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March 9, 2009

via electronic transmission to:  
[SIGTARP.response@do.treas.gov](mailto:SIGTARP.response@do.treas.gov)

signed original to:

Neil M. Barofsky  
Special Inspector General-TARP  
1500 Pennsylvania Avenue, NW  
Suite 1064  
Washington, D.C. 20220

**Re: Request for Information dated February 6, 2009**

Dear Mr. Barofsky:

On February 10, 2009, Sandy Spring Bancorp, Inc. (Bancorp) received the above noted request for information. In response thereto, Bancorp provides the following information and supporting documentation.

#### **REQUEST FOR CONFIDENTIAL TREATMENT**

Bancorp is providing certain confidential business information in the course of responding to this request. If this confidential information were to come into the hands of a business competitor or were to otherwise be made publicly available, it would have a detrimental effect on Bancorp's business plan and success. Therefore, Bancorp respectfully requests that its submission be treated in a highly confidential manner and that the contents of this response not be made available to the public. Alternatively, if public availability is mandated, Bancorp respectfully requests that the specific identify of all persons and organizations identified herein be redacted so as to prevent specific identification from the context of the material.

#### **ABOUT SANDY SPRING BANCORP, INC.**

With \$3.3 billion in assets, Bancorp is the holding company for Sandy Spring Bank and its principal subsidiaries, Sandy Spring Insurance Corporation, and West Financial Services, Inc. Bancorp is the second largest publicly traded banking company headquartered in Maryland. Sandy Spring Bancorp is a community banking organization

that focuses its lending and other services on businesses and consumers in the local market area. Independent and community-oriented, Sandy Spring Bank was founded in 1868 and offers a broad range of commercial banking, retail banking and trust services through 42 community offices in Anne Arundel, Carroll, Frederick, Howard, Montgomery, and Prince George's counties in Maryland, and Fairfax and Loudoun counties in Virginia. Through its subsidiaries, Sandy Spring Bank also offers a comprehensive menu of insurance and investment management services.

## **RESPONSE TO REQUEST FOR INFORMATION NUMBER 1**

### **Our anticipated use of TARP Funds**

TARP capital will be deployed in a prudent and disciplined manner that is consistent with Bancorp's strategic objectives and Treasury's goal of strengthening the financial system in the United States and expanding the flow of credit. TARP capital, which is in the form of preferred stock, will be used exclusively to support assets and not for expenses. Bancorp's permitted uses of TARP capital may include, among other things:

- Sound lending activities across Bancorp's lines of business.
- Financing transactions across Bancorp's lines of business.
- Purchases of loans and securities in the secondary market that have the effect of increasing liquidity in the credit markets or the mortgage securities markets.
- Any loan modification programs for homeowner avoidance of mortgage loan foreclosures.
- Any homeowner assistance program to help potential at-risk borrowers avoid delinquency.

Bancorp's policy regarding TARP capital includes a prohibition against use for any of the following purposes:

- Compensation or bonuses
- Dividend payments
- Marketing, advertising or corporate sponsorship activities

### **Actual use of TARP funds to date**

The initial deployment of TARP funds was the purchase of approximately \$83 million of mortgage backed securities. The intention of this initial use of the funds was to invest in

high quality, low risk securities issued by Government Sponsored Enterprises (GSE) to assure a reasonable return on these funds and to establish a series of cash flows that could be quickly and easily redeployed into customer-based commercial, mortgage and consumer loans as local economic conditions warrant. The systematic redeployment of the funds would only be done under the normal and customary prudent underwriting standards of the bank to assure no undue credit risk taking on the part of the management of Bancorp. Because the TARP funds were immediately invested in earning assets, they were not segregated from other funds of Sandy Spring Bank.

From December 1, 2008 to February 28, 2009, \$161.35 million of loans were originated by Sandy Spring Bank in the following categories:

Mortgage - \$101.8 (\$82.5 million of these loans were sold into the secondary market)  
Commercial - \$47.5 million  
Consumer - \$12.05 million

Please see attached Exhibit A for more detail on loan originations and initial investment purchases.

**Our anticipated use of TARP funds upon our application for such funds**

Prior to the availability of TARP, as part of our ongoing financial management, and more specifically capital management, Bancorp evaluated the potential and probable impact of a changing economy on our capital levels, credit costs and earnings. During a time when financial markets were essentially frozen and the availability of capital was limited, we viewed the Treasury's investment in select banking institutions as an opportunity for the following three reasons. First, it was an opportunity to obtain relatively less expensive capital to provide Bancorp the ability to remain active in taking care of our clients in the business of lending. Second, access to TARP helped solidify our capital position during what could be a prolonged recession. When there is economic uncertainty, we believe a strong capital position is paramount. (b) (4)

**RESPONSE TO INFORMATION REQUEST NUMBER 2**

Bancorp closed on the TARP-CPP application on December 5, 2008. Pursuant to the resolution of Bancorp's board of directors, attached as Exhibit B, and the requirements of participation, as a condition of closing, the necessary waivers and amendments to employment agreements were duly executed.

The amendment to the employment agreements, a form of which is attached as Exhibit C, includes prohibitions against “golden parachute” payments.

Section 111(b)(2)(a) of the Emergency Economic Stabilization Act of 2008 (“EESA”) requiring limits on compensation that exclude incentives for senior officers of Bancorp to take unnecessary and excessive risks that threaten the value of Bancorp during the period of TARP participation was implemented as follows. Bancorp has no officially titled Senior Risk Officer(s). However, the functions of the Chief Legal Officer, Chief Credit Officer, Chief Internal Auditor and Treasurer were determined to be “individuals acting in a similar capacity.” Therefore, this group (hereafter ROG) was designated as the appropriate group to identify and discuss the long-term and short-term risks facing Bancorp that could threaten the value of the company.

ROG was tasked with identifying the relevant senior executive officers (the Chief Executive Officer, the Chief Financial Officer, and the next three highest paid senior officers – in Bancorp’s case, the same as the “named executive officers” disclosed in the proxy - and reviewing all applicable incentive compensations plans or arrangements that have, or might have, the prohibited effects and reporting the results of this review and analysis to the Human Resources and Compensation Committee (Committee) of the board of directors of Bancorp.

ROG met and reviewed the two incentive compensation plans in effect applicable to senior officers: the Executive Incentive Retirement Plan (EIRP) and the Sandy Spring Leadership Incentive Plan (SSLIP). ROG completed its review and submitted its written report, dated February 18, 2009, to the Committee. A copy of the ROG Report is attached hereto as Exhibit D.

At the Committee’s regularly scheduled meeting on February 19, 2009, the Committee received the ROG Report and discussed any possible long-term and short-term risks that could potentially threaten the value of the financial institution. The Committee identified features of the relevant incentive compensation arrangements that could lead an executive officer to take any of these risks. Upon its review, the Committee concluded that, taken as a whole, the features in the specified incentive compensation arrangements would not encourage the senior officers to take unnecessary and to excessive risks that threaten the value of Bancorp and no amendments to the relevant plans were considered to be necessary or desirable.

In addition, the Committee is aware of the annual requirement to meet with ROG to discuss and review the relationship between the financial institution’s risk management policies and practices and the relevant incentive compensation arrangements and this has been calendared for future Committee action.

Following this process, the Committee authorized the inclusion of the required certification in the committee’s report to be included in Bancorp’s proxy statement for the 2009 annual meeting of shareholders.

On February 27, 2009, Bancorp filed a preliminary proxy with the required “say on pay” proposal as mandated by the American Recovery and Reinvestment Act of 2009 (“ARRA”).

In addition, Bancorp’s president and chief executive officer is aware that on or before April 4, 2009, he is required to certify that the Committee has reviewed the senior executives’ incentive compensation arrangements with the senior risk officers to ensure that these arrangements do not encourage senior executives to take unnecessary and excessive risks that could threaten the value of the financial institution.

With respect to the clawback, golden parachute and tax deduction elements of the EESA compensation standards, Bancorp has established a control procedure within the Finance Department to ensure that it complies with these standards. The control involves tracking total compensation for any executive officer whose compensation approaches the \$500,000 level to ensure that there is no corporate tax return deduction for any sums beyond this amount. Also, the control will provide an alert to any change in the identity of the senior executive officers group and any new executive will enter into any necessary agreements to reflect the clawback and golden parachute requirements.

On or before May 15, 2009, Treasury rules also require that Bancorp’s president and chief executive officer certify that Bancorp and the Committee have complied with the Capital Purchase Program executive compensation standards. Additionally, annual certification thereafter will be provided within 135 days of the completion of each subsequent annual fiscal year during any part of which the financial institution has participated in TARP-CPP. The annual certifications will be provided to the Chief Compliance Officer for the TARP-CPP and copy provided to the transfer agent under the Capital Purchase Program.

Finally, a disclosure was added to the relevant incentive compensation plans to make clear that all plans must comply with all executive compensation rules as long as Bancorp remains a participant in TARP-CPP. See copy attached hereto as Exhibit E.

The ARRA requires Treasury to establish regulations to address further executive compensation restrictions contained in the Act. In accordance with information released by your office and absent more current guidelines from the Treasury, other than as addressed above, our responses regarding executive compensation are submitted in accordance with the guidelines that are currently available from the Treasury.

The impact of all the applicable limitations on executive compensation can not be fully determined and measured until the implementing regulations are issued. As a result, at this time, Bancorp is unable to determine if such limitations may be offset by other changes to long-term or deferred forms of executive compensation.

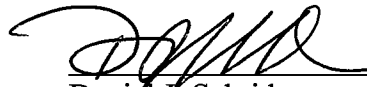
**ASSOCIATED TARP-CPP DOCUMENTS.**

Attached hereto as an appendix are certain related TARP-CPP news releases and associated documents relating to Bancorp as a TARP-CPP participant.

In addition to the submitted documents, since receipt of the request for information, Bancorp has segregated and retained, and will continue to do so, all documents with regard to anticipated or actual use of TARP funds to the extent such documents existed.

**CERTIFICATION**

I, Daniel J. Schrider, President and Chief Executive Officer of Sandy Spring Bancorp, Inc., certify that: I have reviewed this response and supporting documents, and, based on my knowledge, this response and the supporting documents do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.



\_\_\_\_\_  
Daniel J. Schrider,  
President and Chief Executive Officer

**CONCLUSION**

We hope this response has adequately addressed the requested information. Should you require additional information, please let us know.

Sincerely yours,



\_\_\_\_\_  
Daniel J. Schrider  
President and Chief Executive Officer

**Sandy Spring Bancorp**  
**Schedule of Loan Originations**  
**December 1, 2008 to February 28, 2009**

	<u># of Loans</u>	<u>Original Balance</u>
<b>Commercial Loans</b>		
Commercial Fixed	62	\$ 10,781,085
Commercial Floating	18	10,178,166
Commercial Real Estate Floating	1	550,000
Commercial Real Estate Fixed	18	19,161,000
Commercial Construction	1	4,900,000
Commercial Reserve - Line of Credit	21	1,985,000
Total Commercial Loans		<u>\$ 47,555,251</u>
<b>Mortgage Loans</b>		
Second Mortgage - Balloon	17	\$ 2,345,260
Residential Construction	6	10,004,350
Residential Mortgages - 5/1 ARMS	2	1,339,000
Residential Mortgages - 3/1 ARMS	10	5,121,077
Residential Mortgages - 7/1 ARMS	1	440,721
Loans Sold in the Secondary Market	284	82,550,193
Total Mortgage Loans		<u>\$ 101,800,601</u>
<b>Consumer Loans</b>		
Personal Unsecured Lines of Credit	46	\$ 177,500
Automobile Loans	6	75,143
Home Equity Loans	3	113,865
Personal Loans secured by Savings Accounts	12	147,237
Home Equity Lines of Credit	107	11,541,500
Total Consumer Loans		<u>\$ 12,055,245</u>
<b>Total Loan Originations</b>	<b>615</b>	<b><u>\$ 161,411,098</u></b>

**Sandy Spring Bancorp  
Securities Purchased using TARP Funds  
November/December 2008**

<u>CUSIP</u>	<u>DESCRIPTION</u>	<u>COST</u>
31331GFT1	FFCB (4 YEARS, NO CALL 3 MONTHS, CONTINUOUS)	\$ 3,000,000
31331YWG1	FFCB (3 YEARS, NO CALL)	4,997,500
3133XLX73	FHLB (3 YEARS, NO CALL 10 MONTHS, BULLET)	5,229,000
3133XSNF1	FHLB (3 YEARS, NO CALL 1 YEAR, CONTINUOUS)	5,000,000
3133XSNF1	FHLB (3 YEARS, NO CALL 1 YEAR, CONTINUOUS)	2,000,000
3133XSNK0	FHLB (2 YEARS, NO CALL 3 MONTHS, CONTINUOUS)	3,000,000
3133XSNS3	FHLB (2 YEARS, NO CALL 6 MONTHS, CONTINUOUS)	5,000,000
3133XSNZ7	FHLB (4 YEARS, NO CALL 1 YEAR, CONTINUOUS)	5,000,000
3133XSRC4	FHLB (3.5 YEARS, NO CALL 1 YEAR, 1 TIME CALL)	5,000,000
3133XSRJ9	FHLB (3 YEARS, NO CALL 3 MONTHS, CONTINUOUS)	5,000,000
	<b>Total FFCB/FHLB Securities</b>	<b>\$ 43,226,500</b>
3128JRJS6	FHLMC MBS, POOL 847473, 3 YEAR/1 YEAR ARM	\$ 6,541,643
3128JRJS6	FHLMC MBS, POOL 847473, 3 YEAR/1 YEAR ARM	7,118,674
31349T5E7	FHLMC MBS, POOL 782645, 3 YEAR/1 YEAR ARM	5,274,433
	<b>Total FHLMC Securities</b>	<b>\$ 18,934,750</b>
36202EXC8	GNMA MBS, POOL G24275, 15 YEAR, FIXED	\$ 8,095,168
36296DM54	GNMA MBS, POOL GN688080, 15 YEAR, FIXED	6,078,117
36296DM54	GNMA MBS, POOL GN688080, 15 YEAR, FIXED	4,070,000
36296VQW1	GNMA MBS, POOL GN702569, 15 YEAR, FIXED	3,945,047
	<b>Total GNMA Securities</b>	<b>\$ 22,188,332</b>
	<b>Total Securities Purchased</b>	<b>\$ 84,349,582</b>



**SANDY SPRING BANCORP, INC.  
BOARD OF DIRECTORS**

**Resolutions to Authorize Issuance of Preferred Stock and Warrant in  
Capital Purchase Program**

**WHEREAS**, Sandy Spring Bancorp, Inc. (the “Corporation”) has applied for approval to participate in the Capital Purchase Program as authorized by the recently enacted Emergency Economic Stabilization Act of 2008; and

**WHEREAS**, the Board of Directors believes that it is in the best interests of the Corporation and its stockholders that the Corporation participate in the Capital Purchase Program.

**Preferred Stock Offering**

**RESOLVED**, that pursuant to the provisions of the Articles of Incorporation and the bylaws of the Corporation and applicable law, a series of preferred stock, par value \$1.00 per share, of the Corporation (“Preferred Stock”) be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, shall be as set forth in the form of Articles Supplementary attached hereto as Exhibit A.

**RESOLVED FURTHER**, that Hunter R. Hollar, Daniel J. Schrider, Philip J. Mantua and Ronald E. Kuykendall or their respective designees (each, an “Authorized Officer”) be, and each of them hereby is, authorized and empowered, on behalf of the Corporation and in its name, to execute or cause to be executed Articles Supplementary substantially in the form attached hereto and that the Authorized Officers are authorized, empowered and directed to make any amendments as they deem necessary, appropriate or desirable, the execution of such Articles Supplementary being deemed to constitute conclusive evidence of their approval of such changes.

**RESOLVED FURTHER**, that the Authorized Officers be, and each of them hereby is, authorized and empowered on behalf of the Corporation and in its name, to file or cause to be filed with the Department of Assessments and Taxation of the State of Maryland the Articles Supplementary and such other documents necessary, advisable or appropriate to permit the issuance of the Preferred Stock.

**RESOLVED FURTHER**, that the Board of Directors hereby authorizes the offer, sale and issuance by the Corporation to the United States Department of the Treasury of up to the amount of the Preferred Stock approved for purchase by the Department of the Treasury, as determined by the Authorized Officers.

**RESOLVED FURTHER**, that the purchase price for the Preferred Stock shall be \$1,000 per share and that payment of the purchase price shall be adequate consideration for the shares of Preferred Stock so that upon receipt of such payment such shares shall be fully paid and nonassessable.

### **Warrant**

**RESOLVED**, that the Corporation be, and it hereby is, authorized to grant a warrant (“Warrant”) to purchase shares of the Corporation’s common stock, par value \$1.00 (“Common Stock”), having an aggregate market price equal to 15% of the purchase price of the Preferred Stock the terms of which are contained in the form of the Warrant to Purchase Common Stock promulgated by the United States Department of the Treasury attached hereto as Exhibit B.

**RESOLVED FURTHER**, that there shall be reserved for issuance that number of shares of Common Stock that may be acquired pursuant to the exercise of the Warrant, such number of shares of Common Stock so reserved to be adjusted automatically to reflect the any adjustment in the number of shares to be issued pursuant to the Warrant.

### **Execution of Agreement**

**RESOLVED**, that each of the Authorized Officers be, and hereby is, authorized and empowered, in the name and on behalf of the Corporation, to execute and deliver a Letter Agreement with the United States Department of the Treasury, to which the Securities Purchase Agreement – Standard Terms in the form promulgated by the Department of the Treasury shall be attached, all in the form attached hereto as Exhibit C, pursuant to which the Corporation will sell the Preferred Stock and grant the Warrant to the Department of the Treasury.

### **Filing of a Registration Statement**

**RESOLVED**, that the preparation and filing with the Securities and Exchange Commission, in accordance with the Securities Act of 1933, as amended, and the rules and regulations thereunder, of a registration statement or registration statements relating to the re-sale of shares of Preferred Stock, Warrant and shares of Common Stock to be issued upon exercise of the Warrant (the “Registration Statement”), together with such changes as may be approved by the Authorized Officers is hereby authorized and approved.

**RESOLVED FURTHER**, that the execution of the Registration Statement on behalf of the Corporation by any Authorized Officer, is hereby authorized and approved.

**RESOLVED FURTHER**, that each of the persons authorized by the foregoing resolutions to execute any such Registration Statement is hereby authorized and empowered to execute, in person or through any one or more authorized attorneys, on behalf of the Corporation and individually as an officer, such amendments to such Registration Statement as are necessary or appropriate.

**RESOLVED FURTHER**, that Ronald E. Kuykendall be, and hereby is, designated and appointed as the agent for service of the Corporation in all matters relating to the Registration Statement (and any amendments thereto).

**Contribution of Net Proceeds to Bank**

**RESOLVED**, that upon consummation of the sale of the Preferred Stock, the Corporation be, and it hereby is, authorized to contribute to Sandy Spring Bank such portion of the net offering proceeds as the Chief Executive Officer, President, and Chief Financial Officer shall determine.

**Authorization of Transfer Agent to Issue Shares**

**RESOLVED**, that American Stock Transfer & Trust Co. be, and it hereby is, appointed as transfer agent for the Preferred Stock and authorized and directed to make an original issue of certificates representing the shares of Preferred Stock to be sold by the Corporation, in accordance with instructions from any of the Authorized Officers or their designees.

**RESOLVED FURTHER**, that the shares referred to in the preceding resolution shall be represented by certificates registered in such names and denominations as any Authorized Officer or his designee may request, and said transfer agent is authorized and directed to deliver the certificates for the shares of Preferred Stock to be sold to the purchasers thereof as directed by any Authorized Officer.

**RESOLVED FURTHER**, that American Stock Transfer & Trust Co., as transfer agent for the Corporation's Common Stock, be and hereby is authorized and directed to issue certificates representing shares of Common Stock to be issued upon the exercise of the Warrant in such names and denominations as any of the Authorized Officers or their designees may request.

**Listing of Securities and Additional Securities**

**RESOLVED**, that each of the Authorized Officers are authorized to execute and deliver to the Nasdaq Stock Market, or any other stock exchange or market or any appropriate securities information processing network, an application, including any amendment or supplement thereto, for the listing of or quotation of the Preferred Stock and Common Stock that may be issued upon exercise of the Warrant, and may appoint a listing agent or listing agents to represent the Corporation for such purpose and to execute, in the name and on behalf of the Corporation, any other agreement or instrument that may be necessary or appropriate to accomplish such listing.

## **Blue Sky Laws**

**RESOLVED**, that each of the Authorized Officers hereby is authorized and empowered to execute, seal, attest, acknowledge and deliver such documents, applications and other instructions for the registration or qualification of all or any portion of the shares of Preferred Stock and Warrant to be offered as they may, upon advice of counsel, deem necessary or advisable to permit the sale of such securities under the Blue Sky laws or securities laws of any state in the United States, and, for this purpose, that the Authorized Officers be, and each of them hereby is, authorized and empowered to execute, seal, attest, acknowledge and file in the name and on behalf of the Corporation, consents to service of process, issuer's covenants, powers of attorney and other documents.

## **General Authorizations**

**RESOLVED**, that each of the Authorized Officers is hereby authorized to execute, in the name and on behalf of the Corporation and under its corporate seal or otherwise, deliver and file any agreement, articles supplementary to the Corporation's Articles of Incorporation, instrument, certificate, application to any regulatory authority or any other document, or any amendment or supplement thereto, and to take any other action that such officer may deem necessary, convenient or appropriate to carry out the intent and purpose of the preceding resolutions and to effectuate the transactions contemplated thereby.

**RESOLVED FURTHER**, that any acts of any of the Authorized Officers taken prior to the adoption of these resolutions are hereby ratified, confirmed, approved and adopted as acts in the name of and on behalf of the Corporation.

**RESOLVED FURTHER**, that the Authorized Officers, or their designees, are hereby authorized to retain such other professionals (on such terms and conditions as they deem appropriate) to assist the Corporation in connection with the offering of the Preferred Stock and Warrant.

\* \* \* \*

**SANDY SPRING BANCORP, INC.  
BOARD OF DIRECTORS**

**Resolutions to Approve Amendments to Compensation Arrangements per the Capital Purchase Program Under the Emergency Economic Stabilization Act of 2008**

**WHEREAS**, Sandy Spring Bancorp, Inc. (the “Corporation”) has applied for approval to participate in the Capital Purchase Program as authorized by the recently enacted the Emergency Economic Stabilization Act of 2008 (“EESA”); and

**WHEREAS**, it is a requirement for participation in the Capital Purchase Program that the Corporation effect such changes to its compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) with respect to its senior executive officers (as determined pursuant to EESA), as may be necessary, during the period that the United States Department of the Treasury owns any debt or equity securities of the Corporation acquired pursuant to the Capital Purchase Program, in order to comply with Section 111(b) of EESA; and

**WHEREAS**, in order to comply with such requirement, the Corporation desires to amend its employment agreements with its senior executive officers to prohibit any golden parachute payment during the period that the United States Department of the Treasury owns any debt or equity securities of the Corporation acquired pursuant to the Capital Purchase Program.

**RESOLVED**, that the form of amendment to the existing employment agreements with the senior executive officers of the Corporation substantially in the form presented to the Board of Directors is hereby approved and adopted and that the Chief Executive Officer of the Corporation is authorized to execute and deliver such amendment on behalf of the Corporation.

\* \* \* \*

**FORM OF**  
**Amendment**  
**to the**  
**Employment Agreement**  
**(TARP)**

This Amendment to the Employment Agreement is entered into as of **[date]**, by and between Sandy Spring Bancorp, Inc., Sandy Spring Bank (collective referred to as the “Employers” or individually as the “Bancorp” and “Bank,” respectively), and **[name]** (the “Officer”).

WHEREAS, the Officer is currently employed as the **[title]** of the Employer;

WHEREAS, the Executive and the Employers previously entered into an Employment Agreement dated **[date]** (the “Employment Agreement”);

WHEREAS, the Executive and the Employers desire to amend the Employment Agreement in such a manner that the Employment Agreement not hinder the Employer’s ability to participate in the Troubled Assets Relief Program (TARP), the Capital Purchase Program (CPP) or any other program authorized by the Emergency Economic Stabilization Act of 2008.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree to amend the Employment Agreement as follows:

1. A new Section 26 is added to the Employment Agreement to read as follows:
  26. Troubled Assets Relief Program and Capital Purchase Program
    - (a) It is intended that this Agreement and all other arrangements between the Employers and the Officer (collectively, the “Compensation Arrangements”), comply with the terms of the Capital Purchase Program (CPP). During any time in which the Employers participate in the CPP, to the extent that the Employers determine that the terms of any Compensation Arrangement do not comply with the terms of the CPP, such Compensation Arrangement shall be deemed amended to the minimum extent necessary to comply with the terms of the CPP.
    - (b) Notwithstanding any other provision of any Compensation Arrangement to the contrary, to the extent the Officer is a “senior executive officers” (as such term is defined for purposes of the CPP), the Employers will not make any payment to him in connection with “an applicable severance from employment” (as such term is defined for purposes of the CPP) to the extent the payment exceeds the golden parachute payment limitations of the CPP. If the payments and benefits provided under the Compensation Arrangements would exceed the golden parachute limitations of the CPP, the payments and benefits shall be reduced or revised, in the manner determined by the Officer (subject to the next sentence), by the amount, if any, which is the minimum necessary to result in no portion of the payments and benefits exceeding the

limitations. The Bancorp's independent public accountants will determine the extent of any reduction in the payments and benefits to be made pursuant to this Section 26; the Bancorp will pay for the accountant's services.

(c) This provision shall expire and have no effect at such time the Employers and the Officer are no longer subject to the restrictions imposed in connection with participating in the CPP.

2. Except as expressly provided herein, the terms and conditions of the Employment Agreement shall remain in full force and effect and shall be binding on the parties hereto until the expiration of the term of the Agreement.

3. Effectiveness of this Amendment to the Employment Agreement shall be conditioned upon approval by Employers' Boards of Directors (or the appropriate committees thereof), and this Amendment to the Employment Agreement shall become effective on the later of date of such approval and execution by both parties hereto (the "Effective Date").

[signature page follows]

IN WITNESS WHEREOF, the parties have duly executed and delivered this Amendment to the Employment Agreement, or have caused this Amendment to the Employment Agreement to be duly executed and delivered in their name and on their behalf, as of the day and year first above written.

SANDY SPRING BANCORP, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

SANDY SPRING BANK

By: \_\_\_\_\_

Title: \_\_\_\_\_

OFFICER

\_\_\_\_\_  
Name



SANDY SPRING BANCORP, INC.

REPORT OF THE RISK OFFICER GROUP (ROG)

TO THE

HUMAN RESOURCES AND COMPENSATION COMMITTEE (HRCC)

COMPLIANCE WITH EXECUTIVE COMPENSATION STANDARDS OF TARP-CPP  
TO ENSURE THAT INCENTIVE COMPENSATION FOR SENIOR EXECUTIVES  
DOES NOT ENCOURAGE UNNECESSARY AND EXCESSIVE RISKS THAT  
THREATEN THE VALUE OF THE FINANCIAL INSTITUTION

Date of Report: February 18, 2009

Confidential and Intended for Internal Use Only

## **I. Background**

The Emergency Economic Stabilization Act of 2008 (“EESA”) imposes certain executive compensation and corporate governance requirements on financial institutions that sell troubled assets under the Troubled Asset Relief Program (“TARP”). Through regulations adopted by the Department of the Treasury, these requirements have been extended to Bancorp as a participant in the TARP-Capital Purchase Program.

In order to comply with Section 111 of EESA, amendments to employment agreements for the named executive officers requiring the “clawback” of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate; and amendments that prohibit the financial institution from making any golden parachute payment (based on the Internal Revenue Code provision) to a senior executive were previously executed by the executive officers as part of the transaction closing. A condition of participating in TARP-CPP is that the Corporation agrees not to deduct for tax purposes executive compensation in excess of \$500,000 for each senior executive.

## **II. Review of Incentive Compensation for Excessive Risk Taking**

This report addresses the further requirement that Bancorp must ensure that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution.

For purposes of Section 111(b)(2)(A) of EESA, the executive compensation restrictions generally apply to the CEO, CFO and other named executive officers (i.e., the three most highly compensated officers who are not the CEO or CFO) (collectively herein: named executive officers) whose compensation is required to be disclosed in Bancorp’s annual proxy statement under SEC disclosure rules. For Bancorp, in 2008, this includes Hunter R. Hollar, Sara E. Watkins, Daniel J. Schrider, Philip J. Mantua, Frank Small, and R. Louis Caceres. In 2009, it will include Messrs. Schrider and Mantua, and the next three highest paid executive officers.

Specifically, Section 111(b)(2)(A) of EESA requires “limits on compensation that exclude incentives for senior officers of a financial institution to take unnecessary and excessive risks that *threaten the value of the financial institution* during the period that the [Department of the Treasury] holds an equity or debt position in the financial institution” (emphasis added).

Sandy Spring Bank’s risk responsibilities are managed by and through the Chief Legal Officer, the Chief Credit Officer, the Chief Internal Auditor and the Treasurer. To address Bancorp’s compliance responsibility in this aspect of ESSA, executive management established the above functional officers as the Risk Officer Group (ROG). (None of these officers are named executive officers, though all of the ROG members potentially could participate on the Sandy Spring Senior leadership Incentive Plan (SSLIP). ROG was charged with identification of all applicable senior officer incentive

compensation plans and to review said plans for inherent risks that threaten the value of the institution.

For discussion purposes, the standard of “risks that threaten the value of the institution” was recognized as not specifically defined by the law or regulation. However, it was considered to be similar to the Federal Reserve Bank’s “safety and soundness” examination standard. Thus, the ROG task was framed as a review and analysis of applicable incentive plans to determine if any particular component of the incentive plans, either individually, or in the aggregate threaten the safety and soundness of the bank.

To facilitate ROG’s review and analysis, the FRBR examination manual list of identified risks was adopted as the appropriate identification and definition of applicable risks. These risks are defined as follows:

***Credit risk*** arises from the potential that a borrower or counterparty will fail to perform on an obligation.

***Market risk*** is the risk to a financial institution's condition resulting from adverse movements in market rates or prices, such as interest rates, foreign-exchange rates, or equity prices.

***Liquidity risk*** is the potential that an institution will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding (referred to as "funding-liquidity risk"), or the potential that the institution cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (referred to as "market-liquidity risk").

***Operational risk*** arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses.

***Legal risk*** arises from the potential that unenforceable contracts, lawsuits, or adverse judgments can disrupt or otherwise negatively affect the operations or condition of a banking organization.

***Reputational risk*** is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions.

Note: Bancorp also identifies **Capital Adequacy** as a risk and manages this risk through policies administered by ALCO and reported on quarterly to the board of directors.

Prior to beginning the review and analysis, ROG requested all executive officers and the Human Resources Department Director to specifically identify, in writing, all incentive plans in which they participated. Only two such plans were identified: SSLIP and the Executive Incentive Retirement Plan (EIRP).

(b) (4)

On February 17, 2009, the Risk Officer Group met to review the EIRP and SSLIP incentive compensations plans. The objective was to analyze the components of each plan for risks, including long-term as well as short term, that may threaten the value of the institution in order to report the same to Bancorp's Human Resources and Compensation Committee (HRCC).

Following analysis of each of the plans and the respective components thereof, ROG reached the following determinations:

(b) (4)

(b) (4)

(b) (4)

(b) (4)

- [REDACTED]
- 5. The overall strength of executive management relative to risk management was also noted as a strong factor that reduces potential risk. (b) (8)  
[REDACTED] The frequency of such examinations (annually) was also considered a “safety” for preventing excessive risks.
- 6. The system of internal controls and Bancorp’s compliance therewith as mandated by the Sarbanes-Oxley Act of 2002 was also specifically noted as providing strong checks and balances against the undue influence of an individual officer or a single plan component from getting too far out of alignment with the overall strategic goals as approved by the board of directors.

ROG concluded its review of the executive officer compensation plans and authorized Mr. Kuykendall to present this report on its behalf to the HRCC.

### **III. HRCC Duties Regarding Board Certification of Review of Executive Officer Incentive Compensation Arrangements**

The HRCC, in turn, must identify the features in the named executive officer incentive compensation arrangements, if any, that could lead a named executive officer to take such risks. If necessary, HRCC must modify named executive officer incentive compensation arrangements so that they do not encourage the taking of unnecessary and excessive risks that threaten the value of the company.

As long as Bancorp remains a TARP-CPP participant, HRCC must meet annually with ROG to discuss and review the relationship between the financial institution’s risk management policies and practices and the SEO incentive compensation arrangements. HRCC and ROG should discuss any possible long-term and short-term risks that could potentially threaten the value of the financial institution. HRCC should identify any features of the SEO incentive compensation arrangements that could lead a SEO to take any of these risks. HRCC then should limit these features to ensure the SEO is not encouraged to take any unnecessary or excessive risks.

HRCC must provide certification of the reviews described above, stating that it has reviewed, with ROG, the SEO incentive compensation arrangements to ensure that the incentive compensation arrangements do not encourage SEO to take any unnecessary and excessive risks.

This certification should appear in the HRCC report required in the annual meeting proxy statement pursuant. The following statement has been added to the HRCC report in anticipation of the completion of all required tasks:

“The Human Resources and Compensation Committee certifies that it has reviewed with senior risk officers the incentive compensation arrangements with senior executive officers (as defined in subsection 111(b)(3) of the Emergency Economic Stabilization Act of 2008 and 31 C.F.R. § 30.2) and has made reasonable efforts to ensure that such arrangements do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the financial institution.”

Signed by the members of the Risk Officers Group on February 18, 2009.

/s/ \_\_\_\_\_  
Ronald E. Kuykendall  
EVP, General Counsel & Secretary

/s/ \_\_\_\_\_  
**(b) (6)**  
EVP, Chief Credit Officer

/s/ \_\_\_\_\_  
**(b) (6)**  
SVP, Chief Internal Auditor

/s/ \_\_\_\_\_  
**(b) (6)**  
SVP, Treasurer

Post Script: President Obama signed the American Recovery and Reinvestment Tax Act of 2009 (commonly referred to as the stimulus bill) into law during the ROG meeting. The full impact on EIRP and SSLIP of that law, including whether incentive bonuses can be paid while participating in TARP-CPP, has not been assessed.

**INCENTIVE COMPENSATION PLANS TARP DISCLOSURE**

**Impact of the American Recovery and Reinvestment Act of 2009 (ARRA) Restrictions on Executive Compensation for TARP-CPP Participants**

ARRA became effective on February 17, 2009. This law requires the U.S. Treasury Department to establish additional standards for executive compensation for participants in the TARP Capital Purchase Program. As a participant, Bancorp will be subject to these additional standards. These standards must include a prohibition on making any severance payment to a named executive officer or any of the next five most highly compensated employees and a prohibition on paying or accruing any bonus, retention award or incentive compensation to, in the case of Bancorp, at least the five most highly compensated employees, other than certain restricted stock awards. These new compensation standards may require Bancorp to make significant adjustments to the manner in which it compensates the named executive officers during the period in which the preferred stock issued to the Treasury Department remains outstanding. Because the specific requirements of these executive compensation standards will depend on the regulations to be issued by the Treasury Department, this SSLIP document does not attempt to make any determinations about which elements of compensation for named executive officers or others that will be changed for 2009 or how they will be changed as a result of ARRA. Bancorp is committed to full compliance with all applicable laws and regulations including ARRA and executive management and/or the board of directors will modify, amend, revise or eliminate provisions of SSLIP as become necessary or desirable.

Similar disclosure to be affixed to Bancorp's Executive Incentive Retirement Plan



*NEWS RELEASE*

**FOR IMMEDIATE RELEASE**

**Sandy Spring Bancorp, Inc. Receives Preliminary Approval for \$83 Million Under the Treasury's Capital Purchase Program**

**OLNEY, MARYLAND**, November 20, 2008 ---- Sandy Spring Bancorp, Inc. (Nasdaq: SASR) the parent company of Sandy Spring Bank, was notified by the U.S. Department of the Treasury it has received preliminary approval to participate in the Capital Purchase Program as part of the Emergency Economic Stabilization Act of 2008.

"We are pleased to participate in this program which has been intentionally designed to stabilize our financial markets and provide an additional margin of strength to those institutions that are best positioned to weather the current economic climate," said Hunter R. Hollar, Chairman and Chief Executive Officer.

The Treasury has approved the purchase of up to \$83 million in senior preferred stock of Sandy Spring Bancorp, Inc. with a 5% annual dividend yield for five years, and 9% thereafter. In addition the Treasury will receive warrants to purchase up to approximately \$12.5 million of Bancorp common stock.

"The additional investment will enhance our already strong capital position," said President Daniel J. Schrider. "The funds will support our lending activities in the local market as well as provide flexibility to evaluate future opportunities that may arise."

As of September 30, 2008, Bancorp's capital position was "well capitalized" by all regulatory standards. With the full amount of Treasury's investment, Bancorp's Tier 1 capital ratio would increase to approximately 12.68% and total risk-based capital ratio would increase to approximately 13.93%.

**ABOUT SANDY SPRING BANCORP, INC.**

With \$3.2 billion in assets, Sandy Spring Bancorp is the holding company for Sandy Spring Bank and its principal subsidiaries, Sandy Spring Insurance Corporation, The Equipment Leasing Company and West Financial Services, Inc. Sandy Spring Bancorp is the second largest publicly traded banking company headquartered in Maryland. Sandy Spring is a community banking organization that focuses its lending and other services on businesses and consumers in the local market area. Independent and community-oriented, Sandy Spring Bank was founded in 1868 and offers a broad range of commercial banking, retail banking and trust services through 42 community offices in Anne Arundel, Carroll, Frederick, Howard, Montgomery, and Prince George's counties in Maryland, and Fairfax and Loudoun counties in Virginia. Through its subsidiaries, Sandy



Spring Bank also offers a comprehensive menu of leasing, insurance and investment management services. Visit [www.sandyspringbank.com](http://www.sandyspringbank.com) to locate an ATM near you or for more information about Sandy Spring Bank.

For additional information or questions, please contact:

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Daniel J. Schrider, President, or  
Philip J. Mantua, Executive V.P. & Chief Financial Officer  
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### **Forward-Looking Statements**

Sandy Spring Bancorp makes forward-looking statements in this news release. 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 expressions. 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. Sandy Spring Bancorp 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 Sandy Spring Bancorp anticipated in its forward-looking statements, and future results could differ materially from historical performance.

Sandy Spring Bancorp’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, regulations, and policies; and a variety of other matters which, by their nature, are subject to significant uncertainties. Sandy Spring Bancorp 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, and in its other SEC reports. Sandy Spring Bancorp’s forward-looking statements may also be subject to other risks and uncertainties, including those that it may discuss elsewhere in this news release or in its filings with the SEC, accessible on the SEC’s Web site at [www.sec.gov](http://www.sec.gov).



*NEWS RELEASE*

**FOR IMMEDIATE RELEASE**

**Sandy Spring Bancorp, Inc. Completes Sale of \$83 Million in Preferred Stock Under the Treasury's Capital Purchase Program**

**OLNEY, MARYLAND**, December 5, 2008 ---- Sandy Spring Bancorp, Inc. (Nasdaq: SASR) the parent company of Sandy Spring Bank, announced today that it completed the sale of 83,094 shares of Preferred Stock, Series A under the TARP Capital Purchase Program for \$83 million from the U.S. Treasury. The investment represents 3% of total risk-weighted capital as of September 30, 2008. The Preferred Stock carries a 5% annual dividend yield for five years, and 9% thereafter. In addition, the U.S. Treasury also received a warrant to purchase up to 651,547 shares of Bancorp common stock at an exercise price of \$19.13.

President Daniel J. Schrider said, "Sandy Spring Bank was founded in 1868 and is very proud to have a history of working through economic cycles. This infusion of capital provides an additional measure of strength that will enable us to help both new and existing clients manage through these difficult times as well as take advantage of opportunities presented by continued bank consolidations in our market."

As of September 30, 2008, Bancorp's capital position was "well capitalized" by all regulatory standards. With the full amount of Treasury's investment, Bancorp's Tier 1 capital ratio would increase to approximately 12.68% and total risk-based capital ratio would increase to approximately 13.93%.

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With \$3.2 billion in assets, Sandy Spring Bancorp is the holding company for Sandy Spring Bank and its principal subsidiaries, Sandy Spring Insurance Corporation, The Equipment Leasing Company and West Financial Services, Inc. Sandy Spring Bancorp is the second largest publicly traded banking company headquartered in Maryland. Sandy Spring is a community banking organization that focuses its lending and other services on businesses and consumers in the local market area. Independent and community-oriented, Sandy Spring Bank was founded in 1868 and offers a broad range of commercial banking, retail banking and trust services through 42 community offices in Anne Arundel, Carroll, Frederick, Howard, Montgomery, and Prince George's counties in Maryland, and Fairfax and Loudoun counties in Virginia. Through its subsidiaries, Sandy Spring Bank also offers a comprehensive menu of leasing, insurance and investment management services. Visit [www.sandyspringbank.com](http://www.sandyspringbank.com) to locate an ATM near you or for more information about Sandy Spring Bank.

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### **Forward-Looking Statements**

Sandy Spring Bancorp makes forward-looking statements in this news release. 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.

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Sandy Spring Bancorp’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, regulations, and policies; and a variety of other matters which, by their nature, are subject to significant uncertainties. Sandy Spring Bancorp 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, and in its other SEC reports. Sandy Spring Bancorp’s forward-looking statements may also be subject to other risks and uncertainties, including those that it may discuss elsewhere in this news release or in its filings with the SEC, accessible on the SEC’s Web site at [www.sec.gov](http://www.sec.gov).



**FOR IMMEDIATE RELEASE**

**SANDY SPRING BANCORP REPORTS FOURTH QUARTER  
AND FULL YEAR RESULTS**

OLNEY, MARYLAND, January 29, 2009 — Sandy Spring Bancorp, Inc., (Nasdaq-SASR) the parent company of Sandy Spring Bank, today announced a net loss available to common shareholders for the fourth quarter of 2008 of \$3.8 million (\$.23 per diluted share) compared to net income of \$8.4 million (\$.51 per diluted share) for the fourth quarter of 2007 and net income of \$5.4 million (\$.33 per diluted share) for the third quarter of 2008. The fourth quarter of 2008 includes a pre-tax impairment charge of \$1.9 million to write down the remaining value of goodwill in the Company's leasing subsidiary, The Equipment Leasing Company, and a provision for loan and lease losses of \$17.8 million, related primarily to the residential real estate development portfolio.

Net income available to common shareholders for the year ending December 31, 2008 totaled \$15.4 million (\$.94 per diluted share) compared to net income of \$32.3 million (\$2.01 per diluted share) for the prior year. The results for the current year include a total goodwill impairment charge of \$4.2 million relating to The Equipment Leasing Company and a provision for loan and lease losses for the year of \$33.2 million.

"This increased provision reflects our recognition of the continuing decline in economic conditions both nationwide and across our markets. This increase to the reserve is due to internal risk rating downgrades to existing credits, charge-offs and additional specific reserves primarily associated with loans in our residential real estate development portfolio," said Daniel J. Schrider, President and Chief Executive Officer. "We have put into place additional staffing and reporting tools to enhance our ability to monitor our credit quality and to identify and expeditiously deal with problem credits as they arise."

"While our non-performing assets increased from the third quarter, we continue to believe that our conservative loan underwriting standards and our comprehensive methodology for risk-rating our loans will serve us well for the long term as we manage through this tough economic cycle. Concurrently, we are working hard to maintain control over operating expenses."

"We continue to focus on sustaining our position as a long-term independent competitor in the Mid-Atlantic community banking landscape. Pursuant to this goal, we applied for and received in the fourth quarter \$83 million in new capital through the sale of preferred stock to the U. S. Treasury. We believe this will help us to remain well-capitalized as we work out existing problem credits and continue to originate new loans to qualifying customers," said Schrider. "We are committed to retaining and supporting our existing customers through the highest level of customer service and the delivery of quality products."

#### **Fourth Quarter and Full Year Highlights:**

- The provision for loan and lease losses totaled \$17.8 million for the quarter compared to \$1.7 million for the fourth quarter of 2007 and \$6.5 million for the third quarter of 2008. For the year, the provision for loan and lease losses totaled \$33.2 million compared to \$4.1 million in 2007. These increases were in response to internal risk rating downgrades, charge-offs and additional specific reserves primarily related to loans in the residential real estate development portfolio.
- As previously disclosed, the Company recognized a pre-tax impairment charge of \$1.9 million in the fourth quarter of 2008 and \$4.2 million for the full year relating to the write down of the remaining value of goodwill in our leasing subsidiary, The Equipment Leasing Company, based on completion of Phase II of its impairment analysis.
- During the fourth quarter of 2008 the company completed the sale of 83,094 shares of preferred stock under the U. S. Treasury's Capital Purchase Program for \$83 million. The preferred stock carries a 5% annual dividend yield for five years, and a 9% annual dividend yield thereafter. In addition, the U.S. Treasury also received a warrant to purchase up to 651,547 shares of Sandy Spring Bancorp common stock at an exercise price of \$19.13.
- The net interest margin declined to 3.73% for the fourth quarter compared to 4.19% for the fourth quarter of 2007 and 4.02% for the third quarter of 2008. For the year, the net interest margin declined to 3.92% compared to 4.13% for 2007.
- Noninterest expenses increased 8% for the quarter compared to the fourth quarter of 2007 and increased 8% versus the third quarter of 2008. Excluding the goodwill impairment charge in the fourth quarter of 2008, noninterest expenses remained even compared to the fourth quarter of 2007 and declined 4% compared to the third quarter of 2008. For the full year of 2008, noninterest expenses increased 2% compared to 2007. Excluding the goodwill impairment charges and a pre-tax pension credit of \$1.5 million recognized in the third quarter of 2008, noninterest expenses were virtually even versus the prior year. These results are consistent with the Company's expectations for project LIFT, the Company's previously disclosed initiative for managing operating expenses.
- The Company as of December 31, 2008 had a total risk-based capital ratio of 13.82%, a tier 1 risk-based capital ratio of 12.56% and a capital leverage ratio of 11.00%. Capital adequacy, as measured by these ratios, was above the "well-capitalized" regulatory requirement levels for the Company.

## Review of Balance Sheet and Credit Quality

Comparing December 31, 2008 balances to December 31, 2007, total assets increased 9% to \$3.3 billion due mainly to growth in the commercial loan portfolio. Total loans and leases increased 9% to \$2.5 billion compared to the prior year. This increase in loans was comprised mainly of a 13% increase in commercial loans. Total loans remained virtually the same compared to the third quarter of 2008.

Customer funding sources, which include deposits plus other short-term borrowings from core customers, increased 3% to \$2.4 billion at December 31, 2008 compared to the prior year. Such customer funding sources increased 5% compared to the third quarter of 2008. These increases were due primarily to growth resulting from higher rates offered on selected certificate of deposit products and the Company's new Premier money market account. Borrowings from the Federal Home Loan Bank of Atlanta increased 41% to \$413 million compared to the prior year. Compared to the third quarter of 2008, such borrowings decreased 15%. The increase over the prior year was necessary to fund loan growth. The decrease compared to the third quarter of 2008 was due primarily to growth in interest bearing deposits.

Stockholders' equity totaled \$391.9 million at December 31, 2008, and represented 12.0% of total assets, compared to 10.4% at December 31, 2007. The Company at December 31, 2008 recorded a total risk-based capital ratio of 13.82%, a tier 1 risk-based capital ratio of 12.56% and a capital leverage ratio of 11.00% which were all above "well capitalized" regulatory requirement levels. These ratios reflect the effect of the sale of \$83 million in preferred stock under the U. S. Treasury's Capital Purchase Program.

The provision for loan and lease losses totaled \$17.8 million for the fourth quarter of 2008 compared to \$1.7 million for the fourth quarter of 2007 and \$6.5 million for the third quarter of 2008. As discussed above, these increases were primarily due to internal risk rating downgrades, charge-offs and additional specific reserves primarily related to loans in the residential real estate development portfolio. For the year, the provision for loan and lease losses totaled \$33.2 million compared to \$4.1 million in 2007. This increase was also due to internal risk rating downgrades, charge-offs and additional specific reserves particularly with respect to loans in the residential real estate portfolio.

Loan charge-offs, net of recoveries totaled \$5.5 million for the fourth quarter of 2008 compared to \$0.2 million for the fourth quarter of 2007 and \$1.7 million for the third quarter of 2008. For the year, loan charge-offs, net of recoveries were \$7.8 million compared to \$1.3 million for 2007. The allowance for loan and lease losses represented 2.03% of outstanding loans and leases and 70% of non-performing assets at December 31, 2008 compared to 1.10% of outstanding loans and leases and 72% of non-performing assets at December 31, 2007.

Non-performing assets totaled \$72.2 million at December 31, 2008 compared to \$68.4 million at September 30, 2008 and \$34.9 million at December 31, 2007. The increase over the third quarter of 2008 was due primarily to three commercial loans and one commercial residential real estate loan together totaling \$5.2 million. The increase over the prior year also reflects six residential real estate development loans, in addition to the four loans mentioned above, totaling \$22.6 million.

## Income Statement Review

Comparing the fourth quarter of 2008 and 2007, net interest income decreased by \$0.7 million, or 3%, due primarily to the growth in nonperforming assets and the decline in market interest rates due to the effect of interest rate cuts by the Federal Reserve throughout 2008. Such activity caused loan yields to decline faster than rates paid on deposits. These factors produced a net interest margin decrease to 3.73% in 2008 from 4.19% in 2007.

Noninterest income decreased to \$11.0 million in the fourth quarter of 2008 as compared to \$11.4 million in the fourth quarter of 2007, a decrease of 4%. Service charges on deposit accounts increased 3% due primarily to higher overdraft fees while fees on sales of investment products increased 79% due to higher sales of annuities. These increases were offset by decreases in gains on sales of mortgage loans of 13% due to lower mortgage volumes reflecting market conditions and 15% in trust and investment management fees also reflecting market conditions. Other noninterest income also decreased 19% compared to the fourth quarter of 2007.

Noninterest expenses were \$27.2 million in the fourth quarter of 2008 compared to \$25.3 million in the fourth quarter of 2007, an increase of \$1.9 million or 8%. Excluding the goodwill impairment charge mentioned above, noninterest expenses remained even compared to the prior year. Salaries and benefits expenses increased 1%, while occupancy and equipment expenses increased 3%. These increases were largely offset by decreases in marketing, outside data services and other noninterest expenses. The overall noninterest expense performance reflects the effect of stringent expense controls implemented as part of project LIFT.

Comparing the year ended December 31, 2008 and 2007, net interest income increased by \$3.6 million, or 3%, due primarily to growth in the loan portfolio. The effect of such loan growth was offset to a great extent by a higher level of nonperforming assets, the decline in market interest rates and to higher rates offered to attract deposits. These factors produced a net interest margin decrease to 3.92% in 2008 from 4.13% in 2007.

Noninterest income increased to \$46.2 million for the year ended December 31, 2008 compared to \$44.3 million in 2007, an increase of 4%. Service charges on deposit accounts increased 15% due primarily to higher overdraft fees while fees on sales of investment products increased 16% due to higher sales of annuities. These increases were somewhat offset by decreases of 16% in gains on sales of mortgage loans due to lower mortgage volumes reflecting market conditions and 11% in insurance agency commissions due to lower fees on commercial lines and reduced contingency fees.

Noninterest expenses were \$102.1 million in 2008 compared to \$99.8 million in 2007, an increase of \$2.3 million or 2%. Excluding the goodwill impairment charges and the pre-tax pension credit in the third quarter of 2008, noninterest expenses remained virtually level compared to the prior year. While FDIC insurance premiums increased \$1.3 million over 2007, this increase was offset by a decrease of \$1.5 million in merger expenses recognized in 2007. Intangibles amortization increased \$0.4 million as a result of two bank acquisitions completed in 2007.

## **Conference Call**

The Company's management will host a conference call to discuss its fourth quarter and full year results today at 2:00 P.M. (ET). A live Web cast of the conference call is available through the Investor Relations' section of the Sandy Spring Web site at [www.sandyspringbank.com](http://www.sandyspringbank.com). Participants may call 877-795-3604; a password is not necessary. Visitors to the Web site are advised to log on 10 minutes ahead of the scheduled start of the call. An internet-based replay will be available at the Web site until 12:00 midnight (ET) February 28, 2009. A telephone voice replay will also be available during that same time period at 888-203-1112. Please use pass code #1250457 to access.

## **About Sandy Spring Bancorp/Sandy Spring Bank**

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## **Forward-Looking Statements**

Sandy Spring Bancorp makes forward-looking statements in this news release and in the conference call regarding this news release. 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 expressions. 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. Sandy Spring Bancorp 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 Sandy Spring Bancorp anticipated in its forward-looking statements, and future results could differ materially from historical performance.

Sandy Spring Bancorp’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, regulations, and policies; and a variety of other matters which, by their nature, are subject to significant uncertainties. Sandy Spring Bancorp 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, and in its other SEC reports. Sandy Spring Bancorp’s forward-looking statements may also be subject to other risks and uncertainties, including those that it may discuss elsewhere in this news release or in its filings with the SEC, accessible on the SEC’s Web site at [www.sec.gov](http://www.sec.gov).

## Talking with Steve Monroe: Sandy Spring Bank CEO sees silver lining in staying local

Despite losses of \$3.8 million, company will soon be Maryland's largest independent bank

by Steve Monroe | Staff Writer

The good news for Daniel J. Schrider this month was that he formally took over as president and CEO of Sandy Spring Bank of Olney, after a nine-month transition period of learning the ropes from his predecessor, Hunter R. Hollar.

The not-so-good news is that he takes over in the middle of a domestic and global economic downturn, whose effects locally have contributed to the bank's own downturn: a \$3.8 million loss reported Thursday for the fourth quarter of 2008, compared with \$5.4 million in net income for the third quarter 2008 and an \$8.4 million profit for the same period a year ago.



Dan Gross/The Gazette

"[These are] obviously unpredictable and unprecedented times ... so it's exciting, and it's challenging," said Sandy Spring Bank President and CEO Daniel J. Schrider.

Schrider's bloodlines include a father who was a banker for 42 years, however, and he's been in banking himself for almost half of his 44 years. So, for him, banking is second nature, and through good times and bad, his modus operandi is stay the course, work hard, mind the principles that got you where you are — such as integrity, honesty, teamwork, relationship, community and performance — and stay positive.

"[These are] obviously unpredictable and unprecedented times for us to navigate through," Schrider said this week, "so it's exciting, and it's challenging. We're playing defense at the same time we want to play offense. So, keeping our team focused on the positive aspects and the potential for the future, while at the same time working through a challenging time, is an art of leading the company during this time."

Going forward, the bank helped itself in December by announcing a \$17.8 million loan provision to help protect its balance sheet against loan losses in its real estate portfolio, which is suffering as many institutions' real estate portfolios are in the downturn. Then there is the \$83 million the bank received recently as an investment by the federal government through the Treasury Department's Troubled Asset Relief Program, which also helps its balance sheet for the uncertain future, Schrider said.

And he sees a silver lining in the fact that, when the sales of Chevy Chase Bank and Provident Bank to out-of-state interests close, expected early this year, Sandy Spring, with about \$3.3 billion in assets, according to Thursday's earnings release, will be the largest independent Maryland-based bank. Schrider sees client opportunities for those customers who want local, homegrown banking, rather than banks controlled by out-of-state institutions.

On Thursday's earnings report, Schrider said in a statement: "While our non-performing assets increased from the third quarter, we continue to believe that our conservative loan underwriting standards and our comprehensive methodology for risk-rating our loans will serve us well for the long term as we manage through this tough economic cycle. Concurrently, we are working hard to maintain control over operating expenses. We continue to focus on sustaining our position as a long-term independent competitor in the Mid-Atlantic community banking landscape."

The Business Gazette talked to Schrider recently about TARP and his strategy for his bank during the recession.

There's been criticism of banks in general of holding onto the money they've received through TARP and not lending it. What's your comment on that? What is Sandy Spring doing?

[Laughs] I think there's been some misinformation, or misunderstanding of that capital infusion in terms of using terms like bailout. It wasn't a gift. It was an investment in banks that provides a return to the government, but it's coming in the form of capital. And banking, financial institutions, have capital ratios [between capital and risk-weighted assets] which we must maintain.

So what TARP did for us, does for us, is two things. One, it allows us to continue to meet the needs of our clients and look for additional opportunities to lend money. But also it allows us to work with clients through this economic cycle to help us make sure we maintain our capital ratios throughout what could be a prolonged, or even a deeper recession than everyone predicts.

So from the criticism side, which is, banks are hoarding it and not lending it out, if you look around it doesn't take too much to see that there's not great loan demand in the market today. Consumers are looking for ways to reduce debt. Businesses are hunkered down and trying to preserve their own capital to weather this storm.

Our expectations as we look to '09 is to take advantage of what we believe to be many opportunities in the small-business arena, particularly as some of the local banks have consolidated, we think we're in a great place to do your banking, a locally owned institution. So, we're going to use TARP funds to go after those opportunities, to win new clients, meet the needs of existing clients. So there's loan growth in our long-term

expectations, but it's not going to be a short-term, "Let's get \$83 million out the door at all costs." ... It's meeting the needs of our clients and gaining new ones.

Where are you on the issue of nationalization of banks, with reports that some see that as a solution at least for troubled banks?

Our position, my position, is that our industry has its fair share of regulation already. From a community bank perspective, from a Sandy Spring Bank view, we certainly would not look favorably on it. We think there's a role, clearly there's a role for regulation, and government oversight. However, having the government call more of the shots for how we run our business, how we interact with our clients, we think is not good for the local economy, not good for our local clients.

We certainly understand by participating in the TARP program, the capital purchase program, that there are strings attached, some of them known, some of them unknown. But we also believe that the availability of that capital which benefits our clients, which benefits our shareholders, it came with oversight that was worthwhile.

As it relates to what's happening in the broader sense with some of the larger banks that do business in our area that we compete against, we think we are very well positioned for the future being a local entity that's one of the few left in the state of Maryland, and now doing business in northern Virginia, so that positions us pretty well based upon what they're dealing with.

With Chevy Chase Bank and Provident Bank being sold to out-of-state institutions, and you now as the oldest and largest independent bank in the state, how do you look at being the last remaining holdout? And will you remain a holdout?

Our long-term view is we believe there is a place for an independent, Maryland-based banking organization in this economy ... that there are small businesses, there are middle-market companies, there are retail clients that want to deal with a company that's headquartered here, whose interests are aligned with their interests in terms of community. That's something that's been important to us for the 140 years we've been in business. So we're going to continue to aspire to remain independent but that demands financial performance in order to assure independence long-term.

Can you break down what that \$17.8 million loan loss provision means, the largest, you said, you've ever had?

The primary driver of the provision is the risk-rating downgrades, the recognition of increased risk on some existing credits. Some of that is also driven by a re-evaluation of the underlying collateral value on, predominantly, our residential real estate development portfolio. ... It's primarily driven by loans to builders and developers in our region.

How much are the bulk of your loans?

Actually, they are in the same range as when I started, from \$500,000 to \$1 million. Across the board, that's been our bread and butter. We have a more significant small-business program now, for anywhere from \$50,000 up to half a million, to meet the needs of small businesses or startup businesses. And then we've developed an expertise in what is called middle-market lending, from \$1 million to \$15 million, but we haven't done many of those recently....

Historically Sandy Spring's strategy has been conservative, so you expect that to help you weather this downturn better than some others?

Two elements I believe will help us fare well. One, our time-tested underwriting standards that we've held onto for many, many years and my background in the company has been in the area of credit and lending for the last 20 years or so, so the underwriting standards I think have proven to be strong. And the second piece is we continue to add resources on problem loan recognition, and working with clients, recognizing problems early and as a result that drives loan loss provisions, and so we think we've been ahead of the game.

There are certain aspects of loans or investments in the financial industry today that are clearly toxic. Those are subprime mortgages and securities that are made up of a pool of subprime mortgages. I like to consider our balance sheet rather transparent. We don't have any subprime mortgages or securities that are backed by subprime investments, so we don't have what I believe to be the toxic type of assets on our balance sheet.

We have loans to people and businesses that live and work here right here in our region and so we think it's incumbent upon us to work through those problems and make sure that we have the capital to support that, which is why we participate in TARP.

**Daniel J. Schrider**

Position: President, CEO, Sandy Spring Bank of Olney, which has 42 banking locations in Maryland and Northern Virginia.

Education: Bachelor's degree, business, University of Maryland; MBA, Mount Saint Mary's University; graduate, American Bankers Association Stonier Graduate School of Banking.

Residence: Mount Airy

Organizations: Board member, Maryland Bankers Association.

Community: Works with middle school kids through ministry of local church — "That's been a passion of mine."

## **Sandy Spring Bancorp, Inc.**

### **Questions and Answers About TARP Funds**

On December 5, 2008, Sandy Spring Bancorp, Inc. received \$83,094,000 from the U.S. Department of the Treasury (Treasury) under the Troubled Asset Relief Program Capital Purchase Program (TARP-CPP) as part of the Emergency Economic Stabilization Act of 2008. Under the terms of the TARP-CPP, Bancorp issued 83,094 shares of non-voting senior preferred stock to the Treasury that carries a 5% annual dividend yield for the first five years, and 9% thereafter.

As part of the TARP-CPP, Bancorp issued a Warrant to the Treasury equal to 15% of the total investment. The Warrant, which is exercisable immediately and is fully transferrable, allows the holder to purchase up to 651,547 shares of Bancorp Common Stock at a specified price (\$19.13) as determined by the terms of the TARP-CCP. The Warrant has a term of 10 years and, until exercised, carries no voting power. The Treasury has agreed that if it purchases shares under the Warrant, it will not vote those shares.

#### **Why was this funding necessary?**

As part of our ongoing financial management, and more specifically capital management, we continued to evaluate the potential and probable impact of a changing economy on our capital levels, credit costs and earnings. During a time when financial markets are essentially frozen and the availability of capital is limited, we viewed the Treasury's investment in select banking institutions as an opportunity for three reasons. First, it is an opportunity to obtain less expensive capital that provides the ability to remain active in taking care of our clients in the business of lending. Second, access to TARP helps solidify our capital position during what could be a prolonged recession. When there is economic uncertainty, we believe a strong capital position is paramount. Last, having a solid capital position allows us to aggressively pursue what we believe to be a significant window of opportunity in our market as a result of the consolidation of Wachovia Bank (Wells Fargo), Chevy Chase Bank (Capital One), and Provident Bank (M&T Bank). We also believe that the future will continue to bring opportunities to consider acquisitions of fee-based businesses (such as asset management and insurance) and traditional banking institutions.

#### **Was the bank in danger of failing?**

No. Sandy Spring has always been a well-capitalized company by all regulatory standards and remained well-capitalized prior to participation in TARP.

#### **In accepting these funds, what concern is expected to be relieved?**

By accepting the additional capital from the Treasury, Bancorp will be in a much better position to work with our clients through these troubled times rather than taking more drastic measures. Also, the extra buffer of capital will allow Bancorp to consider opportunities for growth and expansion that wouldn't be possible otherwise.

#### **Is the issuance of the senior preferred stock dilutive to shareholders?**

Yes. The issuance of the senior preferred stock requires the payment of dividends, which will reduce the amount of net income available to be distributed to common shareholders, thereby diluting the amount of earnings per common share (EPS). The issuance of the warrant to purchase common stock is also potentially dilutive to earnings per common share because the number of shares issuable upon exercise of the warrant is included in the number of common shares outstanding used to calculate EPS. It is important to note, however, that these factors were thoroughly considered in choosing to participate in TARP-CPP. When determining how to strengthen our capital position, it was concluded that the TARP-CPP was the least dilutive to shareholders compared to other alternatives available at the time.

**What about the stock re-purchase program?**

Bancorp has had a stock re-purchase program in place for many years. The last purchases were made in the fourth quarter of 2007. Under the terms of TARP-CPP, Bancorp is prohibited from utilizing a share repurchase program without Treasury consent.

**What other types of restrictions are included in TARP?**

Bancorp's participation in TARP carries several requirements including the adoption of Treasury's standards for executive compensation, a restriction on stock re-purchases noted above, and some restrictions on increasing dividends.

**Will Bancorp continue to pay dividends?**

It is the desire of the board and management to maintain Bancorp's long-established practice of paying quarterly cash dividends. The amount of any such dividend is subject to the Company's dividend policy and approval of the board of directors. The board makes its decision based on capital levels, earnings and other factors at the time of the declaration.

**What advantages and disadvantages are there to accepting these funds?**

The advantages are many. Through our principal subsidiary, Sandy Spring Bank, we can continue to serve our clients in the community. We can continue to lend money responsibly. We can take advantage of the opportunities presented by the consolidation of other banks in our market and earn new relationships with clients who prefer working with a sound, local institution. The disadvantages, such as the limitations mentioned above, are clearly outweighed by these opportunities.

**How is participation in TARP good for shareholders?**

We have always believed that Sandy Spring Bancorp was a long-term investment for our shareholders. In considering the long-term outlook, participation in TARP will provide the additional measure of strength for Bancorp to not only remain independent, but to grow our business lines. Journalists writing for *The Washington Post* (Steven Pearlstein, January 14, 2009) and *The Wall Street Journal* (Bert Ely, January 5, 2009) among others describe the objectives of TARP and the advantages for shareholders and the economy.

**What is the timeframe for remediation of these problems?**

It is impossible to say when the economy will begin to show signs of recovery. However, the greater Washington market in which we do business has shown less impact from the current market troubles than other parts of the country, demonstrating its economic resiliency.

**What is the outlook for the future?**

The outlook is one of concern, caution and confidence. We remain vigilant to the changes in the economy, to the changing needs of our clients, and to the interests of our shareholders.

There has been much speculation regarding the future of federal oversight of banking and how recipients of TARP will be affected. We believe that our industry is going to come under greater scrutiny as a whole. While greater regulation is burdensome, we view our business as straight forward – we take care of our clients with products and services that are explainable and understandable. In over 140 years of business, we have never participated in high-risk lending or investment practices and do not intend to, and so we believe that we will fair better than most as our industry emerges from these difficult times.

*Forward-Looking Statements: In this document Sandy Spring Bancorp, Inc. makes forward-looking statements, as the term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to significant uncertainties that may cause actual results to differ materially from those indicated due to a variety of matters. In addition, the Company's past results of operations do not necessarily indicate its future results.*

Washington Business Journal - February 9, 2009

<http://washington.bizjournals.com/washington/stories/2009/02/09/story9.html>

## WASHINGTON BUSINESS JOURNAL

Friday, February 6, 2009

# Turbulent times test calm manner of new Sandy Spring Bank CEO

Washington Business Journal - by [Bryant Ruiz Switzky](#) Staff Reporter

Seated at a horseshoe-shaped conference table, Dan Schrider took a deep breath and turned on the microphone.

It was Jan. 29, and Schrider, at age 44, was addressing shareholders, analysts and the media for the first time as chief executive officer of Sandy Spring Bancorp.

As far as first encounters for CEOs go, this one was a doozy.

He was hosting a conference call announcing the worst quarter in the Olney-based bank's 141-year history.

Staring at Schrider from the conference room wall were the proud portraits of the 10 CEOs who came before him.

If Schrider was nervous, it didn't show. He sounded confident and in control. And he didn't beat around the bush.

"I think everyone will agree that the major news in the fourth quarter of 2008 is that we recorded a provision of \$17.8 million," he began, referring to money banks routinely set aside to cover potential losses.

That loss provision pushed the bank about \$3.8 million into red — unfamiliar territory for Sandy Spring, which has been reliably profitable pretty much forever.

Through the Great Depression, more than a dozen recessions and the savings and loan crisis, Sandy Spring reported a loss only during one quarter in 2004. Even then, the loss was tied to a planned payoff of debt, not to problems with the bank's loan portfolio.

"This clearly is a mark in our history where we've participated in an economic downturn in a much greater way than we ever have before," Schrider said in an interview the day after the conference call.

Schrider, a 20-year veteran of Sandy Spring, took the helm from Hunter Hollar, who retired after 15 years as CEO. Though the torch was officially passed Jan. 1, the transition has been in the works since March when Schrider was named president and successor to Hollar, who is still with the company as nonexecutive chairman.



Joanne S. Lawton

Sandy Spring Bank's new CEO, Dan Schrider, a soft-spoken man who makes his home in a small town, must guide the bank, which lost money in the fourth quarter, through the industry's biggest crisis since the Great Depression.

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After Schrider's call with investors, he held a less formal conference call with his 720 employees.

"I explained that our problems aren't from some Wall Street investment," Schrider said. "This is [about] clients who come into the bank, who interact with you, who have property and are struggling to pay because its value has decreased 20 or 25 percent."

Employees then asked if executives were getting bonuses for 2008.

"We aren't," Schrider said. "We elected to forgo them."

### **Modesty is the best policy**

Schrider has kept a low profile in the Washington-area banking scene. He is a modest, soft-spoken man who lives with his wife and three children on 2 acres in Mount Airy, about 40 minutes north of Olney.

He likes it there, Schrider said, largely because Mount Airy the kind of town where nobody cares much that you're a CEO.

"When people ask Dan what he does for a living, he says he works at the bank," says Kulley Bancroft, vice president of public and community relations and a 21-year veteran of **Sandy Spring Bank**. "It's only when they press him, asking 'What do you *do* at the bank?' that he says he's president."

Schrider, a deeply religious man, grew up in Howard County the ninth of 10 children.

His father spent 42 years as a banker for **Suburban Trust Co.** The two worked together for a time before Schrider went to Sandy Spring.

"I didn't grow up with the dream of being a banker," he said. "But I did grow up with the desire to be like my father, which I think is what led me to do what I do today."

During his career, Schrider has held all manner of jobs at banks. Among his favorites: being a drive-through teller. "I loved the interactions with customers."

Schrider laughs as he remembers a story about his days behind the glass. He was on the phone with his newly-wed bride when a female customer pulled into the lane.

"I said, 'Thank you ma'am' to my wife as I hung up the phone, then turned on the speaker and said 'I love you' to the client."

Accidental flirtations aside, Schrider moved steadily up the ladder at Sandy Spring, passing through the commercial lending ranks to a job in 2003 as chief credit officer.

### **Big shoes**

As the new CEO, Schrider has big shoes to fill. During Hollar's tenure, the bank's assets increased more than 300 percent to \$3.19 billion and its branch network tripled to 42 locations. Hollar was not available to be interviewed for this story.

After the close of the pending acquisitions of **Chevy Chase Bank** and **Provident Bankshares Corp.**, Sandy Spring will be the largest and oldest bank based in Maryland.

While Hollar's leadership ushered in dramatic growth, greater risks came with it. With its newfound size, the bank was able to make larger loans to housing developers hoping to cash in on the housing boom.

"This had been a conservative, small country bank for a long time," said Lew Sosnowik, vice president of Bethesda-based **Koonce Securities Inc.**

As Sandy Spring grew over the past couple of decades, "it was locking horns with some of the big guys and needed to compete on their level, so it went after the same deals," he said. "Now it's got the same problems as some of the big boys."

Those problems include loans to overextended developers, which make up most of Sandy Spring's troubled assets.

Some of the struggling real estate projects will recover and get back on track, and some won't. As Sandy Spring determines which ones are dead in the water, it will take actions to move those projects off its balance sheet, Schrider says.

But the recovery efforts will likely be hindered by the sales of Chevy Chase Bank and Provident Bank. Acquiring institutions often include provisions allowing them to dump problem projects at steep discounts.

That could flood the market with cheap real estate, making it more difficult for banks like Sandy Spring to get much money for their foreclosed properties.

"Things are going to get worse before they get better — and they could get much worse," Sosnowik said.

Schrider acknowledged as much.

"We're going to be working through this for a while," he said.

Sandy Spring will get some help from the \$83 million in capital it received through the **Treasury Department's** Troubled Asset Relief Program. That capital gives the bank a cushion to continue growing as it absorbs potential losses.

Schrider is optimistic about Sandy Springs' future. His priorities include a tighter vigilance on credit risks and a renewed focus on courting core deposits, he said.

"I don't think that we have entered a season where we can say, 'let's get through this economy and then we'll go back to business as usual,'" Schrider said. "I think business as usual is over."

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