SANDY SPRING BANCORP INC
Form 10-Q
November 07, 2008

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 September 30, 2008

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 (State of incorporation)	52-1532952 (I.R.S. Employer Identification Number)
17801 Georgia Avenue, Olney, Maryland 20832 (Address of principal office) (Zip Code)	301-774-6400 (Telephone Number)

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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 shares of common stock outstanding as of October 20, 2008 is 16,436,876 shares.

SANDY SPRING BANCORP, INC.
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PART I - FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
Sandy Spring Bancorp, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	(Unaudited) September 30, 2008	December 31, 2007
ASSETS		
Cash and due from banks	$ 55,321	$ 63,432
Federal funds sold	19,712	22,055
Interest-bearing deposits with banks	483	365
Cash and cash equivalents	75,516	85,852
Residential mortgage loans held for sale (at fair value)	4,541	7,089
Investments available-for-sale (at fair value)	206,898	186,801
Investments held-to-maturity — fair value of $181,734 (2008) and $240,995 (2007)	178,690	234,706
Other equity securities	32,347	23,766
Total loans and leases	2,482,418	2,277,031
Less: allowance for loan and lease losses	(38,266)	(25,092)
Net loans and leases	2,444,152	2,251,939
Premises and equipment, net	52,441	54,457
Accrued interest receivable	12,491	14,955
Goodwill	75,701	76,585
Other intangible assets, net	13,286	16,630
Other real estate owned	1,698	461
Other assets	97,356	90,712
Total assets	$ 3,195,117	$ 3,043,953
LIABILITIES		
Noninterest-bearing deposits	$ 468,101	$ 434,053
Interest-bearing deposits	1,780,711	1,839,815
Total deposits	2,248,812	2,273,868
Short-term borrowings	484,595	373,972
Long-term borrowings	76,828	17,553
Subordinated debentures	35,000	35,000
Accrued interest payable and other liabilities	30,182	27,920
Total liabilities	2,875,417	2,728,313
STOCKHOLDERS' EQUITY		
Common stock — par value $1.00; shares authorized 50,000,000; shares issued and outstanding 16,383,671 (2008) and 16,349,317 (2007)	16,384	16,349
Additional paid in capital	85,065	83,970
Retained earnings	222,126	216,376
Accumulated other comprehensive loss	(3,875)	(1,055)
Total stockholders' equity	319,700	315,640
Total liabilities and stockholders' equity	$ 3,195,117	$ 3,043,953

See Notes to Consolidated Financial Statements.

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Sandy Spring Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Interest Income:				
Interest and fees on loans and leases	$ 37,263	$ 39,789	$ 112,428	$ 112,756
Interest on loans held for sale	100	234	318	701
Interest on deposits with banks	6	590	79	1,081
Interest and dividends on securities:				
Taxable	3,171	3,211	7,749	10,832
Exempt from federal income taxes	1,409	2,468	6,712	7,776
Interest on federal funds sold	99	666	529	1,720
TOTAL INTEREST INCOME	42,048	46,958	127,815	134,866
Interest Expense:				
Interest on deposits	9,325	15,898	32,930	45,263
Interest on short-term borrowings	3,544	3,198	9,886	10,265
Interest on long-term borrowings	1,092	650	3,214	1,912
TOTAL INTEREST EXPENSE	13,961	19,746	46,030	57,440
NET INTEREST INCOME	28,087	27,212	81,785	77,426
Provision for loan and lease losses	6,545	750	15,401	2,369
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	21,542	26,462	66,384	75,057
Noninterest Income:				
Securities gains	9	22	662	28
Service charges on deposit accounts	3,249	2,999	9,481	7,937
Gains on sales of mortgage loans	397	738	1,772	2,149
Fees on sales of investment products	820	765	2,547	2,471
Trust and investment management fees	2,380	2,365	7,282	7,007
Insurance agency commissions	1,282	1,294	4,725	5,422
Income from bank owned life insurance	742	720	2,183	2,097
Visa check fees	727	730	2,184	2,037
Other income	1,273	1,497	4,434	3,761
TOTAL NONINTEREST INCOME	10,879	11,130	35,270	32,909
Noninterest Expenses:				
Salaries and employee benefits	11,949	14,654	39,574	41,864
Occupancy expense of premises	2,732	2,946	8,150	8,072
Equipment expenses	1,515	1,631	4,514	4,734
Marketing	526	359	1,511	1,563
Outside data services	1,116	870	3,319	2,873
Amortization of intangible assets	1,103	1,123	3,344	2,956
Goodwill impairment charge	2,250	0	2,250	0
Other expenses	4,076	4,316	12,194	12,410
TOTAL NONINTEREST EXPENSES	25,267	25,899	74,856	74,472
Income Before Income Taxes	7,154	11,693	26,798	33,494
Income Tax Expense	1,795	3,512	7,583	9,599

NET INCOME	$	5,359	$	8,181	$	19,215	$	23,895

See Notes to Consolidated Financial Statements.

Sandy Spring Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED) (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2008	2007	2008	2007
Basic Net Income Per Share	$ 0.33	$ 0.50	$ 1.18	$ 1.50
Diluted Net Income Per Share	0.33	0.50	1.17	1.50
Dividends Declared Per Share	0.24	0.23	0.72	0.69

See Notes to Consolidated Financial Statements.

Sandy Spring Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
(Dollars in thousands)	2008	2007
Cash flows from operating activities:		
Net income	$ 19,215	$ 23,895
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,420	7,805
Provision for loan and lease losses	15,401	2,369
Stock compensation expense	551	848
Deferred income tax benefits	(5,401)	(2,564)
Origination of loans held for sale	(136,330)	(234,298)
Proceeds from sales of loans held for sale	140,614	240,944
Gains on sales of loans held for sale	(1,772)	(2,149)
Securities gains	(662)	(28)
Gains on sales of premises and equipment	(66)	0
Net decrease in accrued interest receivable	2,464	967
Net increase in other assets	(344)	(3,535)
Net decrease in accrued expenses and other liabilities	2,262	3,561
Other – net	(4,566)	(2,063)
Net cash provided by operating activities	41,786	35,752
Cash flows from investing activities:		
Proceeds (purchases) of other equity securities	(8,581)	392
Purchases of investments available-for-sale	(176,327)	(19,045)
Proceeds from the sales of other real estate owned	240	(149)
Proceeds from maturities, calls and principal payments of investments held-to-maturity	56,065	33,547
Proceeds from maturities, calls and principal payments of investments available-for-sale	152,748	133,981
Net increase in loans and leases	(206,858)	(101,448)
Proceeds from redemption of VISA stock	429	0
Contingent consideration payout	(1,620)	0
Acquisition of business activity, net	0	(15,769)
Expenditures for premises and equipment	(1,821)	(3,757)
Net cash (used) provided in investing activities	(185,725)	27,752
Cash flows from financing activities:		
Net decrease in deposits	(25,056)	(50,797)
Net increase (decrease) in short-term borrowings	109,898	(35,717)
Proceeds from issuance of long-term borrowings	60,000	0
Retirement of long-term borrowings	0	(64)
Common stock purchased and retired	0	(1,494)
Proceeds from issuance of common stock	579	1,437
Dividends paid	(11,818)	(11,210)
Net cash (used) provided by financing activities	133,603	(97,845)
Net decrease in cash and cash equivalents	(10,336)	(34,341)
Cash and cash equivalents at beginning of period	85,852	106,897
Cash and cash equivalents at end of period	$ 75,516	$ 72,556

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Sandy Spring Bancorp and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)

	Nine Months Ended September 30,			
(Dollars in thousands)	2008		2007	
Supplemental Disclosures:				
Interest payments	$	45,597	$	57,437
Income tax payments		13,715		3,974
Transfers from loans to other real estate owned		1,471		90
Reclassification of borrowings from long-term to short-term		725		568
Details of acquisition:				
Fair value of assets acquired		0	$	417,434
Fair value of liabilities assumed		0		(365,709)
Stock issued for acquisition		0		(58,916)
Purchase price in excess of net assets acquired		0		62,640
Cash paid for acquisition		0		55,449
Cash and cash equivalents acquired with acquisition		0		(39,680)
Acquisition of business activity, net	$	0	$	15,769

See Notes to Consolidated Financial Statements.

Sandy Spring Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(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 December 31, 2007	$ 16,349	$ 83,970	$ 216,376	$ (1,055)	$ 315,640
Adjustment to reflect adoption of EITF Issue 06-04 effective January 1, 2008			(1,647)		(1,647)
Balance as of January 1, 2008 following adoption of EITF Issue 06-04	16,349	83,970	214,729	$ (1,055)	313,993
Comprehensive income:					
Net income			19,215		19,215
Other comprehensive income, net of tax effects and reclassification adjustment				(2,820)	(2,820)
Total comprehensive income					16,395
Cash dividends - $0.72 per share			(11,818)		(11,818)
Stock compensation expense		551			551
Common stock issued pursuant to:					
Director stock purchase plan – 1,479 shares	2	38			40
Stock option plan – 9,127 shares (16,837 shares issued less 7,710 shares retired)	9	53			62
Employee stock purchase plan – 23,748 shares	24	453			477
Balances at September 30, 2008	$ 16,384	$ 85,065	$ 222,126	$ (3,875)	$ 319,700
Balances at December 31, 2006	$ 14,827	$ 27,869	$ 199,102	$ (4,021)	$ 237,777
Comprehensive income:					
Net income			23,895		23,895
Other comprehensive loss, net of tax effects				455	455
Total comprehensive income					24,350
Cash dividends - $0.69 per share			(11,210)		(11,210)
Stock Compensation Expense		848			848
Common stock issuance pursuant to:					
Acquisition of Potomac Bank - 886,989 shares	887	32,190			33,077
Acquisition of County National Bank - 690,047 shares	690	25,149			25,839
Director stock purchase plan – 2,402 shares	2	75			77
Stock option plan – 51,797 shares (55,205 shares issued less 3,408 shares retired)	52	810			862
Stock repurchases- 54,838 shares	(55)	(1,439)			(1,494)
Employee stock purchase plan – 17,709 shares	18	480			498
Balances at September 30, 2007	$ 16,421	$ 85,982	$ 211,787	$ (3,566)	$ 310,624

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – General

The accompanying financial statements are unaudited. 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. These statements should be read in conjunction with the financial statements and accompanying notes included in Sandy Spring Bancorp's 2007 Annual Report on Form 10-K. There have been no significant changes to the Company’s accounting policies as disclosed in the 2007 Annual Report on Form 10-K. The results shown in this interim report are not necessarily indicative of results to be expected for the full year 2008.

The accounting and reporting policies of Sandy Spring Bancorp, Inc. (the "Company") and its wholly-owned subsidiary, Sandy Spring Bank (the “Bank”), together with its subsidiaries, Sandy Spring Insurance Corporation, The Equipment Leasing Company, and West Financial Services, Inc., conform to accounting principles generally accepted in the United States of America and to general practices within the financial services industry. Certain reclassifications have been made to amounts previously reported to conform to current classifications.

Consolidation has resulted in the elimination of all significant intercompany accounts and transactions.

Cash Flows

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

Note 2 – Acquisitions

On February 15, 2007, the Company completed the acquisition of Potomac Bank of Virginia (“Potomac”), a bank headquartered in Fairfax, Virginia. Potomac operated five branch offices in the Northern Virginia metropolitan market at the time of the acquisition. The primary reason for the merger with Potomac was to gain entry into the northern Virginia high growth market. The total consideration paid to Potomac shareholders in connection with the acquisition was $68.2 million. The results of Potomac’s operations have been included in the Company’s consolidated financial results subsequent to February 15, 2007. The assets and liabilities of Potomac were recorded on the Consolidated Balance Sheet at their respective fair values. The fair values were determined as of February 15, 2007. The transaction resulted in total assets acquired as of February 15, 2007 of $252.5 million, including approximately $196.0 million of loans and leases; liabilities assumed were $225.0 million, including $197.0 million of deposits. Additionally, the Company recorded $39.9 million of goodwill, $5.1 million of core deposit intangibles (“CDI”) and $0.3 million of other intangibles. CDI is subject to amortization and is being amortized over seven years on a straight-line basis.

On May 31, 2007, the Company completed the acquisition of CN Bancorp Inc. (“CNB”) and it’s wholly owned subsidiary, County National Bank (“County”). County was headquartered in Glen Burnie, Maryland, and had four full-service branches located in Anne Arundel County, Maryland at the time of acquisition. The primary reason for the merger with CNB was to expand the Company’s Maryland footprint. The total consideration paid to CNB shareholder’s and related merger costs in connection with the acquisition was $46.1 million. The results of CNB’s operations have been included in the Company’s financial results subsequent to May 31, 2007. The assets and liabilities of CNB were recorded on the Consolidated Balance Sheet at their respective fair values. The fair values were determined as of May 31, 2007. The transaction resulted in total assets acquired as of May 31, 2007 of $164.9 million, including approximately $98.7 million of loans; liabilities assumed were $141.4 million, including $138.4 million of deposits. Additionally, the Company recorded $22.9 million of goodwill, $4.6 million of CDI and $0.1 million of other intangibles. CDI is subject to amortization and is being amortized over seven years on a straight-line basis.

The acquisition of Potomac and CNB, individually and in the aggregate, are considered immaterial for purposes of the disclosures required by SFAS No. 141, “Business Combinations.”

Note 3 - New Accounting Pronouncements

Adopted Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), *"Accounting for Uncertainty in Income Taxes*." This interpretation applies to all tax positions accounted for in accordance with SFAS No. 109, *"Accounting for Income Taxes."* FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. In addition, the Statement provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition for tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006. The adoption of this Statement did not have a material impact on the Company's financial position, results of operations or cash flows.

At its September 2006 meeting, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue 06-04, "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*." The consensus stipulates that an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under SFAS No. 106, "*Employers' Accounting for Postretirement Benefits Other Than Pensions*" or Accounting Principles Board Opinion ("APB") No. 12, "*Omnibus Opinion - 1967*." The consensus concludes that the purchase of a split-dollar life insurance policy does not constitute a settlement under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12, if it is not part of a plan. Issue 06-04 is effective for annual or interim reporting periods beginning after December 15, 2007. The Company has endorsement split-dollar life insurance policies totaling $21.5 million as of September 30, 2008 and recorded a liability and a corresponding reduction of retained earnings of $1.6 million on January 1, 2008.

In September 2006, the FASB issued Statement No. 158, ("SFAS No. 158"), "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)*." SFAS No. 158 requires a company that sponsors a postretirement benefit plan to fully recognize, as an asset or liability, the over-funded or under-funded status of its benefit plan in its balance sheet. The funded status is measured as the difference between the fair value of the plan's assets and its benefit obligation (projected benefit obligation for pension plans and accumulated postretirement benefit obligation for other postretirement benefit plans). In years prior to 2006, the funded status of such plans was reported in the notes to the financial statements. This provision is effective for public companies for fiscal years ending after December 15, 2006. In addition, SFAS No. 158 also requires a company to measure its plan assets and benefit obligations as of its year-end balance sheet date. This requirement will have no effect since the Company currently measures such plan assets and benefit obligations as of its year-end balance sheet date. Currently, a company is permitted to choose a measurement date up to three months prior to its year-end to measure the plan assets and obligations. This provision is now effective for all companies for fiscal years ending after December 15, 2008. The Company adopted SFAS No. 158 as of December 31, 2006. At December 31, 2006, the projected benefit obligation of its defined benefit pension plan exceeded the fair value of plan assets by $1.9 million and such amount is included in "Accrued interest payable and other liabilities" in the Consolidated Balance Sheet as of that date. Due primarily to a plan curtailment effective December 31, 2007, the fair value of plan assets exceeded the projected benefit obligation of the defined benefit plan by $0.9 million at December 31, 2007. Accordingly, such amount is included in "Other Assets" in the Consolidated Balance Sheet as of December 31, 2007.

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements."* This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. This Statement does not require any

new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, "*Effective Date of FASB Statement No.157.*" This FSP defers the effective date of SFAS No.157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of this Statement did not have a material impact on the Company's financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*". This Statement permits companies to elect to follow fair value accounting for certain financial assets and liabilities in an effort to mitigate volatility in earnings without having to apply complex hedge accounting provisions. The Statement also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. The effective date of SFAS No. 159 is for fiscal years beginning after November 15, 2007. The adoption of this Statement did not have a material impact on the Company's financial position, results of operations or cash flows.

In March 2007, the FASB ratified EITF Issue No. 06-11, "*Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*." EITF 06-11 requires companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings and paid to employees for nonvested equity-classified employee share-based payment awards as an increase to additional paid-in-capital. EITF 06-11 is effective for fiscal years beginning after September 15, 2007. The adoption of this issue did not have a material impact on the Company's financial position, results of operations or cash flows.

In December 2007, the Securities and Exchange Commission staff released Staff Accounting Bulletin ("SAB") 109, "*Written Loan Commitments Recorded at Fair Value Through Earnings*." This SAB supersedes SAB 105 and expresses the current view that, consistent with the guidance in SFAS No. 156 and SFAS No. 159, the expected net future cash flows related to the associated servicing of a loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The staff expects registrants to apply the views of SAB 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The adoption of this SAB did not have a material impact on the Company's financial position, results of operations or cash flows.

Pending Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "*Business Combinations*" ("SFAS 141(R)"). This Statement replaces SFAS No. 141, "*Business Combinations*" ("SFAS 141"). SFAS No.141(R), among other things, establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired business, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company is required to adopt SFAS No. 141(R) for all business combinations for which the acquisition date is on or after January 1, 2009. Earlier adoption is prohibited. The Statement will change the Company's accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51*." This Statement establishes accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. Minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. The Statement also establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary and requires expanded disclosures. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 with earlier adoption prohibited. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133*." This Statement amends and expands the disclosure requirements of SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*." The Statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains

and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, "The *Hierarchy of Generally Accepted Principles*." This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles ("GAAP") in the United States. The Statement is directed to entities rather than auditors because entities are responsible for the selection of accounting principles for financial statements that are presented in conformity with GAAP. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "*The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*." The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operations or cash flows.

Note 4 – Stock Based Compensation

At September 30, 2008, the Company had three stock-based compensation plans in existence, the 1992 and 1999 stock option plans (both expired but having outstanding options that may still be exercised) and the 2005 Omnibus Stock Plan, which is described below.

The Company's 2005 Omnibus Stock Plan ("Omnibus Plan") provides for the granting of non-qualifying stock options to the Company's directors, and incentive and non-qualifying stock options, stock appreciation rights and restricted stock grants to selected key employees on a periodic basis at the discretion of the Board. The Omnibus Plan authorizes the issuance of up to 1,800,000 shares of common stock of which 1,280,880 are available for issuance at September 30, 2008, 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 Stock Option Committee has the discretion when making a grant of stock options to impose restrictions on the shares to be purchased in exercise of such options. Outstanding options granted under the expired 1992 and 1999 Stock Option Plans will continue until exercise or expiration.

Effective March 26, 2008, the Board of Directors approved the granting of 116,360 stock options, subject to a three year vesting schedule with one third of the options vesting each year as of March 26, 2009, 2010, and 2011, respectively. In addition, on March 26, 2008, the Board of Directors granted 28,675 restricted shares subject to a five year vesting schedule with one fifth of the shares vesting each year as of March 26, 2009, 2010, 2011, 2012, and 2013, respectively. Compensation expense is recognized on a straight-line basis over the stock option or restricted stock vesting period. The fair value based method for expense recognition of employee awards resulted in expense of approximately $0.2 million, net of a tax benefit of approximately $9 thousand and $0.3 million, net of tax benefit of $15 thousand, for the three month periods ended September 30, 2008 and 2007, respectively and $0.6 million , net of a tax benefit of approximately $21 thousand and $0.8 million, net of a tax benefit of approximately $44 thousand, for the nine month periods ended September 30, 2008 and 2007, respectively.

Grants for 2,500 stock options and 500 restricted shares were awarded during the nine month period ended September 30, 2007.

The fair values of all of the options granted have been estimated using a binomial option-pricing model.

The total intrinsic value of options exercised during the nine months ended September 30, 2008 and 2007 was $0.2 million and $0.8 million, respectively

A summary of share option activity for the nine month period ended September 30, 2008 follows:

(Dollars in thousands, except per share data):	Number of Shares	Weighted Average Exercised Share Price	Weighted Average Remaining Contractual Life(Years)	Aggregate Intrinsic Value
Balance at January 1, 2008	996,365	$ 33.72	5.3	$ 1,588
Granted	116,360	27.96	6.5	
Exercised	(16,837)	16.55	4.3	
Forfeited or expired	(76,937)	32.68	5.0	
Balance at September 30, 2008	1,018,951	$ 33.41	4.7	$ 654
Exercisable at September 30, 2008	839,796	$ 33.86		$ 654

A summary of the status of the Company's nonvested options as of September 30, 2008, and changes during the nine month period then ended, is presented below:

	Number Of Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2008	72,221	$ 8.11
Granted	116,360	4.47
Vested	0	0
Forfeited	(9,426)	6.71
Nonvested at September 30, 2008	179,155	$ 5.82

A summary of the status of the Company's nonvested restricted stock as of September 30, 2008, and changes during the nine month period then ended, is presented below:

	Number Of Shares	Weighted Average Grant-Date Fair Value
Restricted stock at January 1, 2008	24,746	$ 37.14
Granted	28,675	27.96
Vested	0	0
Exercised	(167)	16.34
Forfeited	(2,520)	34.21
Restricted stock at September 30, 2008	50,734	$ 32.11

The number of options, exercise prices, and fair values has been retroactively restated for all stock dividends occurring since the date the options were granted.

The total of unrecognized compensation cost related to nonvested share-based compensation arrangements was approximately $2.2 million as of September 30, 2008. That cost is expected to be recognized over a weighted average period of approximately 3.2 years.

The Company generally issues authorized but previously unissued shares to satisfy option exercises.

Note 5 - Per Share Data

The calculations of net income per common share for the three and nine month periods ended September 30, 2008 and 2007 are shown in the following table. Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding and does not include the impact of any potentially dilutive common stock equivalents. The diluted earnings per share calculation method is derived by dividing net income available to common stockholders by the weighted average number of common shares outstanding adjusted for the dilutive effect of outstanding stock options and restricted stock, the unamortized compensation cost of stock options, and the accumulated tax benefit or shortfall that would be credited or charged to additional paid in capital.

(Dollars and amounts in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Basic:				
Net income available to common stockholders	$ 5,359	$ 8,181	$ 19,215	$ 23,895
Average common shares outstanding	16,380	16,435	16,367	15,897
Basic net income per share	$ 0.33	$ 0.50	$ 1.18	$ 1.50
Diluted:				
Net income available to common stockholders	$ 5,359	$ 8,181	$ 19,215	$ 23,895
Average common shares outstanding	16,380	16,435	16,367	15,897
Stock option and restricted stock adjustment	39	74	52	83
Average common shares outstanding–diluted	16,419	16,509	16,419	15,980
Diluted net income per share	$ 0.33	$ 0.50	$ 1.17	$ 1.50

Options for 923,621 shares and 655,342 shares of common stock were not included in computing diluted net income per share for the nine month periods ended September 30, 2008 and 2007, respectively, because their effects are antidilutive. For the three months ended September 30, 2008 and 2007, options for 908,661 shares and 849,970 shares of common stock were not included, respectively.

Note 6 - Pension, Profit Sharing, and Other Employee Benefit Plans

Defined Benefit Pension Plan

The Company has a qualified, noncontributory, defined benefit pension plan covering substantially all employees. 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. On November 14, 2007, the Company informed employees that the plan would be frozen for new and existing entrants after December 31, 2007. All benefit accruals for employees were frozen as of December 31, 2007 based on past service and thus future salary increases will 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 Company, with input from its actuaries, estimates that the 2008 contribution will be approximately $1.5 million.

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Net periodic benefit cost for the three and nine month periods ended September 30 includes the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2008	2007	2008	2007
Service cost for benefits earned	$ 0	$ 320	$ 0	$ 960
Interest cost on projected benefit obligation	356	341	1,066	1,023
Expected return on plan assets	(326)	(379)	(978)	(1,137)
Amortization of prior service cost	(1,501)	(44)	(1,589)	(132)
Recognized net actuarial loss	97	136	295	408
Net periodic benefit cost	$ (1,374)	$ 374	$ (1,206)	$ 1,122

During the third quarter of 2008 the Company recorded a $1.5 million credit to the net periodic benefit cost of its defined benefit pension plan. This credit was to record a previously unrecorded immaterial adjustment identified during the prior year audit and was necessary to eliminate the accrued prior service costs relating to the plan. The Company determined in the prior year that this adjustment was immaterial to the results of operations and continues to believe that this adjustment is immaterial to both the interim and annual periods of the current year.

Cash and Deferred Profit Sharing Plan

The Company has a qualified Cash and Deferred Profit Sharing Plan that includes a 401(k) provision with a Company match. Effective January 1, 2007 the Company revised the Plan to eliminate the deferral option and require an all-cash payout of any profit sharing distributions beginning in 2007. The 401(k) provision is voluntary and covers all eligible employees after ninety days of service. Employees contributing to the 401(k) provision receive a matching contribution of 100% of the first 3% of compensation and 50% of the next 2% of compensation subject to employee contribution limitations. The Company match vests immediately. The Plan permits employees to purchase shares of Sandy Spring Bancorp, Inc. common stock with their 401(k) contributions, Company match, and other contributions under the Plan. Profit sharing contributions and the Company match are included in noninterest expenses and totaled $1.1 million and $1.2 million for the nine month periods ended September 30, 2008 and 2007, respectively, and $0.4 million and $0.3 million for the three month periods ended September 30, 2008 and 2007, respectively.

The Company also had a performance based compensation benefit in 2007 that at one time was integrated with the Cash and Deferred Profit Sharing Plan and provided incentives to employees based on the Company’s financial results as measured against key performance indicator goals set by management. Payments were made annually and amounts included in noninterest expense under the plan amounted to $0.0 million for the three and nine month periods ended September 30, 2007. For 2008, this incentive plan has been replaced with a new short-term incentive plan named the Sandy Spring Leadership Incentive Plan. It will provide a cash bonus to key members of management based on the Company’s financial results using a weighted formula. The expense for this plan is included in noninterest expenses and totaled $0.0 million and $0.4 million for the three and nine month periods ended September 30, 2008, respectively.

Supplemental Executive Retirement Agreements

In past years, the Company had Supplemental Executive Retirement Agreements ("SERAs") with its executive officers providing for retirement income benefits as well as pre-retirement death benefits. Retirement benefits payable under the SERAs, if any, were integrated with other pension plan and Social Security retirement benefits expected to be received by the executive. The Company accrued the present value of these benefits over the remaining number of

years to the executives' retirement dates. Effective January 1, 2008, these agreements were replaced with a defined contribution plan, the “Executive Incentive Retirement Plan” or “the Plan”. Benefits under the SERAs were reduced to a fixed amount as of December 31, 2007, and those amounts accrued were transferred to the new plan on behalf of each participant. Additionally, under the new Plan, officers designated by the board of directors earn a deferral bonus which is accrued annually based on the Company’s financial performance compared to a selected group of peer banks. For current participants, accruals after January 1, 2008 vest immediately. Amounts transferred to the plan from the SERAs on behalf of each participant continue to vest based on years of service. The Company had expenses related to the new Plan of $0.2 million and $0.6 million for the three and nine month periods ended September 30, 2008, respectively and $0.2 million and $0.7 million for the SERAs for the three and nine month periods ended September 30, 2007.

Executive Health Insurance Plan

In past years, the Company had an Executive Health Insurance Plan that provided for payment of defined medical and dental expenses not otherwise covered by insurance for selected executives and their families. Benefits, which were paid during both employment and retirement, were subject to a $6,500 limitation for each executive per year. Effective January 1, 2008 this plan was eliminated with respect to all active executives and liabilities accrued for such payments upon retirement by such executives were reversed which resulted in income in 2007 of $0.4 million. Currently retired executives who retired while the Plan was in effect will continue to receive this benefit. The Company had expenses related to the Executive Health Insurance Plan of $0 and $0.1 million for the nine month periods ended September 30, 2008 and 2007, and $0 and $28 thousand for the three month periods ended September 30, 2008 and 2007, respectively.

Note 7 – Unrealized Losses on Investments

Shown below is information that summarizes the gross unrealized losses and fair value for the Company's available-for-sale and held-to-maturity investment portfolios.

Gross unrealized losses and fair value by length of time that the individual available-for-sale securities have been in a continuous unrealized loss position at September 30, 2008 and December 31, 2007 are as follows:

(In thousands) Available for sale as of September 30, 2008	Fair Value	Continuous unrealized losses existing for: Less than 12 months	More than 12 months	Total Unrealized Losses
U.S. Agencies and Corporations	$ 64,675	$ 300	$ 0	$ 300
Mortgage-backed	73,080	665	6	671
CMO	648	1	0	1
Trust preferred	5,327	1,256	0	1,256
State and municipal	1,129	43	0	43
	$ 144,859	$ 2,265	$ 6	$ 2,271

(In thousands) Available for sale as of December 31, 2007	Fair Value	Continuous unrealized losses existing for: Less than 12 months	More than 12 months	Total Unrealized Losses
U.S. Agencies and Corporations	$ 20,925	$ 0	$ 99	$ 99
Mortgage-backed	12,554	43	4	47
	$ 33,479	$ 43	$ 103	$ 146

Approximately 96% of the bonds carried in the available-for-sale investment portfolio with continuous unrealized losses as of September 30, 2008 are rated AAA, 3% are rated A1 and 1% are not rated. Approximately 100% of the bonds carried in the available for sale portfolio with continuous unrealized losses as of December 31, 2007 are rated AAA. The securities representing the unrealized losses in the available-for-sale investment portfolio as of September 30, 2008 all have minimal duration risk (2.71 years), low credit risk and minimal loss (approximately 1.54%) when compared to book value. The securities representing the unrealized losses in the available-for-sale investment portfolio as of December 31, 2007, all have minimal duration risk (1.14 years) , low credit risk, and minimal loss (approximately 0.43%) when compared to book value. The unrealized losses that exist are the result of market changes in interest rates since the original purchase. These factors coupled with the Company's intent and ability to

hold these investments for a sufficient period of time, which may be to maturity, to allow for any anticipated recovery in fair value substantiates that the unrealized losses in the available-for-sale portfolio are temporary.

Gross unrealized losses and fair value by length of time that the individual held-to-maturity securities have been in a continuous unrealized loss position at September 30, 2008 and December 31, 2007 are as follows:

(In thousands) Held to Maturity as of September 30, 2008	Fair Value	Continuous unrealized losses existing for: Less than 12 months	More than 12 months	Total Unrealized Losses
State and municipal	26,062	903	0	903
	$ 26,062	$ 903	$ 0	$ 903

(In thousands) Held to Maturity as of December 31, 2007	Fair Value	Continuous unrealized losses existing for: Less than 12 months	More than 12 months	Total Unrealized Losses
State and municipal	$ 3,340	$ 1	$ 31	$ 32
	$ 3,340	$ 1	$ 31	$ 32

Approximately 13% of the bonds carried in the held-to-maturity portfolio with continuous unrealized losses as of September 30, 2008 are rated AAA, 22% are rated Aa2, and 65% are rated A1. Approximately 92% of the bonds carried in the held-to-maturity investment portfolio with continuous unrealized losses as of December 31, 2007 are rated AAA and 8% are rated AA1. The securities representing the unrealized losses in the held-to-maturity portfolio as of September 30, 2008 all have moderate duration risk (4.36 years), low credit risk and minimal loss (approximately 3.35%) when compared to book value. The securities representing the unrealized losses in the held-to-maturity portfolio as of December 31, 2007, all have modest duration risk of 4.69 years , low credit risk, and minimal loss (approximately 1%) when compared to book value. The unrealized losses that exist are the result of market changes in interest rates since the original purchase. These factors coupled with the Company's intent and ability to hold these investments for a sufficient period of time, which may be to maturity, to allow for any anticipated recovery in fair value substantiates that the unrealized losses in the held-to-maturity portfolio are temporary.

Note 8 - Segment Reporting

The Company operates in four operating segments—Community Banking, Insurance, Leasing, and Investment Management. Only Community Banking currently meets the threshold for segment reporting; however, the Company is disclosing separate information for all four operating segments. Each of the operating segments is a strategic business unit that offers different products and services. The Insurance, Leasing, and Investment Management segments are businesses that were acquired in separate transactions where management at the time of acquisition was retained. The accounting policies of the segments are the same as those described in Note 1 to the consolidated financial statements included in the 2007 Annual Report on Form 10-K. However, the segment data reflect intersegment transactions and balances.

The Community Banking segment is conducted through Sandy Spring Bank and involves delivering a broad range of financial products and services, including various loan and deposit products to both individuals and businesses. Parent company income is included in the Community Banking segment, as the majority of parent company activities are related to this segment. Major revenue sources include net interest income, gains on sales of mortgage loans, trust income, fees on sales of investment products and service charges on deposit accounts. Expenses include personnel, occupancy, marketing, equipment and other expenses. Included in Community Banking expenses are noncash charges associated with amortization of intangibles related to acquired entities totaling $0.6 million and $1.0 million for the three month periods ended September 30, 2008 and 2007, respectively. For the nine month periods ended September 30, 2008 and 2007, the amortization related to acquired entities totaled $2.5 million and $2.1 million, respectively.

The Insurance segment is conducted through Sandy Spring Insurance Corporation, a subsidiary of the Bank, and offers annuities as an alternative to traditional deposit accounts. In addition, Sandy Spring Insurance Corporation operates the Chesapeake Insurance Group and Wolfe and Reichelt Insurance Agency, general insurance agencies located in Annapolis, Maryland, and Neff & Associates, located in Ocean City, Maryland. Major sources of revenue are insurance commissions from commercial lines and personal lines. Expenses include personnel and support charges. Included in insurance expenses are non-cash charges associated with amortization of intangibles totaling $0.1 million for both of the three month periods ended September 30, 2008 and 2007. For both of the nine month periods ended September 30, 2008 and 2007, amortization related to acquired entities totaled $0.3 million.

The Leasing segment is conducted through The Equipment Leasing Company, a subsidiary of the Bank that provides leases for essential commercial equipment used by small to medium sized businesses. Equipment leasing is conducted through vendor relations and direct solicitation to end-users located primarily in states along the east coast from New Jersey to Florida. The typical lease is categorized as a financing lease and is characterized as a "small ticket" by industry standards, averaging less than $100 thousand, with individual leases generally not exceeding $500 thousand. Major revenue sources include interest income. Expenses include personnel and support charges.

As the result of the departure of The Equipment Leasing Company's President in September 2008, the Company determined a triggering event had occurred and began a two phase impairment analysis of goodwill. The Phase I analysis utilized both the Income approach (discounted future cash flow analysis) and the Market approach (using price to earnings multiples of comparable companies). The results obtained from the Phase I analysis indicated a potential impairment might exist and to determine the amount of impairment a Phase II analysis would need to be performed. Phase II of the analysis has not yet been completed but is anticipated to be completed during the fourth quarter of 2008. The Company recorded an estimated impairment charge based on the completion of Phase I of $2.3 million and will make an appropriate adjustment upon the completion of Phase II, if warranted. As of September 30, 2008 goodwill remaining at ELC after the $2.3 million impairment charge was $1.9 million. The impairment charge was recorded in the income statement under the caption "Goodwill impairment charge".

The Investment Management segment is conducted through West Financial Services, Inc., a subsidiary of the Bank that was acquired in October 2005. This asset management and financial planning firm, located in McLean, Virginia, provides comprehensive financial planning to individuals, families, small businesses and associations including cash flow analysis, investment review, tax planning, retirement planning, insurance analysis and estate planning. West Financial has approximately $661.0 million in assets under management as of September 30, 2008. Major revenue sources include noninterest income earned on the above services. Expenses include personnel and support charges. Included in investment management expenses are non-cash charges associated with amortization of intangibles totaling $0.2 million for both of the three month periods ended September 30, 2008 and 2007, and $0.6 million for both of the nine month periods ended September 30, 2008 and 2007.

Information about operating segments and reconciliation of such information to the consolidated financial statements follows:

(In thousands)	Community Banking	Insurance	Leasing	Investment Mgmt.	Inter-Segment Elimination	Total
Quarter ended September 30, 2008						
Interest income	$ **41,618**	$ **8**	$ **730**	$ **6**	$ **(314)**	$ **42,048**
Interest expense	**13,975**	**0**	**300**	**0**	**(314)**	**13,961**
Provision for loan and lease losses	**6,545**	**0**	**0**	**0**	**0**	**6,545**
Noninterest income	**8,292**	**1,474**	**128**	**1,137**	**(152)**	**10,879**
Noninterest expenses	**21,033**	**1,273**	**2,301**	**812**	**(152)**	**25,267**
Income before income taxes	**8,357**	**209**	**(1,743)**	**331**	**0**	**7,154**
Income tax expense	**2,355**	**88**	**(778)**	**130**	**0**	**1,795**
Net income	$ **6,002**	$ **121**	$ **(965)**	$ **201**	$ **0**	$ **5,359**
Assets	$ **3,201,243**	$ **12,296**	$ **36,421**	$ **11,432**	$ **(66,275)**	$ **3,195,117**

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(In thousands)	Community Banking	Insurance	Leasing	Investment Mgmt.	Inter-Segment Elimination	Total
Quarter ended September 30, 2007						
Interest income	$ 46,564	$ 31	$ 676	$ 20	$ (333)	$ 46,958
Interest expense	19,795	0	284	0	(333)	19,746
Provision for loan and lease losses	750	0	0	0	0	750
Noninterest income	8,351	1,398	353	1,173	(145)	11,130
Noninterest expenses	23,308	1,503	326	907	(145)	25,899
Income before income taxes	11,062	(74)	419	286	0	11,693
Income tax expense	3,264	(29)	166	111	0	3,512
Net income	$ 7,798	$ (45)	$ 253	$ 175	$ 0	$ 8,181
Assets	$ 2,966,737	$ 11,635	$ 35,090	$ 9,327	$ (57,297)	$ 2,965,492

(In thousands)	Community Banking	Insurance	Leasing	Investment Mgmt.	Inter-Segment Elimination	Total
Year to Date September 30, 2008						
Interest income	**$ 126,515**	**$ 40**	**$ 2,186**	**$ 26**	**$ (952)**	**$ 127,815**
Interest expense	**46,095**	**0**	**887**	**0**	**(952)**	**46,030**
Provision for loan and lease losses	**15,221**	**0**	**180**	**0**	**0**	**15,401**
Noninterest income	**26,692**	**5,203**	**386**	**3,446**	**(457)**	**35,270**
Noninterest expenses	**65,608**	**4,052**	**2,988**	**2,665**	**(457)**	**74,856**
Income before income taxes	**26,283**	**1,191**	**(1,483)**	**807**	**0**	**26,798**
Income tax expense	**7,383**	**485**	**(600)**	**315**	**0**	**7,583**
Net income	**$ 18,900**	**$ 706**	**$ (883)**	**$ 492**	**$ 0**	**$ 19,215**
Assets	**$ 3,201,243**	**$ 12,296**	**$ 36,421**	**$ 11,432**	**$ (66,275)**	**$ 3,195,117**
Year to Date September 30, 2007						
Interest income	$ 133,690	$ 77	$ 1,992	$ 52	$ (945)	$ 134,866
Interest expense	57,565	0	820	0	(945)	57,440
Provision for loan and lease losses	2,369	0	0	0	0	2,369
Noninterest income	23,440	5,849	697	3,380	(457)	32,909
Noninterest expenses	67,159	4,126	838	2,806	(457)	74,472
Income before income taxes	30,037	1,800	1,031	626	0	33,494
Income tax expense	8,233	713	408	245	0	9,599
Net income	$ 21,804	$ 1,087	$ 623	$ 381	$ 0	$ 23,895
Assets	$ 2,966,737	$ 11,635	$ 35,090	$ 9,327	$ (57,297)	$ 2,965,492

Note 9 – Comprehensive Income

The components of total comprehensive income for the three and nine month periods ended September 30, 2008 and 2007 are as follows:

	For the three months ended September 30,					
	2008			2007		
(In thousands)	Pretax Amount	Tax Benefit/ (Expense)	Net Amount	Pretax Amount	Tax Benefit/ (Expense)	Net Amount
Net Income			$ 5,359			$ 8,181
Other comprehensive income:						
Unrealized holding (losses) gains arising during the period	$ (2,325)	926	(1,399)	$ 1,221	(478)	743
Reclassification adjustment for (gains) losses included in net income	(9)	4	(5)	(22)	9	(13)
Adjustment for pensions (FAS 158)	(1,404)	560	(844)	0	0	0
Total change in other comprehensive income	$ (3,738)	1,490	(2,248)	$ 1,199	(469)	730
Total comprehensive income			$ 3,111			$ 8,911

	For the nine months ended September 30,					
	2008			2007		
(In thousands)	Pretax Amount	Tax Benefit/ (Expense)	Net Amount	Pretax Amount	Tax Benefit/ (Expense)	Net Amount
Net Income			$ 19,215			$ 23,895
Other comprehensive income:						
Unrealized holding (losses) gains arising during the period	$ (2,733)	1,088	(1,645)	$ 1,421	(558)	863
Reclassification adjustment for (gains) losses included in net income	(662)	265	(397)	(28)	11	(17)
Adjustment for pensions (FAS 158)	(1,294)	516	(778)	(643)	252	(391)
Total change in other comprehensive income	$ (4,689)	1,869	(2,820)	$ 750	(295)	455
Total comprehensive income			$ 16,395			$ 24,350

Note 10- Fair Value Measurements

On February 15, 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (SFAS No. 159), which gives entities the option to measure eligible financial assets, financial liabilities and Company 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 Company commitment. Subsequent changes in fair value must be recorded in earnings.

The Company adopted SFAS No. 159 as of January 1, 2008 and elected the fair value option for residential mortgage loans held for sale. The Company believes by electing the fair value option on residential mortgage loans held for sale, it will allow the accounting for gains on sale of residential mortgage loans to more accurately reflect the timing and economics of the transaction. The effect of this adjustment was immaterial to the Company’s financial results for the nine month period ending September 30, 2008.

Simultaneously with the adoption of SFAS No, 159, the Company adopted SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”), effective January 1, 2008. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under SFAS No. 157, fair value measurements are not adjusted for transaction costs. SFAS No. 157 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 under SFAS No. 157 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.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, many other sovereign government obligations, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within level 1 or level 2 of the fair value hierarchy. As required by SFAS No. 157, the Company does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Assets Measured at Fair Value on a Recurring Basis:

The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2008
Assets				
Residential Mortgage loans held for sale	$ -	$ 4,541	$ -	$ 4,541
Investment securities, available for sale	-	206,898	-	206,898
Investment securities, held to maturity	-	181,734	-	181,734
Interest swap agreements	-	4,428	-	4,428
Liabilities				
Interest swap agreements	$ -	$ (4,428)	$ -	$ (4,428)

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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 as they 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 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2008
Assets				
Impaired Loans	$ -	$ -	$ 45,113	$ 45,113

In accordance with Statement 114, "*Accounting by Creditors for Impairment of a Loan*", the Company recognized net impairment charges totaling $6.5 million, based on the appraised value of the underlying collateral, which was included in the results of operations for the nine months ended September 30, 2008. Impaired loans totaled $52.5 million with a specific reserve of $7.4 million at September 30, 2008, compared to $21.9 million with a specific reserve of $0.9 million at December 31, 2008. Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans and is classified at a level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of real estate collateral is determined based on appraisals by qualified licensed appraisers hired by the Company. 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 managements review and analysis. Appraised and reported values may be discounted based on management's historical knowledge, 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 same factors identified above.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Sandy Spring Bancorp makes forward-looking statements in this report. These forward-looking statements may include: statements of goals, intentions, earnings expectations, and other expectations; estimates of risks and of future costs and benefits; assessments of probable loan and lease losses; assessments of market risk; and statements of the ability to achieve financial and other goals. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "intend," "outlook," "estimate," "forecast," "project" and other similar words and expression Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made. The Company does not assume any duty and does not undertake to update its forward-looking statements. Because forward-looking statements are subject to assumptions and uncertainties, actual results or future events could differ, possibly materially, from those that the Company anticipated in its forward-looking statements, and future results could differ materially from historical performance.

The Company's forward-looking statements are subject to the following principal risks and uncertainties: general economic conditions and trends, either nationally or locally; conditions in the securities markets; changes in interest rates; changes in deposit flows, and in the demand for deposit, loan, and investment products and other financial

services; changes in real estate values; changes in the quality or composition of the Company’s loan or investment portfolios; changes in competitive pressures among financial institutions or from non-financial institutions; the Company’s ability to retain key members of management; changes in legislation, regulation, and policies; and a variety of other matters which, by their nature, are subject to significant uncertainties. The Company provides greater detail regarding some of these factors in its Form 10-K for the year ended December 31, 2007, including in the Risk Factors section of that report. The Company’s forward-looking statements may also be subject to other risks and uncertainties, including those that it may discuss elsewhere in this report or in its other filings with the SEC.

THE COMPANY

The Company is the registered bank holding company for Sandy Spring Bank (the "Bank"), headquartered in Olney, Maryland. The Bank operates forty two community offices in Anne Arundel, Carroll, Frederick, Howard, Montgomery, and Prince George's Counties in Maryland and Fairfax and Loudoun counties in Virginia, together with an insurance subsidiary, equipment leasing company and an investment management company in McLean, Virginia.

The Company offers a broad range of financial services to consumers and businesses in this market area. Through September 30, 2008, year-to-date average commercial loans and leases and commercial real estate loans accounted for approximately 57% of the Company's loan and lease portfolio, and year-to-date average consumer and residential real estate loans accounted for approximately 43%. The Company has established a strategy of independence, and intends to establish or acquire additional offices, banking organizations, and non-banking organizations as appropriate opportunities arise.

CRITICAL ACCOUNTING POLICIES

The Company's financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and follow general practices within the industry in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. The estimates used in management's assessment of the adequacy of the allowance for loan and lease losses require that management make assumptions about matters that are uncertain at the time of estimation. Differences in these assumptions and differences between the estimated and actual losses could have a material effect.

Non-GAAP Financial Measure

The Company has for many years used a traditional efficiency ratio that is a non-GAAP financial measure as defined in Securities and Exchange Commission Regulation G and Item 10 of Commission Regulation S-K. This traditional efficiency ratio is used as a measure of operating expense control and efficiency of operations. Management believes that its traditional ratio better focuses attention on the operating performance of the Company over time than does the GAAP ratio, and that it is highly useful in comparing period-to-period operating performance of the Company's core business operations. It is used by management as part of its assessment of its performance in managing noninterest expenses. However, this measure is supplemental, and is not a substitute for an analysis of performance based on GAAP measures. The reader is cautioned that the traditional efficiency ratio used by the Company may not be comparable to GAAP or other non-GAAP efficiency ratios reported by other financial institutions.

In general, the GAAP efficiency ratio is noninterest expenses as a percentage of net interest income plus total noninterest income. Noninterest expenses used in the calculation of the traditional, non-GAAP efficiency ratio excludes intangible asset amortization, goodwill impairment losses and pension prior service credits. Income for the traditional ratio is increased for the favorable effect of tax-exempt income, and excludes securities gains and losses,

which can vary widely from period to period without appreciably affecting operating expenses. The traditional measure is different from the GAAP efficiency ratio. The GAAP measure is calculated using noninterest expense and income amounts as shown on the face of the Consolidated Statements of Income. The traditional and GAAP efficiency ratios are presented and reconciled in Table 1.

Table 1 – GAAP based and traditional efficiency ratios

(Dollars in thousands)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
GAAP Efficiency ratio:				
Noninterest expenses	$ 25,267	$ 25,899	$ 74,856	$ 74,472
Net interest income plus noninterest income- GAAP	38,966	38,342	117,055	110,335
Efficiency ratio–GAAP	64.84%	67.55%	63.95%	67.50%
Non-GAAP Adjustments:				
Noninterest expenses	$ 25,267	$ 25,899	$ 74,856	$ 74,472
Goodwill impairment charge	(2,250)	0	(2,250)	0
Amortization of intangible assets	(1,103)	(1,123)	(3,344)	(2,956)
Pension prior service credit	1,473	0	1,473	0
Noninterest expenses–as adjusted	23,387	24,776	70,735	71,516
Net interest income plus noninterest income	38,966	38,342	117,055	110,335
Tax-equivalency	1,180	1,447	3,381	4,096
Securities gains	(9)	(22)	(662)	(28)
Net interest income plus noninterest income – as adjusted	40,137	39,767	119,774	114,403
Efficiency ratio – Non-GAAP	58.27%	62.30%	59.06%	62.51%

The improvement in the efficiency ratio shown above was due primarily to improved expense control over salary and benefits and other discretionary expenses resulting from project LIFT.

A. FINANCIAL CONDITION

The Company's total assets were $3.2 billion at September 30, 2008, increasing $151.2 million or 5% during the first nine months of 2008. Earning assets increased by 6% or $173.3 million in the first nine months of 2008 to $2.9 billion at September 30, 2008. These increases were mainly the result of growth in the loan portfolio.

Total loans and leases, excluding loans held for sale, increased 9% or $205.4 million during the first nine months of 2008, to $2.5 billion. This increase was due primarily to growth in the commercial and mortgage loan portfolios. During this period, commercial loans and leases increased by $133.3 million or 10%, attributable primarily to commercial mortgage loans (up 21%). Consumer loans increased by $20.9 million, primarily due to an increase in home equity lines. Residential real estate loans grew by $51.2 million or 8% due to an increase in residential construction loans. Residential mortgage loans held for sale decreased by $2.5 million from December 31, 2007, to $4.5 million at September 30, 2008.

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Table 2 – Analysis of Loans and Leases

The following table presents the trends in the composition of the loan and lease portfolio at the dates indicated:

(In thousands)	September 30, 2008	%	December 31, 2007	%
Residential real estate	$ 674,445	27%	$ 623,286	27%
Commercial loans and leases	1,410,755	57	1,277,450	56
Consumer	397,218	16	376,295	17
Total Loans and Leases	2,482,418	100%	2,277,031	100%
Less: Allowance for credit losses	(38,266)		(25,092)	
Net loans and leases	$ 2,444,152		$ 2,251,939	

Certain loan terms may create concentrations of credit risk and increase the lender's exposure to loss. These include terms that permit the deferral of principal payments or payments that are smaller than normal interest accruals (negative amortization); loans with high loan-to-value ratios ("LTV"); loans, such as option adjustable-rate mortgages, that may expose the borrower to future increases in repayments that are in excess of increases that would result solely from increases in market interest rates; and interest-only loans. The Company does not make loans that provide for negative amortization. The Company originates option adjustable-rate mortgages infrequently and sells all of them in the secondary market.

At September 30, 2008, the Company had a total of $48.3 million in residential real estate loans and $2.6 million in consumer loans with a LTV greater than 90%. The Company also had an additional $81.7 million in residential lot loans owned by individuals with an LTV greater than 75%. Commercial loans with a LTV greater than 75% to 85%, depending on the type of property, totaled $85.7 million at September 30, 2008. Interest only loans at September 30, 2008 include almost all of the $255.6 million outstanding under the Company's equity lines of credit, (included in the consumer loan portfolio) and $97.0 million in other loans. The aggregate of these loan concentrations was $570.9 million at September 30, 2008, which represented 23% of total loans and leases outstanding at that date. The Company is of the opinion that its loan underwriting procedures are structured to adequately assess any additional risk that the above types of loans might present.

The total investment portfolio decreased by 6% or $27.3 million from December 31, 2007, to $417.9 million at September 30, 2008. The decrease was due mainly to a decrease of $56.0 million or 24% in held-to-maturity securities, offset by increases of $20.1 million or 11% in available-for-sale securities and $8.6 million or 36% in other equity securities. The decrease in held-to-maturity securities was the result of calls and maturities while the increase in available-for-sale securities was due to purchases necessary to maintain sufficient collateral on the Company's client repurchase agreements. The aggregate of federal funds sold and interest-bearing deposits with banks decreased by $2.2 million during the first nine months of 2008, reaching $20.2 million at September 30, 2008.

Table 3 – Analysis of Deposits

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

(In thousands)	September 30, 2008	%	December 31, 2007	%
Noninterest-bearing deposits	$ 468,101	21%	$ 434,053	19%
Interest-bearing deposits:				
Demand	231,016	10	254,878	11
Money market savings	619,533	28	726,647	32
Regular savings	143,990	6	153,964	7
Time deposits less than $100,000	455,291	20	416,601	18
Time deposits $100,000 or more	330,881	15	287,725	13
Total interest-bearing	1,780,711	79	1,839,815	81

Total deposits	$	2,248,812	100%	$	2,273,868	100%

Total deposits were $2.2 billion at September 30, 2008, decreasing $25.1 million or 1% from December 31, 2007. During the first nine months of 2008, growth rates of 9% were achieved for time deposits of less than $100,000 (up $38.7 million), 15% for time deposits of $100,000 or more (up $43.2 million), and 8% for noninterest-bearing deposits (up $34.0 million). Over the same period, decreases of 9% were recorded for interest bearing demand deposits (down $23.9 million), 15% for money market savings (down $107.1 million) and 6% for regular savings (down $10.0 million). The growth in time deposits was due in large part to management of rates in the face of intense competition in order to maintain sufficient liquidity to fund loan growth.

Total borrowings were $596.4 million at September 30, 2008, which represented an increase of $169.9 million or 40% from December 31, 2007. These additional borrowings were necessary to fund loan growth due to the lack of growth in deposits noted above. The growth in borrowings was due to a combination of ten year callable FHLB advances with call dates between six months and two years and overnight FHLB advances.

Market Risk and Interest Rate Sensitivity

Overview

The Company's net income is largely dependent on its net interest income. Net interest income is susceptible to interest rate risk to the degree that interest-bearing liabilities mature or reprice on a different basis than interest-earning assets. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income. Net interest income is also affected by changes in the portion of interest-earning assets that are funded by interest-bearing liabilities rather than by other sources of funds, such as noninterest-bearing deposits and stockholders' equity.

The Company's Board of Directors has established a comprehensive interest rate risk management policy, which is administered by Management's Asset Liability Management Committee ("ALCO"). The policy establishes limits of risk, which are quantitative measures of the percentage change in net interest income (a measure of net interest income at risk) and the fair value of equity capital (a measure of economic value of equity ("EVE") at risk) resulting from a hypothetical change in U.S. Treasury interest rates for maturities from one day to thirty years. The Company measures the potential adverse impacts that changing interest rates may have on its short-term earnings, long-term value, and liquidity by employing simulation analysis through the use of computer modeling. The simulation model captures optionality factors such as call features and interest rate caps and floors imbedded in investment and loan portfolio contracts. As with any method of gauging interest rate risk, there are certain shortcomings inherent in the interest rate modeling methodology used by the Company. When interest rates change, actual movements in different categories of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from assumptions used in the model. Finally, the methodology does not measure or reflect the impact that higher rates may have on adjustable-rate loan customers' ability to service their debts, or the impact of rate changes on demand for loan, lease, and deposit products.

The Company prepares a current base case and eight alternative simulations, at least once a quarter, and reports the analysis to the Board of Directors. In addition, more frequent forecasts are produced when interest rates are particularly uncertain or when other business conditions so dictate.

If a measure of risk produced by the alternative simulations of the entire balance sheet violates policy guidelines, ALCO is required to develop a plan to restore the measure of risk to a level that complies with policy limits within two quarters.

The Company's interest rate risk management goals are (1) to increase net interest income at a growth rate consistent with the growth rate of total assets and, (2) to minimize fluctuations in net interest margin as a percentage of earning assets. Management attempts to achieve these goals by balancing, within policy limits, the volume of floating-rate liabilities with a similar volume of floating-rate assets; by keeping the average maturity of fixed-rate asset and liability contracts reasonably matched; by maintaining a pool of administered core deposits; and by adjusting pricing rates to market conditions on a continuing basis.

The balance sheet is subject to quarterly testing for eight alternative interest rate shock possibilities to indicate the inherent interest rate risk. Average interest rates are shocked by +/- 100, 200, 300, and 400 basis points ("bp"), although

the Company may elect not to use particular scenarios that it determines are impractical in a current rate environment. It is management's goal to structure the balance sheet so that net interest earnings at risk over a twelve-month period and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels.

The Company augments its quarterly interest rate shock analysis with alternative external interest rate scenarios on a monthly basis. These alternative interest rate scenarios may include non-parallel rate ramps and non-parallel yield curve twists.

Analysis

Measures of net interest income at risk produced by simulation analysis are indicators of an institution's short-term performance in alternative rate environments. These measures are typically based upon a relatively brief period, usually one year. They do not necessarily indicate the long-term prospects or economic value of the institution.

ESTIMATED CHANGES IN NET INTEREST INCOME

CHANGE IN INTEREST RATES:	**+ 400 bp**	**+ 300 bp**	**+ 200 bp**	**+ 100 bp**	**- 100 bp**	**- 200 bp**	**-300 bp**	**-400 bp**
POLICY LIMIT	***-25%***	***-20%***	***-17.5%***	***-12.5%***	***-12.5%***	***-17.5%***	***-20%***	***-25%***
September 2008	3.64	4.21	4.38	4.65	-3.11	N/A	N/A	N/A
December 2007	-14.82	-10.47	-6.12	-1.91	-0.68	-1.01	-2.84	N/A

The Net Interest Income at Risk position improved compared to the 4th quarter of 2007 in all rate scenarios except the -100 basis point scenario. All of the above measures of net interest income at risk remained well within prescribed policy limits. Our largest exposure is at the -100bp level, with a measure of -3.11%. This is also well within our prescribed policy limit of 12.5%.

The measures of equity value at risk indicate the ongoing economic value of the Company by considering the effects of changes in interest rates on all of the Company's cash flows, and discounting the cash flows to estimate the present value of assets and liabilities. The difference between these discounted values of the assets and liabilities is the economic value of equity, which, in theory, approximates the fair value of the Company's net assets.

ESTIMATED CHANGES IN ECONOMIC VALUE OF EQUITY (EVE)

CHANGE IN INTEREST RATES:	**+ 400 bp**	**+ 300 bp**	**+ 200 bp**	**+ 100 bp**	**- 100 bp**	**-200 bp**	**-300 bp**	**-400 bp**
POLICY LIMIT	***-40%***	***-30%***	***-22.5%***	***-10.0%***	***-12.5%***	***-22.5%***	***-30%***	***-40%***
September 2008	-18.31	-12.90	-6.03	-0.79	-8.72	N/A	N/A	N/A
December 2007	-15.40	-9.09	-1.44	3.14	-3.57	-9.01	-13.26	N/A

Measures of the economic value of equity (EVE) at risk position increased in all shock bands. Although assumed to be highly unlikely, the largest exposure is at the +400bp level, with a measure of -18.31%. This is also well within our prescribed policy limit of -40%.

Liquidity

Liquidity is measured using an approach designed to take into account loan and lease payments, maturities, calls and pay-downs of securities, earnings, balance sheet growth, mortgage banking activities, investment portfolio liquidity, and other factors. Through this approach, implemented by the funds management subcommittee of ALCO under formal policy guidelines, the Company's liquidity position is measured weekly, looking forward at thirty-day intervals out to 180 days. The measurement is based upon the asset-liability management model's projection of a funds' sold or purchased position, along with ratios and trends developed to measure dependence on purchased funds and core growth. Resulting projections as of September 30, 2008 showed sources of funds exceeding uses of funds over the subsequent 180 days by $56.1 million, which increased from an excess of $49.0 million at December 31, 2007. This excess of liquidity over projected requirements for funds indicates that the Company can fund its growth commitments for loans and other earning assets.

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The Company also has external sources of funds, which can be drawn upon when required. The main source of external liquidity is a line of credit for $947.6 million from the Federal Home Loan Bank of Atlanta, of which $571.3 million was available based on pledged collateral with $483.8 million outstanding at September 30, 2008. Other external sources of liquidity available to the Company in the form of lines of credit granted by the Federal Reserve and correspondent banks totaled $191.6 million at September 30, 2008, against which there were no outstandings. Based upon its liquidity analysis, including external sources of liquidity available, management believes the liquidity position is appropriate at September 30, 2008.

The following is a schedule of significant commitments at September 30, 2008:

	(In thousands)
Commitments to extend credit:	