SANDY SPRING BANCORP INC
Form 10-Q/A
December 19, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2003

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to ____________________

Commission File Number: O-19065

Sandy Spring Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Maryland	52-1532952
(State of incorporation)	(I.R.S. Employer Identification Number)

17801 Georgia Avenue, Olney, Maryland	20832	301-774-6400
(Address of principal office)	(Zip Code)	(Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days.
YES X NO

Indicate by check mark whether the registrant is an accelerated filer(as defined in Rule 12b-2 of the Exchange Act).
YES X NO

The number of shares of common stock outstanding as of April 25, 2003 is 14,505,234 shares.

Explanatory Note to Amended Report on Form 10-Q/A

On May 13, 2003, Sandy Spring Bancorp, Inc. (the "Company") filed its Quarterly report on Form 10-Q for the period ended March 31, 2003. In November 2003, the Company discovered that accrued interest expense on certain Federal Home Loan Bank ("FHLB") advances had been understated, on a cumulative basis, beginning in the first quarter of 1997. This accrual error was the result of a mistake in the interest calculation formula for certain types of FHLB advances, and was discovered as part of the Company's auditing process. The maximum effect on diluted earnings per share in any affected year is less than one cent.

This amended Quarterly Report on Form-10Q/A corrects and restates the Company's consolidated financial statements and other financial information for all periods shown to properly reflect the effects of the error, that resulted in an overstatement of interest expense. The financial statement items affected by the correction are accrued interest payable and other liabilities, retained earnings, interest on short-term borrowings, income tax expense, net income, basic and diluted earnings per share, totals and other amounts that are calculated using those items, and the related footnotes. Related corrections also have been made to Management's Discussion and Analysis of Financial Condition and Results of Operations.

SANDY SPRING BANCORP, INC.

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PART I - FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

Sandy Spring Bancorp, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)	March 2003
ASSETS	
Cash and due from banks	$ 49,
Federal funds sold	23,
Interest-bearing deposits with banks	
Residential mortgage loans held for sale (at fair value)	28,
Investments available-for-sale (at fair value)	751,
Investments held-to-maturity -- fair value of $333,505 (2003) and $346,862 (2002)	327,
Other equity securities	21,
Total loans and leases	1,050,
Less: allowance for credit losses	(15,
Net loans and leases	1,035,
Premises and equipment, net	36,
Accrued interest receivable	19,
Goodwill	7,
Other intangible assets	13,

Other assets	57,
Total assets	$ 2,371,
LIABILITIES	
Noninterest-bearing deposits	$ 345,
Interest-bearing deposits	1,210,
Total deposits	1,555,
Short-term borrowings	489,
Guaranteed preferred beneficial interests in the Company's subordinated debentures	35,
Other long-term borrowings	88,
Accrued interest payable and other liabilities	21,
Total liabilities	2,189,
STOCKHOLDERS' EQUITY	
Common stock -- par value $1.00; shares authorized 50,000,000; shares issued and outstanding 14,503,157 (2003) and 14,536,094 (2002)	14,
Additional paid in capital	19,
Retained earnings	137,
Accumulated other comprehensive income	9,
Total stockholders' equity	181,
Total liabilities and stockholders' equity	$ 2,371,

See Notes to Consolidated Financial Statements.

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

(In thousands, except per share data)	Three Months Ended March 31, 2003	2002
Interest Income:		
Interest and fees on loans and leases	$16,619	$17,722
Interest on loans held for sale	308	173

Interest on deposits with banks	3	8
Interest and dividends on securities:		
Taxable	8,732	9,259
Exempt from federal income taxes	3,468	2,412
Interest on federal funds sold	106	120
TOTAL INTEREST INCOME	29,236	29,694
Interest Expense:		
Interest on deposits	3,933	5,324
Interest on short-term borrowings	4,630	3,717
Interest on long-term borrowings	1,510	2,072
TOTAL INTEREST EXPENSE	10,073	11,113
NET INTEREST INCOME	19,163	18,581
Provision for Credit Losses	0	1,185
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	19,163	17,396
Noninterest Income:		
Securities gains	8	233
Service charges on deposit accounts	1,984	1,878
Gains on sales of mortgage loans	1,575	738
Fees on sales of investment products	521	640
Trust department income	720	569
Insurance agency commissions	1,019	986
Income from bank owned life insurance	609	435
Other income	1,339	1,319
TOTAL NONINTEREST INCOME	7,775	6,798
Noninterest Expenses:		
Salaries and employee benefits	9,450	9,296
Occupancy expense of premises, net	1,584	1,306
Equipment expenses	1,041	809
Marketing	454	402
Outside data services	645	613

Amortization of intangible assets	665	665
Other expenses	2,136	2,207
TOTAL NONINTEREST EXPENSES	15,975	15,298
Income Before Income Taxes	10,963	8,896
Income Tax Expense	2,635	2,336
NET INCOME	$ 8,328	$ 6,560

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
(In thousands, except per share data)	2003	2002
Basic Net Income Per Share	$ 0.57	$ 0.45
Diluted Net Income Per Share	0.56	0.45
Dividends Declared Per Share	0.18	0.17

See Notes to Consolidated Financial Statements.

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Sandy Spring Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	T
Cash flows from operating activities:	
Net income	$
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	

Provision for credit losses	
Origination of loans held for sale	(1
Proceeds from sales of loans held for sale	1
Gains on sales of loans held for sale	
Securities gains	
Net (increase) decrease in accrued interest receivable	
Net increase in other assets	
Net decrease in accrued expenses	
Other - net	

Net cash provided by operating activities	
Cash flows from investing activities:	
Net increase in interest-bearing deposits with banks	
Purchases of investments held-to-maturity	
Purchases of other equity securities	
Purchases of investments available-for-sale	(3
Proceeds from sales of investments available-for-sale	
Proceeds from maturities, calls and principal payments of investments held-to-maturity	
Proceeds from maturities, calls and principal payments of investments available-for-sale	2
Net decrease (increase) in loans and leases	
Expenditures for premises and equipment	

Net cash (used in) provided by investing activities	(
Cash flows from financing activities:	
Net increase in deposits	
Net (decrease) increase in short-term borrowings	(
Proceeds from long-term borrowings	
Common stock purchased and retired	
Proceeds from issuance of common stock	
Dividends paid	

Net cash provided by financing activities	

Net increase in cash and cash equivalents	
Cash and cash equivalents at beginning of period	

Cash and cash equivalents at end of period	$
	===

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Sandy Spring Bancorp and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Three Months Ended March 31,	
(Dollars in thousands)	2003	2002
Supplemental Disclosures:		
Interest payments	$10,010	$11,617
Income tax payments	2,295	531
Noncash Financing Activities:		
Reclassification of borrowings from long-term to short-term	30,479	100

See Notes to Consolidated Financial Statements.

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

(Dollars in thousands, except per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accum- ulated Other Compre hensiv Income (loss)
Balances at January 1, 2003, as previously reported	$ 14,536	$ 21,128	$132,607	$ 10,42
Less adjustments for the cumulative effect on prior years of the understatement of accrued interest on borrowings from the Federal Home Loan Bank			(668)	
Balances at January 1, 2003, as adjusted	14,536	21,128	131,939	10,42
Comprehensive income:				
Net income			8,328	
Other comprehensive loss, net of tax effects and reclassification adjustment				(59
Total comprehensive income				
Cash dividends - $0.18 per share			(2,619)	
Common stock issued pursuant to:				
Stock option plan - 12,501 shares	13	171		
Employee stock purchase plan - 4,122 shares	4	110		
Stock repurchases - 49,560 shares	(50)	(1,529)		
Balances at March 31, 2003	$ 14,503	$ 19,880	$137,648	$ 9,82
Balances at January 1, 2002, as previously reported	$ 14,484	$ 20,347	$111,906	$ 3,93
Less adjustments for the cumulative effect on prior years of the understatement of				

accrued interest on borrowings from the Federal Home Loan Bank			(540)	
Balances at January 1, 2002, as adjusted	14,484	20,347	111,366	3,93
Comprehensive income:				
Net income			6,560	
Other comprehensive income, net of tax effects and reclassification adjustment				(3,53
Total comprehensive income				
Cash dividends - $0.17 per share			(2,463)	
Common stock issued pursuant to:				
Stock option plan - 7,134 shares	7	106		
Employee stock purchase plan - 3,420 shares	3	87		
Balances at March 31, 2002	$ 14,494	$ 20,540	$115,463	$ 39

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - General

The foregoing financial statements are unaudited. In the opinion of Management, all adjustments (comprising only normal recurring accruals) necessary for a fair presentation of the results of the interim periods have been included. These statements should be read in conjunction with the financial statements and accompanying notes included in Sandy Spring Bancorp's 2002 Annual Report to Shareholders. There have been no significant changes to the Company's Accounting Policies as disclosed in the 2002 Annual Report. The results shown in this interim report are not necessarily indicative of results to be expected for the full year 2003.

The accounting and reporting policies of Sandy Spring Bancorp (the "Company") conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Certain reclassifications have been made to amounts previously reported to conform to current classifications.

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

Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks and federal funds sold (which have original maturities

of three months or less).

Note 2 - Stockholders' Equity

On March 26, 2003, the Board of Directors authorized the repurchase of up to 5%, or approximately 727,000 shares, of the Company's outstanding common stock, par value $1.00 per share, in connection with shares expected to be issued under the Company's stock option and employee benefit plans and for other corporate purposes. The share repurchases are expected to be made primarily on the open market from time to time until March 31, 2005, or earlier termination of the repurchase program by the Board. Repurchases under the program will be made in the discretion of management based upon market, business, legal, accounting and other factors. Bancorp purchased the equivalent of 49,560 shares of its common stock under a share repurchase program, which expired on March 31, 2003.

Note 3 - Stock Option Plan

At March 31, 2003, the Company had options outstanding under two stock-based employee compensation plans, the 1992 stock option plan (expired but having outstanding options that may still be exercised) and the 1999 stock option plan. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effects on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation for the periods indicated.

Note 3 - Stock Option Plan (continued)

	Three Months Ende March 31,	
(In thousands, except per share data)	2003	2002
Net income, as reported	$ 8,328	$ 6,5
Less pro forma stock-based employee compensation expense determined under fair value based method, net of related tax effects	(244)	(3
Pro forma net income	$ 8,084	$ 6,2
Net income per share:		
Basic - as reported	$ 0.57	$ 0.
Basic - pro forma	$ 0.55	$ 0.
Diluted - as reported	$ 0.56	$ 0.
Diluted - pro forma	$ 0.55	$ 0.

Note 4 - Per Share Data

The calculations of net income per common share for the three month periods ended March 31 are as shown in the following table. Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding and does not include the impact of any potentially dilutive common stock equivalents. The diluted earnings per share calculation method is derived by dividing net income available to common stockholders by the weighted average number of common shares outstanding adjusted for the dilutive effect of outstanding stock options.

(Dollars and amounts in thousands, except Per share data)	Three Months Ende March 31, 2003	2002
Basic:		
Net income available to common stockholders	$ 8,328	$ 6,5
Average common shares outstanding	14,537	14,4
Basic net income per share	$ 0.57	$ 0.
Diluted:		
Net income available to common stockholders	$ 8,328	$ 6,5
Average common shares outstanding	14,537	14,4
Stock option adjustment	207	2
Average common shares outstanding-diluted	14,744	14,7
Diluted net income per share	$ 0.56	$ 0.

Options for 140,729 shares of common stock were not included in computing diluted net income per share for the three months ended March 31, 2002 because their effects are antidilutive. There was no such effect for the three months ended March 31, 2003.

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

Sandy Spring Bancorp makes forward-looking statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations that are subject to risks and uncertainties. These forward-looking statements include: statements of goals, intentions, and expectations; estimates of risks and of future costs and benefits; assessments of probable loan and lease losses and market risk; and statements of the ability to achieve financial and other goals. These forward-looking statements are subject to significant uncertainties because they are based upon or are affected by: management's estimates and projections of future interest rates and other economic conditions; future laws and regulations; and a variety of other matters which, by their nature, are subject to significant uncertainties. Because of these uncertainties, Sandy Spring Bancorp's actual future results may differ

materially from those indicated. In addition, the Company's past results of operations do not necessarily indicate its future results.

THE COMPANY

The Company is the registered bank holding company for Sandy Spring Bank (the "Bank"), headquartered in Olney, Maryland. The Bank operates twenty-nine community offices in Anne Arundel, Frederick, Howard, Montgomery, and Prince George's Counties in Maryland, together with an insurance subsidiary and an equipment leasing company.

The Company offers a broad range of financial services to consumers and businesses in this market area. Through March 31, 2003, year-to-date average commercial loans and leases and commercial real estate loans accounted for approximately 44% of the Company's loan and lease portfolio, and year-to-date average consumer and residential real estate loans accounted for approximately 56%. Based upon the most recent data available, consumer deposits account for approximately 75% of total average deposits, while approximately 60% of the Company's revenues are derived from consumer loans, consumer deposits and other retail services. The Company has established a strategy of independence, and intends to establish or acquire additional offices, banking organizations, and nonbanking organizations as appropriate opportunities may arise.

CRITICAL ACCOUNTING POLICIES

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

NON-GAAP FINANCIAL MEASURE

The Company has for many years used a traditional efficiency ratio that is a non-GAAP financial measure of operating expense control and efficiency of operations. Management believes that its traditional ratio better focuses attention on the operating performance of the Company over time than does a GAAP based

ratio, and is highly useful in comparing period-to-period operating performance of the Company's core business operations. It is used by management as part of its assessment of its performance in managing noninterest expenses. However, this measure is supplemental, and is not a substitute for an analysis of performance based on GAAP measures. The reader is cautioned that the traditional efficiency ratio used by the Company may not be comparable to GAAP or non-GAAP efficiency ratios reported by other financial institutions.

In general, the efficiency ratio is noninterest expenses as a percentage of net interest income plus noninterest income. This is a GAAP financial measure. Noninterest expenses used in the calculation of the traditional, non-GAAP efficiency ratio exclude amortization of goodwill and intangibles and non-recurring expenses. Income for the traditional ratio is increased for the favorable effect of tax-exempt income, and excludes securities gains and losses, which vary widely from period to period without appreciably affecting operating expenses, and non-recurring gains. The measure is different from the GAAP based efficiency ratio. The GAAP based measure is calculated using noninterest expense and income amounts as shown on the face of the Consolidated Statements of Income. The traditional and GAAP based efficiency ratios are presented and reconciled in Table 1. As shown in Table 1, both first quarter efficiency ratios, GAAP based and traditional, improved in 2003, compared to 2002.

Table 1 - GAAP based and traditional efficiency ratios

	Three Months Ended	
	March 31,	
(Dollars in thousands)	2003	2002
Noninterest expenses-GAAP based	$15,975	$15,298
Net interest income plus noninterest income-GAAP based	26,938	25,379
Efficiency ratio-GAAP based	59.30%	60.28%
Noninterest expenses-GAAP based	$15,975	$15,298
Less non-GAAP adjustments:		
Amortization of intangible assets	665	665
Noninterest expenses-traditional ratio	15,310	14,633
Net interest income plus noninterest income-GAAP based	26,938	25,379
Plus non-GAAP adjustment:		
Tax-equivalency	2,046	1,469
Less non-GAAP adjustments:		
Securities gains	8	233
Net interest income plus noninterest Income - traditional ratio	28,976	26,615
Efficiency ratio - traditional	52.84%	54.98%

A. FINANCIAL CONDITION

The Company's total assets were $2,371,520,000 at March 31, 2003, compared to $2,307,404,000 at December 31, 2002, increasing $64,116,000 or 3% during the first three months of 2003. Earning assets increased $44,458,000 or 2% to $2,202,952,000 at March 31, 2003, from $2,158,494,000 at December 31, 2002.

Total loans and leases, excluding loans held for sale, decreased 1% or $13,537,000 during the first three months of 2003, to $1,050,316,000. During this period, all three major loan categories showed declines, primarily residential real estate loans, which decreased by $11,735,000 or 3%, attributable to lower residential mortgage loans and residential construction loans. Commercial loans and leases decreased by $995,000, reflecting in large part a decrease in commercial loans not secured by real estate, while consumer loans decreased by $807,000, due primarily to home equity loans. Finally, residential mortgage loans held for sale decreased by $9,848,000 from December 31, 2002, to $28,587,000 at March 31, 2003.

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Table 2 - Analysis of Loans and Leases

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

(In thousands)	March 31, 2003	%	December 31, 2002	%
Residential real estate	$ 342,938	33%	$ 354,673	33%
Commercial loans and leases	475,019	45	476,014	45
Consumer	232,359	22	233,166	22
Total Loans and Leases	1,050,316	100%	1,063,853	100%
Less: Allowance for credit losses	(15,023)		(15,036)	
Net loans and leases	$ 1,035,293		$ 1,048,817	

The total investment portfolio surpassed the loan portfolio as the largest type of earning asset on the balance sheet during the first quarter of 2003, increasing by 5% or $53,598,000 from December 31, 2002, to $1,099,856 at March 31, 2003. The increase was driven primarily by $65,444,000 or 10% higher available-for-sale securities. Other equity securities rose a small amount over the same period, up $1,425,000 or 7%, while held-to-maturity securities decreased by $13,271,000 or 4%. The aggregate of federal funds sold and interest-bearing deposits with banks, short-term investments, increased by $14,245,000 during the first three months of 2003, reaching $24,193,000 at March 31, 2003.

Total deposits were $1,555,513,000 at March 31, 2003, increasing $63,301,000 or 4% from $1,492,212,000 at December 31, 2002. All major deposit categories either increased or remained essentially level, comparing March 31, 2003 with December 31, 2002. Noninterest-bearing demand deposits grew by 8% or

$24,634,000 over the three-month period, while interest bearing deposits rose 3% or $38,667,000 from a larger base.

Total borrowings were $612,731,000 at March 31, 2003, which was essentially level with December 31, 2002, reflecting small changes within the major categories.

Table 3 - Analysis of Deposits

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

(In thousands)	March 31, 2003	%	December 31, 2002	%
Noninterest-bearing deposits	$ 345,217	22%	$ 320,583	21%
Interest-bearing deposits:				
Demand	194,387	12	185,381	12
Money market savings	403,159	26	398,539	27
Regular savings	164,227	11	153,294	10
Time deposits less than $100,000	306,978	20	308,168	21
Time deposits $100,000 or more	141,545	9	126,247	9
Total interest-bearing	1,210,296	78	1,171,629	79
Total deposits	$1,555,513	100%	$1,492,212	100%

MARKET RISK MANAGEMENT

By employing simulation analysis through use of computer models, the Company intends to effectively manage the potential adverse impacts that changing interest rates may have on its short-term earnings, long- term value, and liquidity. The simulation model captures optionality factors such as call features and interest rate caps and floors imbedded in investment and loan portfolio contracts. At March 31, 2003, as at December 31, 2002, the simulation of a hypothetical, parallel change of plus and minus 200 basis points in U.S. Treasury interest rates was not practical, due to historically low prevailing interest yields and rates. (See Table 4.) Therefore, the Company again chose to apply a plus 200 basis point change and a minus 100 basis point change when evaluating its interest rate risk position. Measured from March 31, 2003, the simulation analysis indicates that net interest income would decline by 10% over a twelve month period given a decrease in interest rates of 100 basis points, compared to a policy limit of 15%. In terms of equity capital on a fair value basis, a 100 basis point decrease in interest rates is estimated to reduce the fair value of capital (as computed) by 16%, as compared to a policy limit of 25%.

LIQUIDITY

Liquidity is measured using an approach designed to take into account loan and lease payments, maturities, calls and paydowns of securities, earnings, growth, mortgage banking activities, leverage programs, investment portfolio liquidity, and other factors. Through this approach, implemented by the funds

management sub committee under formal policy guidelines, the Company's liquidity position is measured weekly, looking forward thirty, sixty and ninety days. The measurement is based upon the asset-liability management model's projection of a funds sold or purchased position, along with ratios and trends developed to measure dependence on purchased funds, leverage limitations and core growth. Resulting projections as of March 31, 2003 showed short-term investments exceeding short-term borrowings over the subsequent 90 days by $240,330,000. This position was substantially above the $21,542,000 excess at December 31, 2002, primarily due to significant calls from the investment portfolio. This excess of liquidity over projected requirements for funds indicates that the Company can increase its loans and other earning assets without incurring additional borrowing.

The Company also has external sources of funds, which can be drawn upon when required. The main source of external liquidity is an overall line of credit for $708,323,000 from the Federal Home Loan Bank of Atlanta, of which approximately $387,870,000 was outstanding at March 31, 2003. Other external sources of liquidity available to the Company in the form of lines of credit granted by the Federal Reserve, correspondent banks and other institutions totaled $261,375,000 at March 31, 2003, against which there were outstandings of approximately $50,000,000. Based upon its liquidity analysis, including external sources of liquidity available, management believes the liquidity position is appropriate at March 31, 2003.

CAPITAL MANAGEMENT

The Company recorded a total risk-based capital ratio of 15.01% at March 31, 2003, compared to 14.95% at December 31, 2002; a tier 1 risk-based capital ratio of 13.80%, compared to 13.72%; and a capital leverage ratio of 8.18%, compared to 8.08%. Capital adequacy, as measured by these ratios, was well above regulatory requirements. Management believes the level of capital at March 31, 2003, is appropriate.

Stockholders' equity for March 31, 2003, totaled $181,854,000, representing an increase of $3,830,000 or 2% from $178,024,000 at December 31, 2002. Accumulated other comprehensive income, a component of stockholders' equity comprised of unrealized gains and losses on available-for-sale securities, net of taxes, decreased by $598,000 from December 31, 2002 to March 31, 2003.

Internal capital generation (net income less dividends) added $5,709,000 to total stockholders' equity during the first three months of 2003. When internally formed capital is annualized and expressed as a percentage of average total stockholders' equity, the resulting rate was 13% for both the first three months of 2003 and the year 2002.

External capital formation (equity created through the issuance of stock under the employee stock purchase plan and the stock option plan) totaled $298,000 during the three month period ended March 31, 2003. However, share repurchases amounted to $1,579,000 from December 31, 2002 through March 31, 2003, for a net decrease in stockholders' equity from these sources of $1,281,000.

Dividends for the first three months of the year were $0.18 per share - diluted in 2003, compared to $0.17 per share - diluted in 2002, for respective dividend payout ratios (dividends declared per share to diluted net income per share) of 32% versus 38%.

B. RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 2003, AND 2002

Net income for the first three months of the year increased $1,768,000 or 27% to $8,328,000 in 2003 from $6,560,000 in 2002, representing annualized returns on average equity of 18.76% and 17.48%, respectively. First quarter year-to-date diluted earnings per share (EPS) were $0.56 in 2003, compared to $0.45 in 2002.

The net interest margin decreased by 23 basis points to 3.95% for the three months ended March 31, 2003, from 4.18% for the same period of 2002, as the net interest spread decreased by 19 basis points. The compression of the net interest margin was caused by lower interest rates a smaller percentage of average loans to total earning assets and a 13 basis point decline in the margin earned in the Company's leverage programs.

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Sandy Spring Bancorp, Inc. and Subsidiaries
TABLE 4 - CONSOLIDATED AVERAGE BALANCES, YIELDS AND RATES
(Dollars in thousands and tax equivalent)

	For the three months ended March 31 2003		2002	
	Average Balance	Average Yield/Rate (1)	Average Balance	Yi
Assets				
Total loans and leases (2)	$1,083,188	6.31%	$1,012,376	
Total securities	1,039,112	5.49	882,497	
Other earning assets	36,517	1.20	31,744	
TOTAL EARNING ASSETS	2,158,817	5.83%	1,926,617	
Nonearning assets	147,017		137,519	
Total assets	$2,305,834		$2,064,136	
Liabilities and Stockholders' Equity				
Interest-bearing demand deposits	$ 186,114	0.28%	$ 165,477	
Money market savings deposits	403,604	0.77	392,438	
Regular savings deposits	157,446	0.37	122,262	
Time deposits	441,221	2.66	427,391	
Total interest-bearing deposits	1,188,385	1.34	1,107,568	
Short-term borrowings	491,032	3.78	415,658	
Long-term borrowings	119,715	5.05	114,137	
Total interest-bearing liabilities	1,799,132	2.25	1,637,363	
Noninterest-bearing demand deposits	299,638		260,575	
Other noninterest-bearing liabilities	27,020		14,000	
Stockholders' equity	180,044		152,198	
Total liabilities and stockholders' equity	$2,305,834		$2,064,136	
Net interest spread		3.58%		

Net interest margin (3)		3.95%	
Ratio of average earning assets to Average interest-bearing liabilities	119.99%		117.67%

(1) Interest income includes the effects of taxable-equivalent adjustments (reduced by the nondeductible portion of interest expense) using the appropriate federal income tax rate of 35% and, where applicable, the marginal state income tax rate of 7.00% (or a combined marginal federal and state rate of 39.55%), to increase tax-exempt interest income to a taxable-equivalent basis. The net taxable-equivalent adjustment amounts utilized in the above table (on an annual basis) to compute yields were $8,185,105 and $5,872,913 in the quarters ended March 31, 2003 and 2002, respectively.
(2) Non-accrual loans are included in the average balances.
(3) Net interest margin = annualized net interest income on a tax-equivalent basis divided by total interest-earning assets.

NET INTEREST INCOME

Net interest income for the first three months of the year was $19,163,000 in 2003, an increase of 3% over $18,581,000 in 2002, due to a higher volume of average earning assets, partially offset by the decline in net interest margin. On a tax-equivalent basis, net interest income increased by 6% to $21,209,000 in 2003, from $20,050,000 in 2002. The size of the tax-equivalent adjustment in 2003, compared to 2002, resulting from a higher level of tax advantaged investment securities, caused this doubling of the percentage increase, compared to the change for unadjusted GAAP net interest income. The effects of average balances, yields and rates are presented in the table 4.

For the first three months, total interest income decreased by $458,000 or 2% in 2003, compared to 2002. On a tax-equivalent basis, interest income increased slightly by $119,000. Average earning assets rose 12% over the prior period, to $2,158,817,000 from $1,926,617,000, while the average yield earned on those assets decreased by 68 basis points to 5.83%. Comparing the first three months of 2003 versus 2002, average total loans and leases grew by 7% to $1,083,188,000 (50% of average earning assets, versus 53% a year ago), while recording an 83 basis point decline in average yield to 6.31%. Average residential real estate loans increased by 7% (reflecting an increase in mortgage lending, partially offset by a similar percentage decline in construction lending); average consumer loans increased by 5% (attributable to home equity line growth); and, average commercial loans and leases grew by 8% (due to increases in mortgages and other commercial loans, partially offset by declines in construction and leasing). Over the same period, average total securities rose by 18% to $1,039,112 (48% of average earning assets, versus 46% a year ago), while the average yield earned on those assets decreased by 47 basis points to 5.49%.

Interest expense for the first three months of the year decreased by $1,040,000 or 9% in 2003, compared to 2002. Average total interest-bearing

liabilities rose 10% over the prior year period, while the average rate paid on these funds decreased by 49 basis points to 2.25%. As shown in Table 4, all major deposit categories and both short and long term borrowings grew in conjunction with declining or stable average rates.

CREDIT RISK MANAGEMENT

The allowance for credit losses is an estimate of the losses that may be sustained in the loan and lease portfolio. The allowance is based on two basic principles of accounting: (1) SFAS No. 5, "Accounting for Contingencies", which requires that losses be accrued when they are probable of occurring and estimable, and (2) SFAS No. 114, "Accounting by Creditors for Impairment of a Loan", which requires that losses be accrued based on differences between the loan balance and the value of collateral, the present value of future cash flows, or values that are observable in the secondary market. Management determines the appropriate amount of the allowance using the systematic methodology described below.

The Company's allowance for credit losses has three basic components: the formula allowance reflecting historical losses by credit category, the specific allowance for risk rated credits on an individual or portfolio basis, and the nonspecific allowance which considers risk factors not evaluated by the other two components of the methodology. Each of these components is based upon estimates that can and do change when the actual events occur.

The formula allowance establishes allowances for the major loan categories based upon their respective historical loss experience over the prior eight quarters, weighted so that losses in the most recent quarters have the greatest impact. The use of these factors in the methodology, because of their relationship to actual results, is intended to narrow differences between estimated and realized losses.

The specific allowance is used to allocate an allowance for internally risk rated loans where significant conditions or circumstances indicate that a loss may have been incurred. Analysis resulting in specific allowances, including those on loans identified for evaluation of impairment, includes consideration of the borrower's overall financial condition, resources and payment record, support available from financial guarantors and the sufficiency of collateral. These factors are combined to estimate the probability and severity of inherent losses. Then a specific reserve is established based on the Company's calculation of the loss embedded in the individual loan. Additional allowances are established by application of credit risk factors to other internally risk rated loans, individual consumer and residential loans and commercial leases having reached nonaccrual or 90-day past due status, and unfunded commitments. Each risk rating category is assigned a credit risk factor based on management's estimate of the associated risk, complexity, and size of the individual loans within the category. Allowances may also be established in special circumstances involving a

particular group of credits or portfolio within a risk rating category when management becomes aware that losses incurred may exceed those determined by use of the risk factor for that general credit category.

A nonspecific allowance is primarily based upon management's regular evaluation of the following factors (which are included in federal bank regulatory guidelines): trends in delinquencies and nonaccruals, size of credits relative to the allowance, volume trends, concentrations, economic conditions, credit administration and management, and the quality of the risk identification system. Additional factors which may also be considered include changes in underwriting standards, such as acceptance of higher loan to value ratios. Evaluation of the potential effects of these factors on estimated losses involves a high degree of uncertainty including the strength and timing of economic cycles and concerns over the effects of a prolonged economic downturn in the current cycle. The required analysis is regularly and carefully undertaken by management, and the risk factors are revised as conditions indicate.

The amount of the allowance is reviewed monthly by the senior loan committee, and reviewed and approved by the Board of Directors quarterly.

During the first three months of the year, there was no provision for credit losses in 2003, compared to $1,185,000 in 2002. The Company has experienced net charge-offs during the first three months of 2003 of only $13,000, compared to net recoveries of $39,000 for the same period of 2002.

The Company's loan and lease portfolio (the "credit portfolio") is subject to varying degrees of credit risk. Credit risk is mitigated through portfolio diversification, which limits exposure to any single customer, industry or collateral type. The Company maintains an allowance for credit losses (the "allowance") to absorb losses inherent in the credit portfolio. The allowance is based on careful, continuous review and evaluation of the credit portfolio, along with ongoing, quarterly assessments of the probable losses inherent in that portfolio, and, to a lesser extent, in unused commitments to provide financing.

Management believes that the allowance is adequate. However, its determination requires significant judgement, and estimates of probable losses inherent in the credit portfolio can vary significantly from the amounts actually observed. While management uses available information to recognize probable losses, future additions to the allowance may be necessary based on changes in the credits comprising the portfolio and changes in the financial condition of borrowers, such as may result from changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, and independent consultants engaged by the Sandy Spring Bank, periodically review the credit portfolio and the allowance. Such review may result in additional provisions based on their judgements of information available at the time of each examination. During the first three months of 2003, there were no changes in estimation methods that affected the allowance methodology. The allowance for credit losses was 1.43% of total loans and leases at March 31, 2003 and 1.41% at December 31, 2002.

The allowance decreased during the first three months of 2003 by $13,000 (the amount of net charge-offs for the period), from $15,036,000 at December 31, 2002 to $15,023,000 at March 31, 2003. The stability of the allowance reflects the required reserve computed by the allowance methodology at March 31, 2003, compared to December 31, 2002. The amount of the required reserve was affected by the absence of loan growth during the first quarter of 2003, coupled with the absence of significant volume shifts between the loan categories. The change in the nonspecific allowance, which is the most significant component, was under 5%,. while changes in the formula allowance and the specific allowance were small in amount and offset each other.

Nonperforming assets and nonperforming loans and leases both decreased by $797,000 to $1,948,000 from December 31, 2002 to March 31, 2003. Expressed as a percentage of total assets, nonperforming assets decreased to 0.08% at March

31, 2003 from 0.12% at December 31, 2002. The allowance for credit losses represented 771% of nonperforming loans and leases at March 31, 2003, compared to coverage of 548% at December 31, 2002. Significant variation in this coverage ratio may occur from period to period because the amount of nonperforming loans and leases depends largely on the condition of a small number of individual credits and borrowers relative to the total loan and lease portfolio. There was no other real estate owned on the balance sheet at either March 31, 2003, or at December 31, 2002. The balance of impaired loans and leases was $258,000 at March 31, 2003, with specific reserves against those loans of $20,000, compared to $170,000 at December 31, 2002, with no reserves.

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Table 5 -- Analysis of Credit Risk
(Dollars in thousands)

Activity in the allowance for credit losses is shown below:

	Three Months Ended March 31, 2003	Twelve Months Ended December 31, 2002
Balance, January 1	$ 15,036	$ 12,653
Provision for credit losses	0	2,865
Loan charge-offs:		
Residential real estate	0	(165)
Commercial loans and leases	(7)	(467)
Consumer	(27)	(158)
Total charge-offs	(34)	(790)
Loan recoveries:		
Residential real estate	2	0
Commercial loans and leases	16	284
Consumer	3	24
Total recoveries	21	308
Net charge-offs	(13)	(482)
Balance, period end	$ 15,023	$ 15,036
Net charge-offs to average loans and Leases (annual basis)	0.00%	0.05%

Allowance to total loans and leases	1.43%	1.41%

The following table presents nonperforming assets at the dates indicated:

	March 31 2003	December 31, 2002
Non-accrual loans and leases	$ 567	$ 588
Loans and leases 90 days past due	1,381	2,157
Total nonperforming loans and leases*	1,948	2,745
Other real estate owned	0	0
Total nonperforming assets	$ 1,948	$ 2,745
Nonperforming assets to total assets	0.08%	0.12%

* Those performing credits considered potential problem credits (which Bancorp classifies as substandard), as defined and identified by management, amounted to approximately $5,843,000 at March 31, 2003, compared to $5,962,000 at December 31, 2002. Although these are credits where known information about the borrowers' possible credit problems causes management to have doubts as to their ability to comply with the present repayment terms, which could result in their reclassification as nonperforming credits in the future, most are well collateralized and are not believed to present significant risk of loss.

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NONINTEREST INCOME AND EXPENSES

Total noninterest income was $7,775,000 for the three-month period ended March 31, 2003, a 14% or $977,000 increase from the same period of 2002. Excluding securities gains ($8,000 in 2003 versus $233,000 in 2002), the increase in noninterest income was 18% or $1,202,000. The primary reason for this growth was a 113% increase in mortgage banking revenues due mainly to the sizable volume of refinancings resulting from the continued low interest rate environment. Other contributors to the increase included income from trust operations (up $151,000), insurance commissions (up $33,000), and income from Bank Owned Life Insurance (up $174,000). Noninterest income performance reported above reflects management's desire to both grow and diversify its sources of noninterest income.

Total noninterest expenses were $15,975,000 for the three-month period ended March 31, 2003, a 4% or $677,000 increase from the first quarter of 2002. The Company incurs additional costs in order to enter new markets, provide new services, and support the growth of the Company. Management controls its operating expenses, however, with the goal of maximizing profitability over time. Most of the rise in noninterest expenses during the first quarter of the year occurred in occupancy expenses (up 21% or $278,000) and equipment expenses (up 29% or $232,000). The increase in occupancy expenses was due primarily to lower rental income, and the opening of a new branch in Frederick County in March 2002 which was open for the full first quarter of 2003. The increase in

equipment expenses was due mainly to upgrades in several software systems and new items processing equipment. Salaries and benefits increased 2% or $154,000 versus the prior year period. This increase was attributable to increases in staff, merit raises, and higher commission compensation, partially offset by a decline in profit sharing expense. Average full-time equivalent employees increased to 548 during the first three months of 2003, from 524 during the like period in 2002, a 5% increase. The ratio of net income per average full-time-equivalent employee after completion of the first three months of the year was $15,000 in 2003 and $13,000 in 2002.

INCOME TAXES

The effective tax rate was 24.0% for the three-month period ended March 31, 2003 compared to 26.3% for the prior year period. This decline was due primarily to an increase in tax-advantaged investments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Financial Condition - Market Risk Management" in Management's Discussion and Analysis of Financial Condition and Results of Operations, above. Management has determined that no additional disclosures are necessary to assess changes in information about market risk that have occurred since December 31, 2002.

ITEM 4. CONTROLS AND PROCEDURES

Within the ninety days prior to the filing of this report, the Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-14 under the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were adequate. There were no significant changes (including corrective actions with regard to significant or material weaknesses) in the Company's internal controls or in other factors subsequent to the date of the evaluation that could significantly affect those controls.

PART II - OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

10(a) Employment Agreement by and among Sandy Spring Bancorp, Sandy Spring Bank, and Hunter R. Hollar*

10(b) Supplemental Executive Retirement Agreement by and between Sandy Spring Bank, and Hunter R. Hollar*

31 Rule 13a-14(a) /15d-14(a) Certifications

32 18 U.S.C. Section 1350 Certifications

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* Incorporated by reference to the exhibit of the same number to the Form 10-Q for the quarterly period ended March 31, 2003.

(b) Reports on Form 8-K.

(1) On March 27, 2003, the Company reported, under Item 5, the establishment of a new share repurchase plan to replace the plan expiring on March 31, 2003.

(2) On April 10, 2003, the Company reported, under Item 4, a change in its certifying accountant.

(3) On April 14, 2003, the Company furnished, under Item 9 and Item 12, its news release including results of operations and financial condition and related information concerning non-GAAP financial measures.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this quarterly report to be signed on its behalf by the undersigned, thereunto duly authorized.

SANDY SPRING BANCORP, INC.
(Registrant)

By: /S/ HUNTER R. HOLLAR

Hunter R. Hollar
President and Chief Executive Officer

Date: December 17, 2003

By: /S/ JAMES H. LANGMEAD

James H. Langmead
Executive Vice President and Chief Financial Officer

Date: December 17, 2003