SANDY SPRING BANCORP INC
Form 10-K
March 16, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Year Ended December 31, 2008

Commission File Number 0-19065

SANDY SPRING BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	52-1532952 (I.R.S. Employer Identification No.)
17801 Georgia Avenue, Olney, Maryland (Address of principal executive offices)	20832 (Zip Code)

Registrant's telephone number, including area code: 301-774-6400.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1.00 per share	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
¨ Yes x No*

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 such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):
Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes x No

The aggregate market value of the voting common stock of the registrant held by nonaffiliates on June 30, 2008, the last day of the registrant’s most recently completed second fiscal quarter, was approximately $264 million, based on the closing sales price of $16.58 per share of the registrant's Common Stock on that date.

As of the close of business on February 28, 2009, 16,403,955 shares of the registrant's Common Stock were outstanding.
Documents Incorporated By Reference
Part III: Portions of the definitive proxy statement for the Annual Meeting of Shareholders to be held on April 22, 2009 (the "Proxy Statement").

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* The registrant is required to file reports pursuant to Section 13 of the Act.

SANDY SPRING BANCORP, INC.
Table of Contents

Forward-Looking Statements
Sandy Spring Bancorp, Inc. (the “Company”) makes forward-looking statements in the Management's Discussion and Analysis of Financial Condition and Results of Operations and other portions of this Annual Report on Form 10-K that are subject to risks and uncertainties. These forward-looking statements 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. 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, market behavior, 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, the Company'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. Please also see the discussion of "Risk Factors" on page 72.

SANDY SPRING BANCORP, INC.

FORM 10-K CROSS REFERENCE SHEET OF MATERIAL INCORPORATED BY REFERENCE

The following table shows the location in this Annual Report on Form 10-K or the accompanying Proxy Statement of the information required to be disclosed by the United States Securities and Exchange Commission ("SEC") Form 10-K. Where indicated below, information has been incorporated by reference in this Report from the Proxy Statement that accompanies it. Other portions of the Proxy Statement are not included in this Report. This Report is not part of the Proxy Statement. References are to pages in this report unless otherwise indicated.

Sandy Spring Bancorp, Inc.

With $3.3 billion in assets, Sandy Spring Bancorp, Inc. 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, Inc. is the second largest publicly traded banking company headquartered in Maryland. Sandy Spring Bank 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 to locate an ATM near you or for more information about Sandy Spring Bank.

About This Report

This report comprises the entire 2008 Form 10-K, other than exhibits, as filed with the SEC. The 2008 annual report to shareholders, included in this report, and the proxy materials for the 2009 annual meeting are being distributed together to shareholders. See page 78 for information regarding how to obtain copies of exhibits and additional copies of the Form 10-K.

This report is provided along with the annual proxy statement for convenience of use and to decrease costs, but is not part of the proxy materials.

The SEC has not approved or disapproved this report or passed upon its accuracy or adequacy.

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)	2008	2007	2006	2005	2004
Results of Operations:					
Tax-equivalent interest income	$ 173,389	$ 186,481	$ 159,686	$ 129,288	$ 117,137
Interest expense	60,386	76,149	58,687	33,982	34,768
Tax-equivalent net interest income	113,003	110,332	100,999	95,306	82,369
Tax-equivalent adjustment	4,545	5,506	6,243	7,128	8,156
Provision for loan and lease losses	33,192	4,094	2,795	2,600	0
Net interest income after provision for loan and lease losses	75,267	100,732	91,961	85,578	74,213
Noninterest income	46,243	44,289	38,895	36,909	30,949
Noninterest expenses	102,089	99,788	85,096	77,194	92,474
Income before taxes	19,421	45,233	45,760	45,293	12,688
Income tax expense (benefit)	3,642	12,971	12,889	12,195	(1,679)
Net income	15,779	32,262	32,871	33,098	14,367
Net income available to common shareholders	15,445	32,262	32,871	33,098	14,367
Per Share Data:					
Net income- basic per share	$ 0.96	$ 2.01	$ 2.22	$ 2.26	$ 0.99
Net income – basic per common share	0.94	2.01	2.22	2.26	0.99
Net income-diluted per share	0.96	2.01	2.20	2.24	0.98
Net income – diluted per common share	0.94	2.01	2.20	2.24	0.98
Dividends declared per common share	0.96	0.92	0.88	0.84	0.78
Book value per common share (at year end)	19.05	19.31	16.04	14.73	13.34
Financial Condition (at year end):					
Assets	$ 3,313,638	$ 3,043,953	$ 2,610,457	$ 2,459,616	$ 2,309,343
Deposits	2,365,257	2,273,868	1,994,223	1,803,210	1,732,501
Loans and leases	2,490,646	2,277,031	1,805,579	1,684,379	1,445,525
Securities	492,491	445,273	540,908	567,432	666,108
Borrowings	522,658	426,525	351,540	417,378	361,535
Stockholders' equity	391,862	315,640	237,777	217,883	195,083
Financial Condition (average for the year):					
Assets	3,152,586	2,935,451	2,563,673	2,352,061	2,406,318
Deposits	2,284,648	2,253,979	1,866,346	1,771,381	1,652,306
Loans and leases	2,420,040	2,113,476	1,788,702	1,544,990	1,292,209
Securities	428,479	495,928	559,350	603,882	906,901
Borrowings	513,237	361,884	451,251	355,537	536,758

Stockholders' equity	324,995	290,224	229,360	204,142	197,556
Performance Ratios (for the year):					
Return on average common equity	4.84%	11.12%	14.33%	16.21%	7.27%
Return on average assets	0.49	1.10	1.28	1.41	0.60
Yield on average interest-earning assets	6.02	6.98	6.73	5.95	5.23
Rate on average interest-bearing liabilities	2.56	3.50	3.08	2.02	1.94
Net interest spread	3.46	3.48	3.65	3.93	3.29
Net interest margin	3.92	4.13	4.26	4.39	3.68
Efficiency ratio – GAAP (1)	65.99	66.92	63.67	61.71	87.93
Efficiency ratio – Non-GAAP (1)	59.88	61.92	58.71	58.16	62.86
Dividends declared per share to diluted net income per common share	102.12	45.77	40.00	37.50	79.59
Capital and Credit Quality Ratios:					
Average equity to average assets	10.31%	9.89%	8.95%	8.68%	8.21%
Total risk-based capital ratio	13.82	11.28	13.62	13.22	13.82
Allowance for loan losses to loans and leases	2.03	1.10	1.08	1.00	1.01
Non-performing assets to total assets	2.18	1.15	0.15	0.06	0.08
Net charge-offs to average loans and leases	0.32	0.06	0.01	0.02	0.02

(1) See the discussion of the efficiency ratio in the section of Management's Discussion and Analysis of Financial Condition and Results of Operations entitled "Operating Expense Performance."

SECURITIES LISTING, PRICES AND DIVIDENDS

Stock Listing
Common shares of Sandy Spring Bancorp, Inc. are traded on the NASDAQ Global Select Market under the symbol SASR.

Transfer Agent and Registrar
American Stock Transfer and Trust Company, 59 Maiden Lane, New York, New York 10038

Recent Stock Prices and Dividends
Shareholders received quarterly cash dividends totaling $15.8 million in 2008 and $15.0 million in 2007. Sandy Spring Bancorp, Inc. (the “Company”) has increased its dividends per share each year for the past twenty-eight years. Since 2002, dividends per share have risen at a compound annual growth rate of 5%. The increase in dividends per share was 4% in 2008.

The ratio of dividends per share paid on common stock to diluted net income available to common shareholders per share was 102% in 2008, compared to 46% for 2007. The dividend amount is established by the board of directors each quarter. In making its decision on dividends, the board considers operating results, financial condition, capital adequacy, regulatory requirements, shareholder returns, and other factors.

Shares issued under the employee stock purchase plan, which commenced on July 1, 2001, totaled 32,891 in 2008 and 25,147 in 2007, while issuances pursuant to exercises of stock options and grants of restricted stock were 22,546 and 84,342 in the respective years. Shares issued under the director stock purchase plan totaled 1,479 shares in 2008 and 2,402 shares in 2007. There were no shares issued in connection with acquisitions in 2008 and 1,577,036 shares were issued in 2007.

The Company has a stock repurchase program that permits the repurchase of up to 5% (approximately 786,000 shares) of its outstanding common stock. Repurchases are made in connection with shares expected to be issued under the Company's stock option, benefit and compensation plans, as well as for other corporate purposes. A total of 1,332,869 shares have been repurchased since 1997, when stock repurchases began, through December 31, 2008 under the stock repurchase program. There were no shares repurchased in 2008 and 156,249 shares repurchased in 2007 under the stock repurchase program. As a result of participating in the Department of the Treasury’s Troubled Asset Relief Program (“TARP”) Capital Purchase Program, until December 5, 2011, the Company may not repurchase any shares of its common stock, other than in connection with the administration of an employee benefit plan, without the consent of the Treasury Department.

The number of common shareholders of record was approximately 2,600 as of February 27, 2009.

Quarterly Stock Information

	2008			2007		
	Stock Price Range		Per Share	Stock Price Range		Per Share
Quarter	Low	High	Dividend	Low	High	Dividend
1st	$ 24.38	$ 28.65	$ 0.24	$ 32.41	$ 38.97	$ 0.23
2nd	16.16	27.42	0.24	30.98	35.94	0.23
3rd	13.33	23.19	0.24	25.60	32.99	0.23
4th	14.82	22.46	0.24	26.00	31.57	0.23
Total			$ 0.96			$ 0.92

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number that May Yet Be Purchased Under the Plans or Programs (2)(3)
October 2008	0	N/A	0	629,996
November 2008	0	N/A	0	629,996
December 2008	0	N/A	0	629,996

(1) Includes purchases of the Company's stock made by or on behalf of the Company or any affiliated purchasers of the Company as defined in SEC Rule 10b-18.

(2) On March 28, 2007, the Company's board of directors approved a continuation of the stock repurchase program that permits the repurchase of up to 5%, or 786,245 shares, of its outstanding common stock. The current program continued a similar plan that expired on March 31, 2007. Due to its participation in the TARP, until December 5, 2011, the Company may not repurchase any shares of its common stock, other than in connection with the administration of an employees benefit plan, without the consent of the Treasury Department.

(3) Indicates the number of shares remaining under the plan at the end of the indicated month.

The following graph and table show the cumulative total return on the Common Stock of Bancorp over the last five years, compared with the cumulative total return of a broad stock market index (the Standard and Poor's 500 Index or "S&P 500"), and a narrower index of Mid-Atlantic bank holding company peers with assets of $2 billion to $7 billion. The cumulative total return on the stock or the index equals the total increase in value since December 31, 2003, assuming reinvestment of all dividends paid into the stock or the index. The graph and table were prepared assuming that $100 was invested on December 31, 2003, in the Common Stock and the securities included in the indexes.

	2003	2004	2005	2006	2007	2008
Sandy Spring Bancorp, Inc.	$ 100.0	$ 104.9	$ 97.8	$ 109.7	$ 82.4	$ 67.5
S&P 500 Index	$ 100.0	$ 110.9	$ 116.3	$ 134.7	$ 142.1	$ 89.5
Peer Group Index	$ 100.0	$ 112.7	$ 107.6	$ 116.6	$ 90.5	$ 98.3

The Peer Group Index includes twenty publicly traded bank holding companies, other than Bancorp, headquartered in the Mid-Atlantic Region as noted and with assets of $2 billion to $7 billion. The companies included in this index are: Carter Bank & Trust (VA); City Holding Company (WV); Pennsylvania Commerce Bancorp, Inc. (PA); First Bancorp, Inc. (NC); First Community Bancshares, Inc. (VA); Univest Corporation of Pennsylvania (PA); First Commonwealth Financial Corporation (PA); First Financial Bancorp (OH); F.N.B. Corporation (PA); Harleysville National Corporation (PA); Lakeland Bancorp, Inc. (NJ); NewBridge Bancorp (NC); Peoples Bancorp, Inc. (OH); Stellar One Corporation (VA); Sun Bancorp, Inc. (NJ); S&T Bancorp, Inc. (PA); TowneBank (VA); Union Bankshares Corporation (VA); Virginia Commerce Bancorp, Inc. (VA); Wesbanco, Inc. (WV). Returns are weighted according to the issuer's stock market capitalization at the beginning of each year shown.

Equity Compensation Plans

The following table presents disclosure regarding equity compensation plans in existence at December 31, 2008, consisting only of the 1999 Stock Option Plan (expired but with outstanding options that may still be exercised) and the 2005 Omnibus Stock Plan, each of which was approved by the shareholders.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column
Equity compensation plans approved by security holders	973,730	$ 33.47	1,296,853
Equity compensation plans not approved by security holders	0	0	0
Total	973,730	$ 33.47	1,296,853

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Net income available to common shareholders for Sandy Spring Bancorp, Inc. and subsidiaries (the "Company") for the year ended December 31, 2008, totaled $15.4 million ($0.94 per diluted common share), as compared to $32.3 million ($2.01 per diluted common share) for the prior year. These results reflect the following events:

- A 3% increase in net interest income due primarily to continued growth in the loan portfolio, which was largely offset by a decrease in the net interest margin from 4.13% in 2007 to 3.92% in 2008.
- An increase in the provision for loan and lease losses to $33.2 million in 2008 from $4.1 million in 2007 due mainly to higher charge-offs, increases in internal risk rating downgrades and specific reserves on a higher level of nonperforming loans in the residential real estate development portfolio.
- An increase of 4% in noninterest income over the prior year due to increased service charges on deposit accounts and higher fees on sales of investment products, offset by decreases in gains on sales of mortgage loans and insurance agency commissions.
- An increase of 2% in noninterest expenses compared to the prior year due primarily to goodwill impairment charges totaling $4.2 million and a $1.3 million increase in FDIC insurance premiums compared to 2007.

The year 2008 brought about a severe decline in the national and regional economies as well as market volatility of historic proportions. These forces exerted extraordinary pressures on the interest rate performance, credit quality, liquidity and capital adequacy of banks in general and Sandy Spring Bank was not immune to the effects on these important banking performance metrics. Throughout this year of unparalleled financial and market turmoil, the Company's experienced management team dealt with these critical risk factors with a view to managing for the long term.

The net interest margin declined to 3.92% in 2008 compared to 4.13% in 2007. Market rates declined throughout the year causing loan yields to decrease faster than the rates paid on deposits. In addition, the intense market competition for deposits by local, regional and national banks forced many banks to pay higher rates on deposits. The Company was required to sacrifice a measure of net interest margin by offering higher rates on certificates of deposit and creating new deposit products to maintain liquidity and market share.

The Company addressed the added liquidity risk by the actions mentioned above and also by the use of borrowing lines to lock in relatively low rates for longer terms and by carefully managing lending volumes later in the year. In addition, the Company restructured its primary borrowing lines with the Federal Home Loan Bank of Atlanta and the Federal Reserve in order to maximize the amounts of such available lines of credit.

The Company experienced a higher level of credit risk than in prior years due primarily to conditions in its residential real estate development portfolio. As pressures mounted due to the state of the housing market, many residential real estate developers could not survive the lack of sales and thus were unable to service their bank debt. The Company saw nonperforming assets increase to $72.2 million in 2008 from $34.9 million in 2007 primarily due to conditions in its residential real estate development portfolio. The Company has put into place additional staff and reporting tools to enhance its ability to monitor credit quality and identify problems expeditiously as they arise.

Lastly, but certainly most importantly, is the issue of capital adequacy. Despite the challenges discussed above, the Company has remained above all "well-capitalized" regulatory requirement levels. To provide an added margin of protection, the Company completed the sale of $83 million in preferred stock under the U.S. Treasury's Capital Purchase Program.

We will discuss in further detail the Company's response to each of the above mentioned risk factors in the following segments of Management's Discussion and Analysis.

Comparing December 31, 2008 balances to December 31, 2007, total assets increased 9% to $3.3 billion. Loan balances increased by 9% over the prior year primarily due to growth of 13% in commercial loans. The rate of loan growth declined significantly over the second half of the year due to market conditions and management's decision to improve its overall liquidity position. Customer funding sources, which include deposits plus other short-term borrowings from core customers, increased 3% over 2007. This growth was accomplished due to higher rates offered on select certificate of deposit accounts and the introduction of new deposit products in response to intense competition for deposits in the Company's markets. During the same period, stockholders' equity increased to $391.9 million or 12% of total assets.

Net interest income increased by $3.6 million, or 3%, mainly due to growth in interest-earning assets. The net interest margin decreased from 4.13% for the year 2007 to 3.92% for the year 2008. Noninterest income increased by 4% to $46.2 million compared to the prior year. This increase was due primarily to an increase of $1.6 million in service charges on deposit accounts and an increase of $0.5 million in fees on sales of investment products, partially offset by a decrease of $0.5 million in gains on sales of mortgage loans and $0.7 million in insurance agency commissions. Expressed as a percentage of total revenue (net interest income and noninterest income), noninterest income totaled 30%. Noninterest expenses grew by $2.3 million or 2% versus the prior year primarily due to a pre-tax impairment charge of $4.2 million to write down the remaining value of goodwill in the Company's leasing subsidiary, The Equipment Leasing Company. In addition, FDIC insurance premiums increased $1.3 million over the prior year. These increases were partially offset by a prior service credit of $1.5 million relating to the Company's pension plan and by a decrease of $1.5 million in merger expenses incurred in 2007. Excluding the above mentioned one-time expenses, the Company's successful implementation of its Project LIFT ("Looking Inward For Tomorrow") initiative was primarily responsible for decreasing noninterest expense during 2008.

Non-performing assets increased substantially to $72.2 million at December 31, 2008 compared to $34.9 million at December 31, 2007. This increase was due primarily to the effect of current market conditions on the Company's residential real estate development portfolio. Non-performing assets represented 2.18% of total assets at year-end 2008, versus 1.15% at year-end 2007. The ratio of net charge-offs to average loans and leases was 0.32% in 2008, compared to 0.06% in 2007.

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America 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 may 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 allowance to be established, or when an asset or liability must 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 readily available.

The allowance for loan and lease 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) Statement of Financial Accounting Standards ("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 when it is probable that the Company will not collect all principal and interest payments according to the loan's or lease's contractual terms.

Management believes that the allowance is adequate. However, its determination requires significant judgment, and estimates of probable losses in the loan and lease 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 loans and leases 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 Company, periodically review the loan and lease portfolio and the allowance. Such review may result in additional provisions based on their judgments of information available at the time of each examination.

The Company's allowance for loan and lease losses has two basic components: the formula allowance reflecting historical losses by loan category, as adjusted by several factors whose effects are not reflected in historical loss ratios, and specific allowances. Each of these components, and the systematic allowance methodology used to establish them, are described in detail in Note 1 of the Notes to the Consolidated Financial Statements. The amount of the allowance is reviewed monthly by the Senior Loan Committee, and reviewed and approved quarterly by the board of directors.

The portion of the allowance that is based upon historical loss factors, as adjusted, establishes allowances for the major loan categories based upon adjusted historical loss experience over the prior eight quarters, weighted so that losses realized in the most recent quarters have the greatest effect. The use of these historical loss factors is intended to reduce the differences between estimated losses inherent in the loan and lease portfolio and actual losses. The factors used to adjust the historical loss ratios address changes in the risk characteristics of the Company's loan and lease portfolio that are related to (1) trends in delinquencies and other non-performing loans, (2) changes in the risk level of the loan portfolio related to large loans, (3) changes in the categories of loans comprising the loan portfolio, (4) concentrations of loans to specific industry segments, (5) changes in economic conditions on both a local and national level, (6) changes in the Company's credit administration and loan and lease portfolio management processes, and (7) quality of the Company's credit risk identification processes. This component comprised 70% and 79% of the total allowance at December 31, 2008 and 2007, respectively.

The specific allowance is used primarily to establish allowances for risk-rated credits on an individual or portfolio basis, and accounted for 30% and 21% of the total allowance at December 31, 2008 and 2007, respectively. The Company has historically had favorable credit quality. The actual occurrence and severity of losses involving risk-rated credits can differ substantially from estimates, and some risk-rated credits may not be identified.

Table 1 – Consolidated Average Balances, Yields and Rates (1)

(Dollars in thousands and tax equivalent)

	2008			2007			2006		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets									
Loans and leases (2)									
Residential real estate(3)	$ 660,779	$ 40,132	6.07%	$ 586,141	$ 37,441	6.39%	$ 588,426	$ 36,723	6.24%
Consumer	387,983	20,503	5.28	365,334	25,367	6.94	344,316	23,172	6.73
Commercial loans and leases	1,371,278	88,565	6.46	1,162,001	90,730	7.81	855,960	66,657	7.79
Total loans and leases	2,420,040	149,200	6.17	2,113,476	153,538	7.26	1,788,702	126,552	7.08
Securities:									
Taxable	242,422	10,684	4.41	279,881	14,603	5.22	310,740	14,710	4.73
Nontaxable	186,057	12,838	6.90	216,047	15,060	6.97	248,610	17,220	6.93
Total securities	428,479	23,522	5.49	495,928	29,663	5.98	559,350	31,930	5.71
Interest-bearing deposits with banks	11,305	112	.99	21,600	1,123	5.20	2,501	123	4.92
Federal funds sold	22,619	555	2.45	42,305	2,157	5.10	21,145	1,081	5.12
Total earning assets	$ 2,882,443	173,389	6.02%	$ 2,673,309	186,481	6.98%	$ 2,371,698	159,686	6.73%
Less: allowances for loan and lease losses	(32,629)			(22,771)			(18,584)		
Cash and due from banks	49,981			54,294			46,741		
Premises and equipment, net	53,207			52,604			45,980		
Other assets	199,584			178,015			117,838		
Total assets	$ 3,152,586			$ 2,935,451			$ 2,563,673		
Liabilities and Stockholders' Equity:									
Interest-bearing demand	$ 242,848	$ 671	0.28%	$ 236,940	$ 808	0.34%	$ 226,699	$ 657	0.29%

deposits									
Regular savings deposits	153,123	455	0.30	165,134	535	0.32	182,610	687	0.38
Money market savings deposits	669,239	12,247	1.83	643,047	23,809	3.70	409,578	12,655	3.09
Time deposits	777,979	29,443	3.78	768,005	34,764	4.53	631,712	25,335	4.01
Total interest-bearing deposits	1,843,189	42,816	2.32	1,813,126	59,916	3.30	1,450,599	39,334	2.71