments for advice or consulting services provided to the Company or its subsidiaries other than for board service and does not own over 10% of the Company’s common stock;
- has not had a family member who was an executive officer of the Company or any of its subsidiaries during the previous three years;
- is not, or does not have a family member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the Company or any of its subsidiaries received payments for property or services in the current or any of the previous three years that exceed 5% of the recipient’s consolidated gross revenues for that year or $200,000, whichever is more, other than payments arising solely from investment in the Company’s securities or payments under non-discretionary charitable contribution matching programs;
- is, not, or does not have a family member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the Company or any of its subsidiaries, served on the compensation committee of the other entity;
- is, not, or does not have a family member who is, a current partner of the Company’s independent auditor, or was a partner or employee of the Company’s independent auditor who worked on the Company’s audit at any time during any of the past three years;
- does not have any other relationship that the board determines would interfere with the exercise of independent judgment in carrying out his/her responsibilities as a director.

Family members include a director’s spouse, parents, children, and siblings (by blood, marriage, or adoption) and any person living in the director’s home.

D. <u>LIMIT ON DIRECTORSHIPS</u>

Members of the board and other executive officers will be permitted to serve on other boards of for-profit or not-for-profit organizations provided they have sufficient time available to adequately meet their obligations to the Company. The board understands the time and effort required to give effective service to a board; therefore, the board will only recruit potential members whom they believe have sufficient time to serve effectively. Directors are not permitted to serve on the boards of other financial institutions.

IV. <u>BOARD OPERATIONS</u>

A. <u>MEETING FREQUENCY</u>

Regular meetings of the board are held nine times per year, with special and teleconference meetings held as needed. Prior to the beginning of each calendar year, the secretary shall distribute to the board a schedule of the following year's regular meetings. To provide directors with first-hand knowledge to make strategic decisions and for their continuing education about the environment in which the Company operates and competes, meetings are occasionally held at locations other than the corporate headquarters. In addition, special meetings of the board may be called by or at the request of any one director or any two directors or a majority of the directors.

B. ATTENDANCE EXPECTATIONS

The board expects directors to model their commitment to the Company with attendance expected at 80% or more of board and committee meetings. In addition, all directors are expected to attend the annual meeting of shareholders, and the board will report such attendance to shareholders as required.

C. FORMULATION OF THE MEETING AGENDA

The Chairman is responsible for meeting agendas with input from the CEO and other executive officers. Additionally, any member of the board may request that an item be included on the agenda. Agendas are created with the goal of allocating time to the monitoring and approval responsibilities of the board. It is also necessary to ensure adequate time for discussions of the strategic goals and direction of the Company.

D. PRE-MEETING INFORMATION AND PREPARATION

The agenda and information pertinent to the board's understanding of the business are critical to having effective board meetings. Under normal circumstances, materials relevant to each meeting should be delivered at least five days in advance of the meeting. In the event of a pressing decision arising after materials are distributed, additional materials may be available just prior to the meeting. The board expects that management will make every attempt to deliver complete, yet concise information needed by the board in carrying out its responsibilities.

Directors are expected to demonstrate their commitment to effectiveness on behalf of the organization through reading all pre-meeting information and being prepared to participate actively and constructively during the meeting. The board believes it is reasonable to expect directors to spend three to four hours per week outside of meetings in preparation and follow-through for meetings and committee work.

E. REGULAR ATTENDANCE OF NON-DIRECTORS AT BOARD MEETINGS

The chief financial officer and the general counsel and secretary will be present during board meetings, except during executive sessions of independent directors or where there is a specific reason for one or both of them to be excluded. In addition, the chairman may invite one or more members of management to be in regular attendance at board meetings and may include other officers and employees from time to time as appropriate to the circumstances.

F. DIRECTOR RELATIONS WITH MANAGEMENT AND EMPLOYEES

Board members have complete access to management. Directors are expected to use judgment to assure that the contact is not disruptive to the business operations of the Company. If the contact is in written form, it should be copied to the CEO.

The board has access to any individual employee but believes that individual directors should not communicate on corporate issues with employee groups without approval of the board or at the request of the CEO.

G. DIRECTOR INTERACTION WITH THE PRESS, CLIENTS, AND INVESTORS

The board believes that management speaks for the Company with the press, clients and investors. Individual directors are expected to interact with shareholders to remain apprised of their concerns and interests, but are to defer all official communication to the press, clients, and investors to management. Individual directors are expressly prohibited from organizing group meetings with clients, investors, and the press.

H. INVESTOR/EMPLOYEE PROCESS FOR CONTACTING THE BOARD

A dedicated phone line is provided to employees for the anonymous reporting of any violations of ethics or misconduct, including any employee fraud or dishonesty, accounting, internal accounting controls, or auditing matters; and concerns regarding questionable accounting or auditing matters. The Chairman of the Audit Committee is responsible for further investigation and recommended actions, if any, to the full board.

Mail addressed to the chairman or any board member and delivered to the Company's headquarters is delivered by the secretary to the chairman or board member in a timely manner.

I. GUIDELINES FOR DIRECTORS AND OFFICERS BUYING AND SELLING STOCK

The board has issued, and subscribes to comprehensive policies regarding insider trading and the use of material non-public information which outline the appropriate circumstances under which directors and officers may purchase or sell stock in the Company.

J. EXECUTIVE SESSIONS OF THE BOARD

The independent directors will have at least two regularly scheduled meetings at which only independent directors are present, and also may meet in executive session for some portion of each regular board and committee meeting without the CEO or other members of management as the independent directors deem appropriate. The chairman or committee chairman presides over executive sessions. Where appropriate, the committee chairman will discuss with the chairman matters emanating from the executive session of the committee.

K. RETENTION OF BOARD ADVISORS

The board and/or committees of the board may from time to time retain the services of various advisors independent of advisors retained by the Company. Those advisors may include but are not limited to auditors, legal counsel, and compensation and other consultants.

V. BOARD/EXECUTIVE RELATIONS

A. THE ROLE OF THE CHAIRMAN

The board shall be free to select the chairman in a manner that it judges will best serve the Company's needs. The chairman shall be an independent director. It is the policy of the board to separate the offices of the chairman and chief executive officer so that one person does not fill both roles.

The chairman provides leadership for the board with the board's approval. The board will provide input about its priorities for the chairman's role on a regular basis in conjunction with the annual board evaluation process. The following responsibilities are typical expectations of the chairman; however, the board may request other duties:

- Ensure the board fulfills its role;
- Provide liaison between the board and management;
- Ensure directors have the information and decision-making time needed;
- Ensure succession planning and CEO evaluation processes;
- Create and facilitate processes for the board to do its work;
- Represent the board to outside groups; provide advocacy;
- Manage director performance and communicate director expectations;

- Ensure regular board evaluation;
- Ensure talent and structural needs of the board are met;
- Schedule meetings and prepare meeting agendas with input from the CEO and other executive officers;
- Ensure delivery of proxy materials.

The Executive and Governance Committee is responsible for an annual evaluation of the chairman concurrent with the individual director evaluation process. Any feedback discussions forthcoming from the evaluation are conducted between member(s) of the Executive and Governance Committee and the chairman and the Executive and Governance Committee shall inform the board of the results of the feedback discussions.

B. <u>CEO PERFORMANCE</u>

The Executive and Governance Committee is responsible for ensuring that the performance management processes are followed by the CEO, including setting performance goals and conducting an annual performance evaluation (including thorough feedback discussion).

Annually, the Executive and Governance Committee and the CEO jointly discuss, develop and mutually agree upon goals for the CEO, given long-range and short-range plans for the Company and other appropriate criteria, and then submit the goals to the board for approval.

At the end of the performance year, the Executive and Governance Committee administers a board-approved CEO performance evaluation process, including written form and discussion, and submits a written copy of the evaluation to the board for approval at least by the March board meeting each year.

C. <u>CEO AND EXECUTIVE COMPENSATION</u>

The Compensation Committee receives the approved CEO evaluation document to use in compensation decisions. The Compensation Committee is responsible for all matters pertaining to executive compensation, including that of the CEO, and makes recommendations to the full board for final approvals. The CEO may not be present during voting on or deliberations regarding his/her compensation.

D. <u>CEO SUCCESSION PLANNING AND DEVELOPMENT</u>

The board believes in the merit of developing talent from within in order to preserve the legacy of the organization and to ensure that the culture supports the strategy. Therefore, the Executive and Corporate Governance Committee is responsible for ensuring that effective CEO succession planning and development processes are in place in the Company. The committee shall review the status of the processes with the Board at least annually. Furthermore, the Executive and Corporate Governance Committee shall always be apprised of the chairman's and the CEO's recommendation as a CEO successor should he or she become disabled or otherwise unable to perform the duties of the office.

E. EXECUTIVE SUCCESSION PLANNING AND DEVELOPMENT

The Compensation Committee is also responsible for assuring that the Company has a process in place to insure that a pool of talent is being continually and appropriately developed, in alignment with the strategy, for all executive officers. The Compensation Committee shall periodically review the status of the process with the board.

F. EXPECTATIONS OF MANAGEMENT

The board has the following expectations of management:

- Preserve the legacy and values of the Company;
- Create a market franchise that continues to build shareholder wealth over time;
- Develop and execute strong and appropriate strategic and operating plans;
- Maintain control of effective and efficient operations that compare favorably with peers;
- Maintain sound risk management programs;
- Model strong, ethical, and principled leadership in a way that creates the culture needed to support the strategy;
- Maintain management development and succession planning processes to ensure the depth and breadth of talent needed for the future;
- Interact with the board in an open and collaborative partnership;
- Keep the board regularly informed about the progress of key initiatives and programs;
- Provide the board with sufficient information, in a timely fashion and in a user-friendly format, so the board can fulfill its responsibilities; and
- Insure compliance with all applicable laws and regulations.

VI. BOARD GOVERNANCE AND EVALUATION

A. DEVELOPING OR AMENDING BOARD POLICY

Governance policy of the board may be developed or amended with approval of the board and in conformance with the bylaws of the corporation. The operation of the board is a dynamic and evolving process. As such, these governance policies are reviewed annually by the Executive and Governance Committee. No policy can cover each and every issue that may surface, but these governance policies set the proper tone for the operation of the board and assist the board in fulfilling its obligations to shareholders and other constituencies. In the event of a conflict between these governance policies and applicable laws or regulations or the articles of incorporation or bylaws of the Company, it is the board's intention that the laws, regulations or other legal documents should govern.

B. **BOARD EVALUATION PROCESS**

The board is committed to fulfilling its accountability for responsible governance. Therefore, the board will regularly measure its effectiveness through the administration of the board-approved full board evaluation and individual director evaluation processes.

* * * *

The foregoing Corporate Governance Policy, as revised, was approved and duly adopted by unanimous resolution of the board of directors of Sandy Spring Bancorp, Inc., a Maryland corporation, at its regular meeting of January 29, 2014.

/s/ R.E. Kuykendall
Secretary