

Sandy Spring Bancorp, Inc. SASR (NAS)

Last Close	Industry	Sector
12.37 USD	Regional - Mid - Atlantic Banks	Financial Services

Profile

Pricing data through 08 Feb 2010

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Sandy Spring Bancorp, Inc. is a holding company for Sandy Spring Bank. Through its subsidiary bank, the company conducts a full-service commercial banking, mortgage banking and trust business. Services to individuals and businesses include accepting deposits, extending real estate, consumer and commercial loans and lines of credit, equipment leasing, general insurance, personal trust, and investment and wealth management services.

The company offers investment and wealth management services through the bank's subsidiary, West Financial Services Inc. The bank offers a range of commercial banking, retail banking, and trust services. Through its subsidiaries, Sandy Spring Bank also offers a comprehensive menu of leasing, insurance and investment management services. The bank's main market area is in Virginia.

Sandy Spring Bancorp, Inc. SASR

Sales USD Mil 147 **Mkt Cap USD Mil** 204 **Industry** Regional - Mid-Atlantic Banks **Sector** Financial Services

Sandy Spring Bancorp is the holding company for Sandy Spring National Bank, which operates approximately 30 banking offices in Maryland and northeastern Virginia. The bank provides savings, checking, money market, individual retirement, and savings accounts, as well as certificates of deposit. Sandy Spring National Bank also originates real estate, business, and consumer loans. Sandy Spring Bancorp also provides insurance, annuity, and equipment leasing through subsidiaries.

17801 Georgia Avenue
Olney, MD 20832
Phone: 1 301 774-6400
Website: <http://www.ssnb.com>

Employees: 717

Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	3.8	7.3	7.5	10.4	
Operating Income %	—	—	—	—	
Earnings/Share %	-52.2	-24.6	-15.1	-1.4	
Dividends %	4.3	4.5	5.3	8.6	
Book Value/Share %	-0.9	8.8	7.3	9.1	
Stock Total Return %	-18.4	-26.1	-14.8	2.4	
+/- Industry	-23.4	-5.3	-4.6	1.6	
+/- Market	-41.8	-18.4	-13.2	5.1	

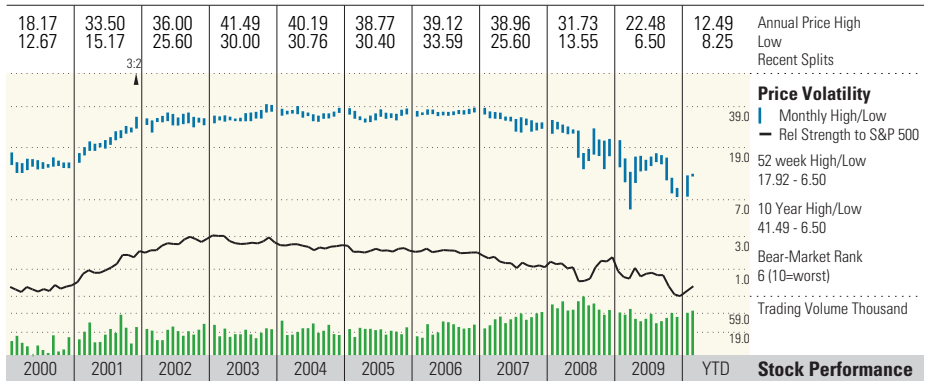
Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	-6.0	10.9	-4.9
Return on Assets %	-0.6	1.0	-0.4	5.8
Revenue/Employee USD K	205.3	204.2	—	863.4
Compensation Exp/Rev	0.4	0.4	—	—
Operating Margin %	—	—	—	14.3
Net Margin %	-12.7	19.3	-9.0	6.8
Free Cash Flow/Rev %	—	—	—	0.0

Financial Position	12-08 USD Mil	09-09 USD Mil
	Loans (Gross)	2502
Less: Allowances	51	63
Net Loans	2452	2282
Securities	492	840
Trading Assets	—	—
Intangibles	88	86
Other	282	424
Total Assets	3314	3632
Deposits	2365	2683
Short-Term Debt	421	492
Long-Term Debt	102	39
Other	34	38
Total Liabilities	2922	3252
Preferred Stock	79	80
Total Equity	392	381

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	—	—	—
Forward P/E	9.2	—	—	16.0
Price/Free Cash Flow	—	—	—	—
Dividend Yield %	3.0	—	3.6	1.9
Price/Book	0.7	1.6	0.8	—
Price/Sales	1.4	2.9	1.4	—
PEG Ratio	1.1	—	—	1.4

Morningstar Rating — **Last Price** 12.37 **Fair Value** — **Uncertainty** — **Economic Moat™** — **Stewardship Grade** —

per share prices in USD



Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD	Stock Performance
Annual Price High	18.17	33.50	36.00	41.49	40.19	38.77	39.12	38.96	31.73	22.48	12.49	Annual Price High
Low	12.67	15.17	25.60	30.00	30.76	30.40	33.59	25.60	13.55	6.50	8.25	Low
Recent Splits	—	—	—	—	—	—	—	—	—	—	—	Recent Splits
Price Volatility	—	—	—	—	—	—	—	—	—	—	—	Price Volatility
Monthly High/Low	—	—	—	—	—	—	—	—	—	—	—	Monthly High/Low
Rel Strength to S&P 500	—	—	—	—	—	—	—	—	—	—	—	Rel Strength to S&P 500
52 week High/Low	—	—	—	—	—	—	—	—	—	—	—	52 week High/Low
10 Year High/Low	—	—	—	—	—	—	—	—	—	—	—	10 Year High/Low
Bear-Market Rank	—	—	—	—	—	—	—	—	—	—	—	Bear-Market Rank
Trading Volume Thousand	—	—	—	—	—	—	—	—	—	—	—	Trading Volume Thousand

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Financials
Net Interest Inc USD Mil	52	57	67	79	75	75	88	95	105	108	103	Net Interest Inc USD Mil
Fee Income	12	18	22	30	33	31	37	39	44	46	45	Fee Income
Oper Income USD Mil	—	—	—	—	—	—	—	—	—	—	—	Oper Income USD Mil
Net Income USD Mil	18	19	23	31	32	14	33	33	32	16	-19	Net Income USD Mil
Earnings Per Share USD	—	1.31	1.59	2.08	2.18	0.98	2.24	2.20	2.01	0.96	-1.14	Earnings Per Share USD
Dividends USD	—	0.54	0.61	0.69	0.74	0.78	0.84	0.88	0.92	0.96	0.60	Dividends USD
Shares Mil	—	14	14	14	14	14	14	14	16	16	16	Shares Mil
Book Value Per Share USD	8.92	10.43	12.31	13.36	13.45	14.75	16.05	19.18	19.01	17.82	17.82	Book Value Per Share USD
Assets USD Mil	1591	1773	2082	2307	2333	2309	2460	2610	3044	3314	3632	Assets USD Mil
Total Equity USD Mil	109	128	151	179	193	195	218	238	316	392	381	Total Equity USD Mil
Free Cash Flow	20	0	0	3	17	13	10	13	-46	-60	-76	Free Cash Flow

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Profitability
Return on Assets %	—	1.1	1.2	1.4	1.4	0.6	1.4	1.3	1.1	0.5	-0.6	Return on Assets %
Return on Equity %	—	15.9	16.6	18.6	17.2	7.4	16.0	14.4	11.7	5.0	-6.0	Return on Equity %
Net Margin %	27.1	25.0	26.1	28.3	29.8	13.6	26.5	24.6	21.6	10.2	-12.7	Net Margin %
Asset Turnover	—	0.04	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.04	Asset Turnover
Financial Leverage	—	13.9	13.8	12.9	12.1	11.8	11.3	11.0	9.6	10.6	12.1	Financial Leverage

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	09-09	Financial Health
Net Loans USD Mil	820	956	1000	1087	1151	1447	1678	1797	2259	2452	2282	Net Loans USD Mil
Long-Term Debt USD Mil	73	49	79	91	115	130	37	37	53	102	39	Long-Term Debt USD Mil
Deposits USD Mil	1165	1243	1387	1492	1562	1733	1803	1994	2274	2365	2683	Deposits USD Mil

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	Valuation
Price/Earnings	11.6	20.0	15.3	17.1	39.1	15.6	17.4	13.8	22.7	—	—	Price/Earnings
P/E vs. Market	—	—	0.7	0.9	1.9	0.8	1.0	0.8	1.4	—	—	P/E vs. Market
Price/Sales	2.9	5.2	4.3	5.1	5.3	4.1	4.2	3.0	2.3	1.0	1.4	Price/Sales
Price/Book	1.7	3.0	2.6	2.8	2.9	2.4	2.4	1.5	1.1	0.5	0.7	Price/Book

Quarterly Results						
Revenue USD Mil	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	37.6	37.1	37.1	37.1		
Prior Year Period	38.8	37.6	37.6	37.6		
Rev Growth %	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	-2.9	-1.6	-1.6	-1.6		
Prior Year Period	15.2	-2.9	-2.9	-2.9		
Earnings Per Share USD	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	-0.21	0.06	-0.02	-0.83		
Prior Year Period	0.51	0.50	0.34	0.33		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Sandy Spring Bancorp	204	147	—	-6.0
BB&T Corporation	18655	8357	16.8	5.7
First Citizens Bancs	1962	892	17.8	7.3

Major Fund Holders		% of shares
Columbia Acorn Z		2.92
T. Rowe Price Small-Cap Value		2.81
DFA US Small Cap Value I		1.89

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
ORNDORFF ROBERT L JR	Director	144,243	29 May 2009	-
GOFF SUSAN D	Director	15,064	20 Nov 2009	-
SMALL FRANK H	Executive Vice President	14,916	13 Aug 2009	-
HOLLAR HUNTER R	Director	14,569	20 Aug 2009	-
RIPPEON DAVID E	Director	12,314	29 May 2009	-
CACERES R LOUIS	Executive Vice President	9,144	06 Aug 2009	-
HARDESTY GILBERT L	Director	8,182	29 May 2009	-
LITTLE PAMELA A	Director	6,272	29 May 2009	-
FOGG DAVID H	Director	2,500	26 Jun 2009	-
FRIIS MARK E	Director	2,238	20 Nov 2009	-

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Columbia Acorn Z	QQQQ	2.92	0.06	288	31 Jul 2009
T. Rowe Price Small-Cap Value	QQQQ	2.81	0.15	0	30 Jun 2009
DFA US Small Cap Value I	QQQ	1.89	0.09	0	30 Jun 2009
Vanguard Small Cap Index	QQQ	1.28	0.02	4	31 Jul 2009
Vanguard Total Stock Mkt Idx	QQQ	0.95	0.00	1	30 Jun 2009

Concentrated Holders

NA		NA	NA	NA	NA
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Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Columbia Acorn Z	QQQQ	2.92	0.06	288	31 Jul 2009
Northern Small Cap Value	QQQ	0.23	0.05	37	30 Jun 2009
Vanguard Small Cap Index	QQQ	1.28	0.02	4	31 Jul 2009
Vanguard Dividend Appreciation Idx Inv	QQQQQ	0.12	0.02	2	30 Jun 2009
JNL/Mellon Cap Mgmt Small Cap Index A	QQQ	0.05	0.03	2	30 Jun 2009

Top 5 Sellers

DFA Tax-Managed US Marketwide Value II	QQ	0.21	0.04	-14	30 Jun 2009
DFA Tax-Managed US Marketwide Value	QQ	0.21	0.04	-14	30 Jun 2009
Oppenheimer Main St Small Cap A	QQ	0.24	0.02	-4	30 Jun 2009

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Industry Focus: US Regional Banks

Our Outlook for Regional Banks

01 June 2009

Jim Sinegal
Stock Analyst

A new normal or
back to the future?

Following the conclusion of the Supervisory Capital Assessment Program stress tests and the resulting infusions of new capital into many banks, investors' focus has shifted from the banks' ability to survive the current downturn to their potential earnings power on the other side. Some sources of profits, such as securitization, already appear to be relics of the distant past. Similarly, excessive leverage is unlikely to return for at least a decade, and the need for major changes in the regulatory system is painfully obvious. Although the specific changes to come are difficult to predict, we think some helpful generalizations can be made after a simple examination of banking industry dynamics.

Competition Is Here to Stay

In our opinion, regional banking is very much a commodity industry. Competition is generally intense, and there are few barriers to entry, aside from the approval of regulators. While financial innovations like CDOs, credit derivatives, and other products temporarily boosted profitability, nothing prevented industry participants from competing away excess profits resulting from these new products--in fact, a strong case can be made that competitive forces led to the demise of several financial companies and virtually the entire "shadow banking" system. This comes as no surprise--any student in a freshman microeconomics course knows that excess profits unprotected by an economic moat will eventually be competed away. Similarly, when industry profits decrease below cost of capital, firms will exit through failure, acquisition, or other means. We therefore believe profits across the banking industry should once again approximate costs of capital once the crisis is resolved.

As in all commodity industries, companies that excel at controlling costs--operating, credit, and funding--should be able to continue earning excess profits. Wells Fargo's WFC extremely low cost of deposits is a perfect example

of this, as is the company's history of superior underwriting. In other cases, banks benefit from high-return businesses other than banking. PNC Financial PNC has a profitable fund servicing business, US Bancorp USB owns a payment processing operation, and both have profitable wealth management arms. The low capital requirements of these service businesses tend to boost overall returns as well, and their relative stability helps to keep these banks from venturing too far afield in search of higher returns. It's therefore not surprising that these narrow-moat banks have fared better than most in recent months. We don't believe the advantages developed by these companies over many years are likely to disappear anytime soon, and we expect that these banks are likely to continue producing returns well in excess of their cost of capital.

Regulation Will Not Affect All Participants Equally

Much has been made of the prospects for increased regulation of the banking industry, and for good reason. Lax regulation of subprime mortgages, derivatives, and other areas of the financial system no doubt contributed to the mess plaguing the financial system.

Some industry observers have put forth the possibility that banking could begin to resemble a utility in the future, rather than the profitable growth industry it has been over the past few decades. In our opinion, this comparison is tenuous at best. As Josh Peters, equities strategist and editor of Morningstar DividendInvestor points out in "The Ultimate Dividend Playbook", utilities are naturally endowed with a substantial economic moat. In most cases, a particular utility is the sole supplier to a geographic area. Additionally, utilities are capital intensive, creating a sizable barrier to entry. It should be obvious that the banking business has neither of these features. Utility regulation is meant to limit profitability and protect customers--the banking industry suffered from the opposite problem. It is now obvious that the banking sector's problem was not excess returns, but in fact the inability to generate acceptable returns without taking on unacceptable risk.

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Industry Focus: US Regional Banks

Furthermore, any attempts by regulators to control pricing in the banking industry are likely to end in disaster. On the other hand, regulation meant to reduce leverage and excessive risk-taking is almost a certainty. In assessing the effects of this change on a particular bank, it is important to identify the source of past returns. In the case of banks like Flagstar Bancorp FBC, excessive leverage and overreliance on new financial products undoubtedly were the factors responsible for the 20%-plus returns on equity it achieved earlier in the decade. However, Wells Fargo was earning 20% returns on equity in the 1980s, long before irrational exuberance took hold across the lending industry, and the superior economic characteristics of the business outlined above are still in place. In our opinion, banks like Wells are therefore less likely to suffer from a regulatory crackdown.

Furthermore, as leverage is reduced across the industry, the irresistible forces of competition will eventually drive industry returns back to an appropriate level, as firms react to the new operating environment. In fact, lending spreads are already the highest they have been in years, as rational competition has returned to the market. New regulatory policies could also benefit banks--higher capital and loan loss reserve requirements should help smooth the boom/bust cycle that periodically plagues the banking industry. Making the banking system safer will not necessarily reduce profitability--the pharmaceutical industry is heavily regulated for safety, yet quite profitable. Finally, regulators must also consider the second-order effects of overly harsh new requirements. If profitability is artificially limited, investors will be reluctant to provide the capital necessary to keep the financial system--and the economy--functioning. From a macroeconomic perspective, growth is likely to be muted as the economy delevers, but how will the system recover if future growth and profitability are hampered by regulation?

It's Not Time to Swing for the Fences

The implications of the coming changes are most serious for the weakest banks. Those that struggled to achieve their

cost of capital during the boom years will face enormous pressures as the recession continues, and many will likely exit or be acquired at distressed prices, as assets are transferred to more productive uses. The mismanaged assets of Washington Mutual and National City are no doubt better off in the hands of J.P. Morgan Chase JPM and PNC, and we expect this trend to continue for some time. Banks that could not achieve satisfactory returns in the boom years will surely fare even worse without the tail winds provided by excessive leverage, perfect credit, and structured products. While a few of these weaker banks are likely to survive and perhaps experience a spectacular increase in stock price from current levels, we place these types of bets firmly in the category of speculation. Some of these players will surely not make it.

Stick to the High Ground, and Focus on Moats

On the other hand, the strongest regional and superregional banks--those with established economic moats--could benefit from the changes to come. The ability to cheaply acquire assets and market share from weakened or failed competitors could result in a nice boost to short-term growth, and the reputational benefits from passing through the crisis relatively unscathed could last for a long time, further strengthening competitive advantages where they already exist. Though Warren Buffett popularized the concept of economic moats, our own research also suggests that moats are a key factor in achieving investment success. In a highly competitive industry like banking, where truly durable competitive advantages are rare, moats are often even more important. For this reason, we recommend that investors focus their attentions on banks with narrow or wide moats and strong management teams, leaving the low-priced lottery tickets in the industry for others.