

# Sandy Spring Bancorp, Inc. SASR (NAS)

Last Close	Industry	Sector
18.62 USD	Banks - Regional - US	Financial Services

## Profile

Pricing data through 09 Feb 2012

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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** 160 **Mkt Cap USD Mil** 448 **Industry** Banks - Regional - US **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.

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Phone: 1 301 774-6400  
Website: <http://www.ssnb.com>

Employees: 711

Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	8.5	2.7	5.3	8.0	
Operating Income %	—	—	—	—	
Earnings/Share %	—	-19.5	-14.1	-2.2	
Dividends %	-89.2	-64.8	-45.6	-22.9	
Book Value/Share %	-4.8	-4.0	2.8	6.6	
Stock Total Return %	-0.7	6.9	-9.9	-2.0	
+/- Industry	12.6	-5.8	2.2	-0.5	
+/- Market	-3.1	-8.9	-8.7	-3.5	

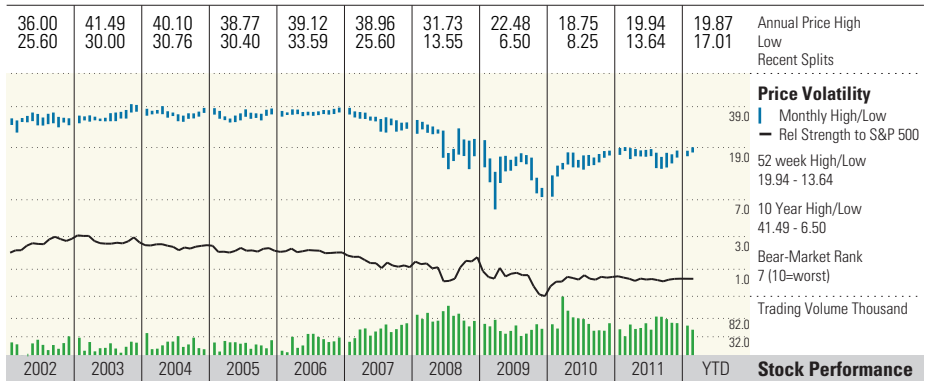
Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	7.8	5.9	—
Return on Assets %	0.9	0.6	—	9.5
Revenue/Employee USD K	224.3	218.3	—	1050.6
Compensation Exp/Rev	0.4	0.4	—	—
Operating Margin %	—	—	33.3	16.7
Net Margin %	21.0	10.8	29.9	11.2
Free Cash Flow/Rev %	28.9	—	—	0.1

Financial Position	12-10 USD Mil	09-11 USD Mil
	Loans (Gross)	2179
Less: Allowances	62	50
Net Loans	2117	2119
Securities	1043	1174
Trading Assets	—	—
Intangibles	83	82
Other	243	217
Total Assets	3519	3626
Deposits	2550	2640
Short-Term Debt	—	—
Long-Term Debt	441	441
Other	121	104
Total Liabilities	3112	3185
Preferred Stock	0	—
Total Equity	408	441

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	12.8	—	19.0
Forward P/E	13.7	—	—	13.5
Price/Free Cash Flow	9.8	—	18.7	17.0
Dividend Yield %	1.9	—	1.5	2.0
Price/Book	1.0	1.0	0.9	2.0
Price/Sales	2.8	2.3	1.8	1.2
PEG Ratio	1.7	—	—	1.4

**Morningstar Rating** — **Last Price** 18.62 **Fair Value** — **Uncertainty** — **Economic Moat™** — **Stewardship Grade** —

per share prices in USD



2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
2.2	19.5	4.7	-6.8	12.0	-24.7	-18.1	-57.6	107.8	-2.9	6.7	Total Return %
25.6	-6.9	-4.3	-9.8	-1.6	-28.2	20.4	-81.0	95.0	-2.9	-0.8	+/- Market
-4.1	-7.1	-8.5	-7.0	-4.7	-5.0	14.0	-51.9	97.0	17.0	-7.9	+/- Industry
2.2	2.0	2.0	2.4	2.3	3.3	4.4	4.2	0.2	1.9	1.9	Dividend Yield %
463	541	556	515	566	458	359	147	443	423	448	Market Cap USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
67	79	75	75	88	95	105	108	104	116	113	Net Interest Inc USD Mil
22	30	33	31	37	39	44	46	45	46	46	Fee Income
—	—	—	—	—	—	—	—	—	—	—	Oper Income USD Mil
23	31	32	14	33	33	32	16	-20	17	33	Net Income USD Mil
—	2.08	2.18	0.98	2.24	2.20	2.01	0.96	-1.20	1.05	1.39	Earnings Per Share USD
—	0.69	0.74	0.78	0.84	0.88	0.92	0.96	0.37	0.04	0.25	Dividends USD
—	15	15	15	15	15	16	16	16	22	24	Shares Mil
12.31	13.36	13.45	14.75	16.05	19.18	19.01	17.80	16.95	18.30	18.30	Book Value Per Share USD
2082	2307	2333	2309	2460	2610	3044	3314	3630	3519	3626	Assets USD Mil
151	179	193	195	218	238	316	392	374	408	441	Total Equity USD Mil
0	3	17	13	10	13	-46	-60	3	-10	46	Free Cash Flow

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Profitability
—	1.4	1.4	0.6	1.4	1.3	1.1	0.5	-0.6	0.5	0.9	Return on Assets %
—	18.6	17.2	7.4	16.0	14.4	11.7	5.0	-6.5	5.0	7.8	Return on Equity %
26.1	28.3	29.8	13.6	26.5	24.6	21.6	10.2	-13.2	10.7	21.0	Net Margin %
—	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.04	0.05	0.04	Asset Turnover
—	12.9	12.1	11.8	11.3	11.0	9.6	10.6	12.4	8.6	8.2	Financial Leverage

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	09-11	Financial Health
1000	1087	1151	1447	1678	1797	2259	2452	2246	2117	2119	Net Loans USD Mil
79	91	115	130	37	37	53	102	447	441	441	Long-Term Debt USD Mil
1387	1492	1562	1733	1803	1994	2274	2365	2697	2550	2640	Deposits USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
15.3	17.1	39.1	15.6	17.4	13.8	22.7	—	17.5	12.1	12.8	Price/Earnings
—	—	—	—	—	—	—	—	—	0.7	0.9	P/E vs. Market
4.3	5.1	5.3	4.1	4.2	3.0	2.3	1.0	2.5	2.6	2.8	Price/Sales
2.6	2.8	2.9	2.4	2.4	1.5	1.1	0.5	1.1	1.0	1.0	Price/Book

Quarterly Results				
Revenue USD Mil	Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period	41.0	38.0	39.0	39.7
Prior Year Period	39.4	39.5	40.9	40.2
Rev Growth %	Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period	4.0	-3.8	-4.7	-1.4
Prior Year Period	4.7	6.8	15.2	8.6
Earnings Per Share USD	Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period	0.27	0.30	0.34	0.47
Prior Year Period	-0.27	-0.04	0.21	0.27

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Sandy Spring Bancorp	448	160	12.8	7.8
Wells Fargo & Co	161264	81837	10.7	11.9
Bank of America Corp	82911	90964	—	-1.5

Major Fund Holders		% of shares
		—
		—
		—

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
CRAIG A. RUPPERT	Director	55,598	25 May 2011	-
DANIEL J. SCHRIDER	President/Director/CEO/CEO, Subsidiary/President, Subsidiary	10,835	30 Mar 2011	-
PAMELA A. LITTLE	Director	9,089	25 May 2011	-
JOSEPH J. O'BRIEN, JR	President, Divisional	6,380	30 Mar 2011	-
R. LOUIS CACERES	Executive VP, Subsidiary	6,380	30 Mar 2011	-
PHILIP J. MANTUA	CFO/CFO, Subsidiary/Chief Accounting Officer/Executive VP/ Executive VP, Subsidiary	6,140	30 Mar 2011	-
MR. JEFFREY A. WELCH	Executive VP, Subsidiary/Other Executive Officer	6,019	30 Mar 2011	-

\*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	4.66	0.12	0	31 Dec 2011
T. Rowe Price Small-Cap Value	QQQQ	4.24	0.26	0	31 Dec 2011
Columbia Small Cap Value II A	QQ	2.74	0.68	0	31 Dec 2011
iShares Russell 2000 (AU)		1.51	0.04	6	03 Feb 2012
Fidelity Select Banking	QQQ	1.49	1.74	27	31 Dec 2011
Concentrated Holders					
Fidelity Select Banking	QQQ	1.49	1.74	27	31 Dec 2011
Lord Abbett Micro Cap Value I	QQQQ	0.41	1.38	-7	31 Oct 2011
MFS New Discovery Value A		0.41	1.14	2	31 Dec 2011
DGHM V2000 SmallCap Value Instl		0.00	1.02	0	30 Nov 2011

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
SSgA Russell Small Cap Idx Fund Class A	QQQ	0.63	0.03	91	30 Jun 2011
Vanguard Total Stock Mkt Idx		0.95	0.00	49	30 Sep 2011
Fidelity Select Banking	QQQ	1.49	1.74	27	31 Dec 2011
American Beacon Small Cap Idx Inst	QQQ	0.05	0.04	10	31 Oct 2011
Vanguard Instl Ttl Stk Mkt Idx Instl Pls	QQQQ	0.08	0.00	7	30 Sep 2011
Top 5 Sellers					
Wells Fargo Advantage Small Cap Val Inv	QQQQ	1.28	0.15	-49	31 Dec 2011
ING Columbia SmallCap Value II Port I	QQQ	0.26	0.65	-22	30 Sep 2011
American Century Small Cap Gr Investor	QQQ	0.06	0.06	-12	30 Sep 2011
Lord Abbett Micro Cap Value I	QQQQ	0.41	1.38	-7	31 Oct 2011

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### Industry Focus: Banks

Michael Kon, CFA  
Senior Stock Analyst

The market is discounting this firm's improving credit quality and attractive business model.

#### Wilshire Will Reward Those Banking on Its Turnaround

08 February 2012

Wilshire Bancorp WIBC is one of our favorite turnaround plays in regional banking. With a new management team at the helm, plenty of reserves for loan losses, and a record level of capital, Wilshire is positioned to return to high profitability. While its focus on the Korean-American market isolates it from the competitive pressures of mainstream banks, its low-cost operating model serves it well when competing with other ethnic banks. The stock trades nearly 40% below our fair value estimate, an unwarranted discount considering Wilshire's successful turnaround and the quality of its franchise.

Wilshire entered the financial crisis and the Great Recession in a slightly better shape than most California banks of a similar size. The bank had more capital and fewer problem loans than many peers and in June 2009 was even chosen by the FDIC to acquire the failed Mirae Bank, a privilege reserved only for banks that score high on periodic regulatory reviews.

However, in early 2009, the bank's nonperforming loans began to creep up and by 2010, the level of nonperforming loans exceeded that of most peers. While Mirae Bank came with a sizable portfolio of nonperforming loans, Wilshire's legacy loans also started to weaken, becoming a major cause for concern. What exacerbated the problem, in our view, was management's lack of action in light of the worsening credit quality. While Wilshire's peers were selling bad credit and jettisoning weak assets at market prices, management stayed put and failed to introduce a credible loan workout plan.

As a result of management's neglect to address the bank's problem loans, during the second half of 2009 and through 2010 nonperforming loans trended well above its ethnic peers and other California banks. Even more troubling was management's failure in managing the bank's capital. Despite the mounting credit problems, Wilshire's

management ignored the bank's growing need to raise capital and continued to argue that capital wasn't an issue because regulatory capital ratios were still above the official requirements. While nonperforming loans were rising, the bank's common equity plunged almost 40%.

To make matters worse, Wilshire was bleeding capital when most of its California peers were building their own. By the first quarter of 2011, Wilshire's tangible common equity deteriorated to half of the level reported by most peers, reaching 3.9% of total tangible assets--a troubling level, in our view. The bank's regulators noticed the deterioration in Wilshire's financial health and slapped it with a memorandum of understanding, a regulatory action reserved for banks that exhibit financial weakness.

Despite Credit Woes, Wilshire's Business Model Was Never Broken

Despite its credit woes, we think Wilshire still has a viable and attractive business model. Underwriting practices aside, Wilshire's focus on the Korean-American population in Southern California provides it with several advantages over mainstream banks: Unlike the general population, the bank's clients value the relationship with an ethnic bank and usually don't shop around for the best available rate. Wilshire's clients tend to be more entrepreneurial than the general population; the rate of small-business owners among the bank's clients is double the U.S. average. Most of the bank's clients live in proximity to one another, reducing the need to build many branches. The Korean-American population is more educated than the general U.S. population, which leads to a higher saving rate (double the U.S. average) among the bank's clients; since clients tend to keep a sizable portion of their savings in CDs, the bank benefits from a stable deposit base. Serving the Korean-American population enables Wilshire to benefit from trade with South Korea, America's sixth-largest trading partner. We think these advantages led Wilshire to earn higher returns on assets during the period that preceded the financial crisis and could help it return to profitability once credit issues are fully resolved.

Turnaround Efforts Bear Fruit

After sitting on its hands during 2010, Wilshire's board

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### Industry Focus: Banks

finally woke up in early 2011 and launched an aggressive turnaround program to resolve its credit issues. In February, Wilshire replaced its CEO. Jae Whan Yoo joined Wilshire after successfully leading one of its largest competitors through a similar credit turnaround. In May, the bank raised \$100 million by issuing new shares to the public. This doubled the bank's common equity and boosted its capital ratios to record levels. In September, the bank appointed Jack Choi as its new chief credit officer.

Also during 2011, Wilshire changed its credit risk management: It separated the loan production and underwriting functions, established an enterprise risk management department, created a cross-team credit task force to improve credit quality and reduce problem assets, and increased its in-house lending limit to single borrowers. With these actions, Wilshire scrapped its previous underwriting practices and adopted a more robust credit culture. We think this had an immediate impact on the bank's performance. Nonperforming loans in the following quarters declined and the flow of new problem loans began to ebb.

While nonperforming loans dropped 50% from their peak, reserves for loan losses actually increased 33% during the same period and exceeded the level reported by peer ethnic banks and other competitors in California in the second half of 2011. Thanks to management's turnaround efforts, Wilshire ended the third quarter of 2011 with more capital, more reserves, and fewer problem loans than most of its main peers.

Wilshire still has work to do, as its nonperforming assets remain above 3%, higher than its historical levels, and returns on assets and equity still trend below past levels. That said, we believe the bank's comeback in 2011 will make the hurdles ahead of it seem not as hard to overcome.

While bank stocks came under pressure on fears of another recession and a spillover from the European sovereign debt crisis, Wilshire's stock cratered more than 50%. Ironically, this sell-off occurred as the bank's financial health strengthened and performance started to improve. We believe the market is ignoring Wilshire's successful turnaround and prospects. We value the stock at \$6 per share, while it trades around \$3.80--a decent discount,

especially given the successful credit turnaround and the quality of the bank's franchise.