

SANDY SPRING BANCORP INC

Form S-4/A

December 26, 2006

As filed with the Securities and Exchange Commission on December 22, 2006

Registration No. 333-138905

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

FORM S-4

REGISTRATION STATEMENT UNDER THE

SECURITIES ACT OF 1933

SANDY SPRING BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

6021

(Primary Standard Industrial
Classification Code Number)

52-1532952

(I.R.S. Employer Identification
No.)

17801 Georgia Avenue

Olney, Maryland 20832

(301) 774-6400

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Ronald E. Kuykendall

Executive Vice President, General Counsel & Secretary

Sandy Spring Bancorp, Inc.

17801 Georgia Avenue

Olney, Maryland 20832

(301) 774-6400

(Name, address, including zip code, and telephone number,

including area code, of agent for service)

with copies to:

**Kenneth R. Morrow, Esq.
Dickstein Shapiro LLP
1825 Eye Street N.W.,
Washington, D.C. 20006
(202) 420-2200**

**Noel M. Gruber, Esq.
Kennedy & Baris, L.L.P.
4701 Sangamore Road, Suite P-15
Bethesda, Maryland 20816
(301) 229-3400**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

POTOMAC BANK OF VIRGINIA
9910 Main Street

Fairfax, Virginia 22031

December 26, 2006

Dear Shareholder:

On October 10, 2006, Potomac Bank of Virginia entered into an agreement and plan of merger with Sandy Spring Bancorp, Inc. and Sandy Spring Bank, a wholly-owned subsidiary of Sandy Spring Bancorp, Inc. pursuant to which Potomac will merge with and into Sandy Spring Bank. You are invited to attend a special meeting of shareholders of Potomac Bank of Virginia to be held on February 8, 2007 at 10:30 a.m., local time, at the Westwood Country Club, 800 Maple Avenue East, Vienna, Virginia. At this special meeting, you will be asked to approve the merger agreement so that the merger can occur.

In the merger, each outstanding share of Potomac common stock (other than shares as to which shareholders have properly exercised appraisal rights) will be converted into the right to receive either \$21.75 in cash, without interest, or 0.6143 of a share of Bancorp common stock. Proration procedures set forth in the merger agreement and described in this proxy statement/prospectus provide that 50% of the outstanding shares of Potomac common stock will be converted into Bancorp common stock and 50% of the outstanding shares of Potomac common stock will be converted into cash. You may elect to receive cash or shares of Bancorp common stock in exchange for your shares of Potomac common stock. However, because of the fixed allocation of the merger consideration between cash and Bancorp common stock, there is no assurance that you will receive the form of consideration that you elect with respect to all shares of Potomac common stock that you hold. As of December 20, 2006, the most recent practicable trading day prior to the date of this proxy statement/prospectus, the closing sale price for one share of Sandy Spring Bancorp, Inc. common stock was \$37.71. The market price of the Sandy Spring Bancorp, Inc. common stock will fluctuate prior to the merger. We urge you to obtain current market information for the Sandy Spring Bancorp, Inc. common stock.

Your board of directors has unanimously determined that the merger agreement and the transactions contemplated thereby are in the best interests of Potomac and its shareholders, has approved and adopted the merger agreement and the transactions contemplated thereby, including the merger, and unanimously recommends that you vote FOR the proposal to approve the merger agreement and the merger as described in this proxy statement/prospectus and FOR a proposal to adjourn the special meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the special meeting to approve the merger agreement and the merger. The proposed merger requires the receipt of bank regulatory approvals and the approval of the merger agreement by the holders of more than two-thirds of the outstanding shares of Potomac common stock. Please carefully review this document, which explains the proposed merger in detail. **In particular, you should carefully consider the discussion in the section entitled Risk Factors on page 15 of this proxy statement/prospectus.**

Shareholders owning or controlling shares of Potomac common stock representing approximately 23.32% of the outstanding shares of Potomac common stock as of the date of the merger agreement have entered into a voting agreement with Sandy Spring Bancorp in which they have agreed to vote all of such shares in favor of the proposal to approve the merger agreement and the merger.

Bancorp common stock is listed on the Nasdaq Global Select Market under the symbol SASR and Potomac common stock is quoted on the OTC Bulletin Board under the symbol PBOV.

It is important that your shares are represented at the meeting, whether or not you plan to attend the meeting. Abstentions and failures to vote will have the same effect as votes against the proposal to approve the merger agreement and the merger.

Accordingly, please complete, date, sign and return promptly your proxy card in the enclosed postage pre-paid envelope. You may attend the meeting and vote your shares in person if you wish, even though you have previously returned your proxy.

Sincerely,

G. Lawrence Warren
President and CEO

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the securities to be issued under this proxy statement/prospectus, or determined if this proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares of Sandy Spring Bancorp, Inc. common stock are not savings or deposit accounts or other obligations of any bank or savings association and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

This document is dated December 26, 2006 and is first being mailed to Potomac shareholders on or about December 29, 2006.

REFERENCES TO ADDITIONAL INFORMATION

This document incorporates important business and financial information about Sandy Spring Bancorp, Inc. from documents that are not included in or delivered with this document. This information includes documents incorporated by reference in this proxy statement/prospectus, including exhibits to such documents that are specifically incorporated by reference in this proxy statement/prospectus. This information is available to you without charge upon your written or oral request. You can obtain copies of these documents by accessing the Securities and Exchange Commission's Internet web site maintained at www.sec.gov or by requesting them from Sandy Spring Bancorp, Inc. at the following address:

Sandy Spring Bancorp, Inc.

17801 Georgia Avenue

Olney, Maryland 20832

Attention: Ronald E. Kuykendall, Executive Vice President, General Counsel and Secretary

(301) 774-6400

If you would like to request documents, please do so by February 1, 2007, in order to receive them before the special meeting of Potomac shareholders.

See Where You Can Find More Information beginning on page 67 for further information.

POTOMAC BANK OF VIRGINIA

9910 MAIN STREET

FAIRFAX, VIRGINIA 22031

December 26, 2006

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON FEBRUARY 8, 2007

To the Shareholders of Potomac Bank of Virginia:

We will hold a special meeting of shareholders of Potomac Bank of Virginia on February 8, 2007, at 10:30 a.m., local time, at the Westwood Country Club, 800 Maple Avenue East, Vienna, Virginia, for the following purposes:

1. To consider and vote upon a proposal to approve an agreement and plan of merger, dated as of October 10, 2006, among Potomac Bank of Virginia, Sandy Spring Bancorp, Inc. and Sandy Spring Bank, a wholly owned subsidiary of Sandy Spring Bancorp, Inc., and the merger contemplated thereby, pursuant to which Potomac will merge with and into Sandy Spring Bank upon the terms and subject to the conditions set forth in the agreement and plan of merger. This proposal is more fully described in the enclosed proxy statement/prospectus. A copy of the agreement and plan of merger is attached as Appendix A to the enclosed proxy statement/prospectus.
2. To consider and vote upon a proposal, if necessary, to adjourn the special meeting to a later date or dates to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the agreement and plan of merger and the merger contemplated thereby.
3. To transact any other business as may properly come before the special meeting or any adjournment or postponements of the special meeting.

We have fixed the close of business on December 21, 2006 as the record date for determining those Potomac shareholders entitled to vote at the special meeting and any adjournments or postponements of the special meeting. **Accordingly, only Potomac shareholders of record on that date are entitled to notice of, and to vote at, the special meeting of Potomac shareholders and any adjournments or postponements of the special meeting.**

By order of the Board of Directors,

Stephanie H. Ogle
Secretary

Fairfax, Virginia

December 26, 2006

The Board of Directors of Potomac Bank of Virginia unanimously recommends that you vote FOR approval of the agreement and plan of merger and the merger contemplated thereby and FOR the proposal, if necessary, to adjourn the special meeting to permit the further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the agreement and plan of merger and the merger contemplated thereby.

The enclosed proxy is solicited by and on behalf of the Potomac Bank of Virginia board of directors. Whether you plan to attend the meeting or not, please sign and return the enclosed proxy so that Potomac Bank of Virginia may be assured of the presence of a quorum at the meeting. A self-addressed envelope is enclosed for your convenience. No postage is required if mailed in the United States.

Potomac shareholders have the right to assert appraisal rights with respect to the merger and demand in writing that the surviving corporation in the merger pay the fair value of their shares of Potomac common stock under applicable provisions of Virginia law. In order to exercise and perfect appraisal rights, Potomac shareholders must give written notice of their intent to demand payment for their shares to Potomac before voting on the merger at the special meeting and must not vote in favor of or consent to the merger. A copy of the applicable Virginia statutory provisions is included in this proxy statement/prospectus as Appendix C, and a description of the procedures to demand and perfect appraisal rights is included in the section entitled The Merger Appraisal Rights beginning on page 33.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

The Merger and the Special Meeting of Shareholders

Q: What matters will be considered at the special meeting of shareholders?

A: At the special meeting of shareholders, Potomac's shareholders will be asked to vote on (1) the agreement and plan of merger by and among Sandy Spring Bancorp, Inc. (Bancorp), Sandy Spring Bank, a wholly-owned subsidiary of Bancorp (SSB), and Potomac Bank of Virginia (Potomac), under which Potomac will merge with and into SSB, with SSB surviving the merger, and (2) a proposal, if necessary, to adjourn the special meeting to a later date or dates to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the agreement and plan of merger and the merger contemplated thereby. The agreement and plan of merger is attached to this proxy statement/prospectus as Appendix A.

Q: What shareholder vote is necessary?

A: At the special meeting, the affirmative vote of holders of more than two-thirds of the outstanding shares of Potomac common stock is required to approve the merger agreement and the merger and a majority of the votes cast at the special meeting is required to approve the proposal, if necessary, to adjourn the special meeting to permit further solicitation of proxies. Potomac shareholders owning or controlling approximately 23.32% of the outstanding shares of Potomac common stock as of the record date for the special meeting have entered into a voting agreement with Bancorp whereby they have agreed to vote their shares for approval of the merger agreement and the merger.

Q: Does Potomac's board of directors recommend that Potomac shareholders approve the merger agreement and the merger and the proposal to approve, if necessary, an adjournment of the special meeting to permit further solicitation of proxies?

A: Yes. Potomac's board of directors unanimously recommends that its shareholders vote **FOR** approval of the merger agreement and the merger and **FOR** the proposal to approve, if necessary, an adjournment of the special meeting to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the merger agreement and the merger.

Q: What do I need to do now?

A: After you have carefully read this proxy statement/prospectus, indicate on your proxy card how you want to vote with respect to the proposal to approve the merger agreement and the merger and the proposal, if necessary, to adjourn the special meeting to a later date to permit the further solicitation of proxies in the event there are not sufficient votes at the special meeting to approve the merger agreement and the merger. Complete, sign, date and mail the proxy card in the enclosed postage-paid return envelope as soon as possible so that your shares will be represented and voted at the special meeting. The proxy card should be mailed in accordance with the instructions provided thereon. If you want to make an election of the form of merger consideration you will receive for any or all of your shares, complete, sign, date and mail the election form and letter of transmittal, which will be provided separately, to the exchange agent at the address listed on page 3, together with the stock certificates representing the shares of Potomac common stock with respect to which you wish to make an election, in accordance with the instructions described in this proxy statement/prospectus. In a separate mailing you will receive an Election Form/Letter of Transmittal to use in making an election as to the form of consideration you wish to receive. **Do not send your election form, letter of transmittal or stock certificates with your proxy card or to Potomac. The proxy card should be mailed in accordance with**

the instructions set forth thereon.

Q. How do I change my vote after I have mailed my signed proxy card?

A: You may change your vote at any time before your proxy is voted by revoking your proxy in any of the following three ways:

by delivering a written notice to the secretary of Potomac stating that you would like to revoke your proxy;
by submitting another duly executed proxy with a later date; or
by attending the special meeting and voting in person at the special meeting (your attendance at the special meeting will not by itself revoke your proxy). If you hold your shares in street name, you will need additional documentation from your bank or broker in order to vote in person at the special meeting.

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Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: If you do not provide your broker with instructions on how to vote your shares held in street name, your broker will not be permitted to vote your shares on the proposal to approve the merger agreement and the merger. You should therefore instruct your broker how to vote your shares. Your failure to instruct your broker to vote your shares will be the equivalent of voting against the approval of the merger agreement and the merger.

Q: What if I abstain from voting or fail to instruct my broker?

A: If you abstain from voting it will have the same effect as a vote against the merger agreement and the merger but will have no effect on the proposal, if necessary, to adjourn the special meeting to permit further solicitation of proxies.

Q: Am I entitled to appraisal or dissenters rights?

A: Yes. Under Virginia law, you may exercise appraisal rights in connection with the merger. The provisions of Virginia law governing appraisal rights are complex, and you should study them carefully if you wish to exercise appraisal rights. A Potomac shareholder may take actions that prevent that shareholder from successfully asserting these rights, and multiple steps must be taken to properly exercise and perfect such rights. A copy of all relevant provisions of Sections 13.1-729 through 13.1-741 of the Virginia Stock Corporation Act, or the VSCA, is attached to this proxy statement/prospectus as Appendix C.

For a more complete description of appraisal rights, please refer to the section of this proxy statement/prospectus entitled *The Merger Appraisal Rights* beginning on page 33.

Q: When do you expect to complete the merger?

A: We presently expect to complete the merger in the first quarter of 2007. However, we cannot assure you when or if the merger will occur. Potomac's shareholders must first approve the merger agreement and the merger at the special meeting and we must obtain the necessary regulatory consents and approvals.

Q: Is consummation of the merger subject to any conditions?

A: Yes. In addition to the approval of the shareholders of Potomac, consummation of the merger requires the receipt of the necessary regulatory consents and approvals, and the satisfaction of other conditions specified in the merger agreement. See *The Merger Regulatory Approvals Required for the Merger* and *The Merger Agreement Conditions to the Completion of the Merger* beginning on pages 30 and 42 of this proxy statement/prospectus, respectively.

Merger Consideration

Q: What will I receive in the merger?

A: As a result of the merger, each share of Potomac common stock (other than shares with respect to which appraisal rights have been properly exercised and perfected) will be converted into the right to receive, at your election, either \$21.75 in cash, without interest, or 0.6143 of a share of Bancorp common stock, in each case subject to the proration procedures described in this proxy statement/prospectus.

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Q: What are the tax consequences of the merger to me?

A: We expect that for federal income tax purposes, in general, Potomac shareholders who receive cash in whole or in part in exchange for their Potomac common stock will recognize gain equal to the lesser of the realized gain or the cash received, and the merger will not be a taxable event to those Potomac shareholders who receive solely Bancorp common stock in exchange for their Potomac common stock. If, however, a Potomac shareholder who receives only cash in the merger actually or constructively owns shares of Bancorp common stock after the merger, such shareholder might be subject to dividend treatment in certain circumstances. See Federal Income Tax Consequences of the Transaction Federal Income Tax Consequences to Potomac Shareholders, on page 31.

Bancorp and Potomac will have no obligation to complete the merger unless RSM McGladrey, Inc. delivers an opinion that the transaction will be a reorganization under Section 368 of the Internal Revenue Code and, as a result, generally the stock portion of the merger consideration issuable in the transaction (as opposed to the payment of cash) will not be taxable on receipt. This opinion will not bind the Internal Revenue Service, however, and the Internal Revenue Service could take a different view of the transaction.

We urge you to consult your personal tax advisor to gain a full understanding of the tax consequences of the merger to you. Tax matters are very complicated, and in many cases, the tax consequences of the merger will depend on your particular facts and circumstances.

Q: How do I elect the form of consideration I prefer to receive in the merger?

A: Provided to holders of record of Potomac common stock in a separate mailing from this proxy statement/prospectus is an election form and letter of transmittal. The election form and letter of transmittal allow each Potomac shareholder to specify the number of shares with respect to which such Potomac shareholder elects to receive cash and the number of shares with respect to which such Potomac shareholder elects to receive Bancorp common stock. The election procedures and deadline for making elections are described in the materials accompanying the election form and letter of transmittal and also beginning on page 37 of this proxy statement/prospectus. All elections and non-elections are subject to the allocation and proration procedures described in this prospectus/proxy statement beginning on page 38. To make a valid election, holders of shares of Potomac common stock in registered form must properly complete, sign and send the election form and letter of transmittal, together with the stock certificates with respect to which an election is being made, to the exchange agent at the following address:

By Mail:

American Stock Transfer & Trust Company
Operations Center
Attn: Reorganization Department
P.O. Box 2042
New York, NY 10272-2042

By Hand or Courier:

American Stock Transfer & Trust Company
Operations Center
Attn: Reorganization Department
6201 15th Ave
Brooklyn, NY 11219

Do not send your election form, letter of transmittal or stock certificates with your proxy card or to Potomac. If you make an election to receive merger consideration, the election form, letter of transmittal and your stock certificates should be sent to the exchange agent at the address listed above. The proxy card should be mailed in accordance with the instructions set forth thereon.

If you own shares of Potomac common stock in street name through a broker or other financial institution and you wish to make an election, you will receive or should seek instructions from the institution holding your shares concerning how to make your election. Street name holders may be subject to an earlier election deadline than stated below. Therefore, if you are a street name holder, you should carefully read any materials you receive from your broker. If you instruct a broker to submit an election for your shares, you must follow your broker's directions for changing those instructions.

Election forms must be received by 5:00 p.m., eastern time on February 1, 2007 (the election deadline) for the election to be valid. If you do not make a valid election by the election deadline, the merger consideration you receive for your shares of Potomac common stock will be determined by the allocation and proration procedures described in this proxy statement/prospectus, which will depend upon the elections of the other Potomac shareholders. Questions related to elections to receive merger consideration and the election form should be directed to D.F. King & Co., Inc., at (888) 869-7406.

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Do not return your election form or your stock certificates with your proxy card. Doing so will not constitute a valid election, and may delay your receipt of the merger consideration.

Q: Will I always receive the form of merger consideration I desire to receive?

A: No. Bancorp will pay cash for 50% of the outstanding shares of Potomac common stock and issue shares of Bancorp common stock for 50% of the outstanding shares of Potomac common stock. If the number of Potomac shares for which an election to receive cash is made is higher than 50% of the outstanding shares of Potomac common stock, a pro rata portion of those shares will be converted into the right to receive Bancorp common stock in order to result in a 50% cash and 50% stock allocation. If the number of Potomac shares for which an election to receive cash is made is lower than 50% of the outstanding shares of Potomac common stock, first a pro rata portion of the shares for which no election is made, and then, if and to the extent necessary, a pro rata portion of the shares for which a stock election is made, will be converted into the right to receive cash in order to result in a 50% cash and 50% stock allocation. Accordingly, there is no assurance that you will receive the form of merger consideration that you desire to receive with respect to all of the shares of Potomac common stock you hold. The allocation and proration procedures are described beginning on page 38 of this proxy statement/prospectus.

Q: What do I do if I want to revoke my election after I have mailed my signed election form?

A: If you hold shares in registered form, you may revoke your election by sending a signed written notice to the exchange agent identifying the shares of Potomac common stock for which you are revoking your election. For a notice of revocation to be effective, it must be received by the exchange agent prior to the election deadline. The election procedure, including revocation of an election, is described beginning on page 37 of this proxy statement/prospectus. If you hold your shares in street name, you must follow your broker's instructions for revoking an election.

Q: When should I send in my stock certificates?

A: If you make an election, you must send the stock certificates representing the shares of Potomac common stock with respect to which you have made an election with your completed election form and letter of transmittal to the exchange agent at the address set forth on page 3 so that they are received by the exchange agent no later than the election deadline. If you hold your shares in street name, you should comply with the election deadline set by your broker, which may be earlier. If you do not make an election, you will receive a letter of transmittal from the exchange agent after the completion of the merger with instructions for sending in your stock certificates.

This Proxy Statement/Prospectus

Q: Is there other information I should consider that is not included in this proxy statement/prospectus?

A: Yes. Much of the business and financial information about Bancorp that may be important to you is not included in this proxy statement/prospectus. Instead, that information is incorporated by reference to documents separately filed by Bancorp with the Securities and Exchange Commission (the SEC). This means that Bancorp may satisfy its disclosure obligations to you by referring you to one or more documents separately filed by it with the SEC. See [Where You Can Find More Information](#) beginning on page 67 for a list of documents that Bancorp has incorporated by reference into this proxy statement/prospectus and for instructions on how to obtain copies of those documents. The documents are available to you without charge.

Q: What if there is a conflict between documents?

A: You should rely on the LATER FILED DOCUMENT. Information in this proxy statement/prospectus may update information contained in one or more of the Bancorp documents incorporated by reference. Similarly, information in documents that Bancorp may file after the date of this proxy statement/prospectus may update information contained in this proxy statement/prospectus or information in previously filed documents.

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Q: Why haven't you included financial information about Potomac in this proxy statement/prospectus?

A: As a Potomac shareholder, you receive annual and quarterly financial information as distributed by Potomac to its shareholders. In considering the proposed merger, we believe you are in more need of information concerning Bancorp. Due to the size of Bancorp relative to the size of Potomac, financial information about Potomac is not material.

Q: Who can I call with questions or to obtain copies of this proxy statement/prospectus?

A: You may contact Patricia A. Ferrick of Potomac Bank of Virginia at (703) 319-9000.

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SUMMARY

This summary highlights selected information from this proxy statement/prospectus. It does not contain all of the information that is important to you. We urge you to read the entire proxy statement/prospectus carefully and the other documents to which we refer to understand fully the merger. See [Where You Can Find More Information](#) on page 67.

Information about Bancorp, SSB and Potomac (See Page 21).

Sandy Spring Bancorp, Inc.

Sandy Spring Bank

17801 Georgia Avenue

Olney, Maryland 20832

(301) 774-6400

Sandy Spring Bancorp, Inc. ([Bancorp](#))

Bancorp is the holding company for Sandy Spring Bank and Sandy Spring Bank's principal subsidiaries, Sandy Spring Insurance Corporation, The Equipment Leasing Company and West Financial Services, Inc. Bancorp is the third largest publicly traded banking company headquartered in Maryland. As of September 30, 2006, Bancorp had total assets of approximately \$2.60 billion, total net loans of approximately \$1.82 billion, total deposits of approximately \$1.95 billion and approximately \$233.7 million in stockholders' equity. Through its subsidiaries, Bancorp also offers a comprehensive menu of leasing, insurance and investment management services. Bancorp's common stock is listed on the Nasdaq Global Select Market under the symbol [SASR](#). The deposits associated with Bancorp's affiliated banks are insured by the Federal Deposit Insurance Corporation (the [FDIC](#)).

On December 14, 2006, Bancorp announced that it agreed to acquire CN Bancorp and its subsidiary, County National Bank, in a merger transaction valued at approximately \$44.1 million. Under the terms of the merger agreement, CN Bancorp's stockholders would be entitled to elect to receive cash or Bancorp common stock as merger consideration, subject to an allocation of 40-50% cash and 50-60% stock. See [The Companies' Recent Developments](#) on page 21.

Sandy Spring Bank (the [SSB](#))

SSB is a community banking organization that focuses its lending and other services on businesses and consumers in the Baltimore-Washington region. SSB was founded in 1868 and offers a broad range of commercial banking, retail banking and trust services through 32 community offices and 77 ATMs located throughout Maryland. SSB is affiliated with the Allpoint ATM Network, which offers free nationwide access at 34,000 ATM locations.

Potomac Bank of Virginia

9910 Main Street

Fairfax, Virginia 22031

(703) 319-9000

Potomac Bank of Virginia (Potomac)

Potomac was organized in 1997 as a Virginia chartered bank. Potomac commenced operations in 1998 and currently operates out of its main office in Fairfax, Virginia and its three full service branch offices located in Vienna, Merrifield and Chantilly, Virginia. As of September 30, 2006, Potomac had total assets of approximately \$254.4 million, total loans of \$190.1 million, total deposits of approximately \$197.9 million and approximately \$25.5 million in stockholders' equity. Potomac provides a wide range of services to its customers, including commercial loans, lines of credit, personal loans, cash management products and financing arrangements for personal and business needs. Potomac's common stock is quoted on the OTC Bulletin Board under the symbol PBOV.

The Merger (See Page 22).

Bancorp, SSB and Potomac have entered into an agreement and plan of merger that provides for the merger of Potomac with and into SSB, with SSB surviving the merger. The agreement and plan of merger is attached as Appendix A to this proxy statement/prospectus. You should read the agreement and plan of merger because it is the legal document that governs the merger. In this proxy statement/prospectus, we refer to the agreement and plan of merger as the merger agreement.

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Special Meeting of Potomac Shareholders (See Page 18).

The special meeting of Potomac shareholders will be held at 10:30 a.m., eastern time, on February 8, 2007, at the Westwood Country Club, 800 Maple Avenue East, Vienna Virginia. At the special meeting, Potomac shareholders will be asked to vote to approve the merger agreement and the merger and a proposal, if necessary, to adjourn the special meeting to a later date or dates to permit the further solicitation of proxies in the event there are not sufficient votes at the special meeting to approve the merger agreement and the merger. You can vote at the special meeting if you were a record holder of Potomac common stock at the close of business on December 21, 2006, the record date for the special meeting. As of that date, there were 2,849,288 shares of Potomac common stock outstanding and entitled to be voted at the special meeting. Approval of the merger agreement and the merger requires the affirmative vote of more than two-thirds of the shares of Potomac common stock outstanding at the record date and approval of the proposal, if necessary, to adjourn the special meeting to permit the further solicitation of proxies requires a majority of the votes cast at the special meeting. Shareholders of Potomac owning or controlling approximately 23.32% of the outstanding shares of Potomac common stock as of the record date have agreed to vote their shares to approve the merger agreement and the merger.

What Potomac Shareholders Will Receive in the Merger (See Page 36).

The merger agreement provides that at the effective time of the merger each outstanding share of Potomac common stock (other than shares with respect to which appraisal rights have properly been exercised and perfected) will be converted into the right to receive either \$21.75 in cash, without interest, or 0.6143 of a share of Bancorp common stock, subject to the allocation and proration procedures described in this proxy statement/prospectus. Bancorp will not issue any fractional shares of Bancorp common stock in the merger. Potomac shareholders will receive cash for any fractional shares of Bancorp common stock owed to them in an amount, without interest, based on the \$21.75 cash election price. In this proxy statement/prospectus, we refer to the cash and shares of Bancorp common stock to be received in the merger by Potomac shareholders as the merger consideration.

On December 20, 2006, the most recent practicable trading date prior to the filing of this proxy statement/prospectus, the closing price of Bancorp common stock was \$37.71 per share.

No assurance can be given that the current market price of Bancorp common stock will be equivalent to the market price of Bancorp common stock on the date that stock is received by a Potomac shareholder or at any other time. The market price of Bancorp common stock when received by a Potomac shareholder may be greater or less than the current market price of Bancorp common stock.

You May Elect to Receive Cash or Shares of Bancorp Common Stock (See Page 37).

You may elect to receive cash or shares of Bancorp common stock in exchange for any or all of your shares of Potomac common stock by completing the election form and letter of transmittal provided in a separate mailing and submitting your stock certificates as provided herein. If you do not make a valid election, the merger consideration you receive will be determined by the allocation and proration procedures described in this proxy statement/prospectus and will depend on the elections made by the other Potomac shareholders.

Bancorp will pay cash for 50% of the Potomac common stock outstanding at the effective time of the merger and issue shares of Bancorp common stock for 50% of the Potomac common stock outstanding at the effective time of the merger. If the number of Potomac shares for which an election to receive cash is made is higher than 50% of the outstanding shares of Potomac common stock, a pro rata portion of those shares will be converted into the right to receive Bancorp common stock in order to result in a 50% cash and 50% stock allocation. If the number of Potomac shares for which an election to receive cash is made is lower than 50% of the outstanding shares of Potomac common

stock, then first, a pro rata portion of the shares for which no election is made will be converted into the right to receive cash and then, if and to the extent necessary, a pro rata portion of the shares for which a stock election is made will be converted into the right to receive cash, in each case in order to result in a 50% cash and 50% stock allocation. The proration procedures are described further under the section entitled "The Merger Agreement Proration" beginning on page 38 of this proxy statement/prospectus. Because of the allocation and proration procedures, you cannot be certain of receiving the form of merger consideration that you desire with respect to all of your shares of Potomac common stock.

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An election form and letter of transmittal is being mailed separately to Potomac shareholders who hold shares of Potomac common stock in registered forms. Potomac shareholders who hold shares of Potomac common stock in street name must follow instructions provided by their broker to make an election. If you do not make a valid election by 5:00 p.m., eastern time, on February 1, 2007, you will be deemed to have not made an election. All elections and deemed non-elections are subject to the allocation and proration procedures described in this proxy statement/prospectus. See *The Merger Agreement Proration* beginning on page 38 of this proxy statement/prospectus.

Your completed election form and stock certificates should be returned to the exchange agent at the following address:

By Mail:

American Stock Transfer & Trust Company
Operations Center
Attn: Reorganization Department
P.O. Box 2042
New York, NY 10272-2042

By Hand or Courier:

American Stock Transfer & Trust Company
Operations Center
Attn: Reorganization Department
6201 15th Ave
Brooklyn, NY 11219

Do not return your stock certificates or election form with your proxy card or to Potomac. Doing so will not constitute a valid election, and may delay your receipt of the merger consideration.

Potomac's Board of Directors Unanimously Recommends Shareholder Approval of the Merger Agreement and the Merger and Shareholder Approval of the Proposal, If Necessary, to Adjourn the Special Meeting to Permit Further Solicitation of Proxies. (See Page 25).

Potomac's board of directors unanimously determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are in the best interests of Potomac and its shareholders and unanimously approved and adopted the merger agreement and the transactions contemplated by the merger agreement, including the merger. Potomac's board of directors unanimously recommends that Potomac shareholders vote **FOR** approval of the merger agreement and the merger and **FOR** the approval of the proposal, if necessary, to adjourn the special meeting to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the merger agreement and the merger.

The affirmative vote of holders of more than two-thirds of the outstanding shares of Potomac common stock is required to approve the merger agreement and the merger and the affirmative vote of a majority of the votes cast at the special meeting is required to approve the proposal, if necessary, to adjourn the special meeting to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the merger agreement and the merger.

As of the record date, the directors and officers of Potomac owned and were entitled to vote an aggregate of 664,359 shares of Potomac common stock, representing approximately 23.32% of the outstanding shares of Potomac common stock. These individuals, in their capacities as shareholders, have entered into a voting agreement with Bancorp, under which they have agreed to vote all of their shares in favor of the merger agreement and against any competing transaction.

Potomac's Reasons for the Merger (See Page 24).

In reaching its determination to approve and adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger, Potomac's board of directors consulted with Potomac's management and its financial and legal advisors, and considered a number of factors, including, but not limited to:

The per share consideration offered by Bancorp of \$21.75 cash or .6143 shares of Bancorp common stock is in line with prices paid in the most comparable transactions.

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The consideration offered by Bancorp equals or exceeds the value Potomac could reasonably expect to achieve if it maintained independent operations.

Bancorp's common stock is traded on The Nasdaq Global Select Market, and has substantially greater liquidity than that of Potomac's, which trades infrequently.

Danielson Capital, LLC ([Danielson](#)) delivered a written opinion dated as of October 10, 2006 that the consideration to be received by Potomac shareholders is fair from a financial point of view as of such date. The interests of Potomac's officers and directors may be different from, or in addition to, the interest of Potomac's shareholders generally.

Additional factors are discussed under the section entitled "The Merger Background of and Reasons for the Merger; Recommendation of the Potomac Board" beginning on page 22 of this proxy statement/prospectus.

Opinion of Potomac's Financial Advisor (See Page 25).

Danielson has served as financial advisor to Potomac in connection with the merger agreement and the merger and has given its opinion to Potomac's board of directors that, as of October 10, 2006, the merger consideration was fair to Potomac shareholders from a financial point of view. It is a condition to Potomac's obligation to consummate the merger that Danielson update its fairness opinion as of the date of the closing of the merger. A copy of the opinion delivered by Danielson is attached to this proxy statement/prospectus as Appendix B. Danielson's opinion is summarized under the section entitled "The Merger Opinion of Potomac's Financial Advisor," beginning on page 25 of this proxy statement/prospectus. **Potomac shareholders should read Danielson's opinion carefully and completely. Danielson's opinion outlines the assumptions made, matters considered and limitations of the review undertaken by Danielson in providing its opinion.**

Danielson's opinion is directed to Potomac's board of directors and does not constitute a recommendation to any Potomac shareholder as to any matters relating to the merger. Potomac has agreed to pay Danielson a fee equal to 0.60% of the value of the transaction.

Potomac's Officers and Directors Have Some Interests in the Merger That Are Different than or in Addition to Their Interests as Shareholders (See Page 51).

In addition to their interests as shareholders, certain directors and officers of Potomac have interests in the transactions contemplated by the merger agreement that are different from or in addition to your interests as Potomac shareholders. These interests relate to or arise from, among other things:

- the appointment and nomination of certain Potomac directors as Bancorp directors after the effective time of the merger and such directors' receipt of compensation for such service;
- the retention of certain Potomac directors as members of an SSB Northern Virginia Advisory Board after the effective time of the merger and the annual retainer fee that those individuals will receive;
- the receipt by certain officers and employees of Potomac of change in control or severance payments; and
- the employment of G. Lawrence Warren, Potomac's president and chief executive officer, with SSB upon the completion of the merger pursuant to an employment agreement between SSB and Mr. Warren.

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Potomac's board of directors was aware of the interests described above and took them into account in its decision to approve and adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger. For information concerning these interests, please see "Interests of Certain Persons in the Merger" on page 51.

In addition, certain employees of Potomac are expected to be employed by Bancorp or SSB after the effective time of the merger. As employees of Bancorp or SSB, they will be eligible for certain employee benefits as discussed under the section entitled "The Merger Agreement - Bancorp Employee Benefit Plans and Severance for Potomac Employees" on page 40.

Material United States Federal Income Tax Consequences (See Page 30).

We have structured the merger as a reorganization for United States federal income tax purposes. Accordingly, holders of shares of Potomac common stock will generally not recognize any gain or loss for United States federal income tax purposes on the exchange of their shares of Potomac common stock for Bancorp common stock in the merger, except for any gain or (in certain cases) loss recognized in connection with any cash received as part of the merger consideration. The companies themselves will not recognize gain or loss as a result of the merger. It is a condition to the obligations of Bancorp and Potomac to complete the merger that RSM McGladrey, Inc. deliver an opinion that the merger will be a reorganization for United States federal income tax purposes and certain other tax matters related to the merger. RSM McGladrey, Inc. and Bancorp's independent registered public accounting firm, McGladrey & Pullen, LLP, are members of RSM International, an affiliation of separate and independent legal entities.

The United States federal income tax consequences described above may not apply to all holders of Potomac common stock, including certain holders specifically referred to on page 30. Your tax consequences will depend on your own situation. You should consult your tax advisor to determine the particular tax consequences of the merger to you.

Appraisal Rights (See Page 33).

Potomac shareholders are entitled to exercise appraisal rights with respect to the merger and, if the merger is completed and they perfect their appraisal rights, to receive payment in cash for the fair value of their shares of Potomac common stock. In general, to preserve appraisal rights, Potomac shareholders who wish to exercise these rights must:

- deliver to Potomac a notice of intent to demand payment for their shares at or before the time the vote is taken at the special meeting;
- not vote their shares for approval of the merger agreement and the merger;
- continuously hold their shares of Potomac common stock from the date they deliver their notice through the closing of the merger; and
- comply with the other procedures set forth in Sections 13.1-729 through 13.1-741 of the VSCA.

The text of Sections 13.1-729 through 13.1-741 of the VSCA governing appraisal rights is attached to this proxy statement/prospectus as Appendix C. Failure to comply with the procedures described in Appendix C will result in the loss of appraisal rights under the VSCA. We urge you to carefully read the text of Sections 13.1-729 through 13.1-741 of the VSCA governing appraisal rights.

The Merger Will Be Accounted for under the Purchase Method of Accounting (See Page 29).

The merger will be accounted for under the purchase method of accounting, as such term is used under accounting principles generally accepted in the United States of America. A comparison of the most recent annual financial

statements of Bancorp and Potomac indicates that Bancorp's investment in Potomac will represent less than 10% of Bancorp's assets after giving effect to the merger.

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Completion of the Merger Is Subject to Certain Conditions (See Page 42).

Completion of the merger is subject to a number of conditions, including the approval of the merger agreement and the merger by Potomac's shareholders and the receipt of necessary regulatory consents and approvals. Certain conditions to the merger may be waived by Bancorp or Potomac, as applicable.

We May Not Complete the Merger without All Required Regulatory Approvals (See Page 30).

The merger requires the receipt of certain regulatory consents and approvals, including but not limited to the approval of the Board of Governors of the Federal Reserve System, the Maryland Commissioner of Financial Regulation and the Virginia State Corporation Commission (through the Virginia Bureau of Financial Institutions). Although we have made or will make filings and notifications for these purposes and we expect to obtain all necessary regulatory approvals, we cannot be certain if or when we will obtain them. If a regulator fails to provide a required regulatory approval, then Bancorp and Potomac may not be able to consummate the transactions contemplated by the merger agreement. In addition, a regulator could impose conditions to its approval that might be unacceptable.

The Merger Is Expected to Occur in the First Quarter of 2007 (See Page 42).

The merger will occur shortly after all of the conditions to its completion have been satisfied or waived. Currently, we anticipate that the merger will occur in the first quarter of 2007. However, we cannot assure you when or if the merger will occur.

Termination of the Merger Agreement (See Page 49).

Bancorp and Potomac can mutually agree to abandon the merger and terminate the merger agreement at any time prior to the time the merger is completed, even after Potomac shareholder approval. Also, either Potomac or Bancorp can decide, without the consent of the other, to abandon the merger and terminate the merger agreement in a number of situations, including if:

the merger has not been consummated on or before April 15, 2007, except that neither Bancorp nor Potomac can terminate the merger agreement for this reason if the delay was caused by its failure to perform a material obligation under the merger agreement;
Potomac's shareholders fail to give the necessary approval at the special meeting of Potomac shareholders, or
there is a permanent legal prohibition to completing the merger or any required regulatory approval has been denied by a final order.

Bancorp can terminate the merger agreement if:

there is a breach on the part of Potomac of the merger agreement that would cause certain conditions to be unsatisfied and such conditions remain unsatisfied 30 days after notice of the breach;
Potomac fails to hold the special meeting of Potomac shareholders to approve the merger agreement and the merger;
Potomac's board of directors fails to make, withdraws, or modifies in a manner adverse to Bancorp its approval or recommendation of the merger agreement and the merger; or
Potomac enters into, or publicly announces its intention to enter into, a definitive agreement or agreement in principle with respect to a Superior Proposal (as defined on page 47 of this proxy statement/prospectus).

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Potomac can terminate the merger agreement if:

there is a breach on the part of Bancorp of the merger agreement that would cause certain conditions to be unsatisfied and such conditions remain unsatisfied 30 days after notice of the breach;

Potomac's board of directors authorizes Potomac to enter into an agreement concerning a Superior Proposal, and

Potomac gives Bancorp at least 72 hours prior written notice of its intention to terminate to accept a Superior Proposal,

Bancorp does not make during this 72 hour period an offer that is at least as favorable to Potomac's shareholders as the Superior Proposal, and

Potomac pays to Bancorp a termination fee of \$2,520,000;

or,

the average closing price of Bancorp's common stock during the 10 consecutive trading days ending on the 10th calendar day immediately prior to the effective time of the merger is less than \$28.91 *and* Bancorp's common stock price has underperformed the Nasdaq Bank Index by 20% or more since October 10, 2006, provided that this termination right:

may only be exercised by Potomac during the three-day period beginning on the 10th calendar day prior to the effective date of the merger; and

is subject to Bancorp's right to increase the exchange ratio or increase the number of shares of Potomac common stock for which Bancorp will pay cash as merger consideration, in either case as necessary to cure either of the above described conditions, but only to the extent that the cure would not jeopardize the tax-free nature of the stock portion of the merger consideration.

Potomac Must Pay Bancorp a Termination Fee under Certain Circumstances (See Page 50).

Potomac has agreed to pay Bancorp a fee of \$2,520,000 if:

Bancorp terminates the merger agreement as a result of:

Potomac's failing to hold the special meeting of Potomac shareholders to approve the merger agreement and the merger,

Potomac's board failing to recommend to Potomac's shareholders the approval of the merger agreement and the merger, or withdrawing such recommendation or modifying such recommendation in a manner adverse to Bancorp, or

Potomac's entering into or its public announcement to enter into, a definitive agreement or an agreement in principle with respect to a Superior Proposal,

or,

Potomac's terminating the merger agreement to enter into a written agreement concerning a Superior Proposal, but only after Potomac's compliance with its obligation to give Bancorp 72 hours advance written notice and Bancorp's failure to make an offer during such 72 hour period that is at least as favorable to Potomac's shareholders as the Superior Proposal.

[Back to Contents](#)**Effect of Merger on Rights of Potomac Shareholders (See Page 57).**

The rights of Potomac shareholders are governed by Virginia law, as well as Potomac's articles of incorporation and bylaws. After completion of the merger, the rights of the former Potomac shareholders receiving Bancorp common stock in the merger will be governed by Maryland law, as well as Bancorp's articles of incorporation and bylaws. There are substantive and procedural differences between Virginia and Maryland law as well as Potomac's and Bancorp's articles of incorporation and bylaws that will affect the rights of such Potomac shareholders.

Appointment of Additional Board Members (See Page 36).

Pursuant to the merger agreement, upon the closing of the merger, Marshall H. Groom, a director of Potomac, will be elected as a director of Bancorp. In addition, at Bancorp's first annual shareholders' meeting after the merger, Bancorp has agreed to nominate Mr. Groom for re-election and has agreed to also nominate William F. Roeder, Jr., a current director of Potomac, for election as a director of Bancorp, to fill a vacancy that is expected to arise from the retirement of a current director.

Market Price Information (See Page 55).

Bancorp's common stock is listed on the Nasdaq Global Select Market under the symbol SASR. Potomac's common stock is quoted on the OTC Bulletin Board under the symbol PBOV. The following tables set forth the historical price of Bancorp common stock and Potomac common stock as of the date preceding the first public announcement of the merger and as of the latest practicable date preceding the date of this proxy statement/prospectus.

Date	Bancorp Common Stock	Potomac Common Stock
October 10, 2006	\$36.29	\$18.25
December 20, 2006	\$37.71	\$21.80

[Back to Contents](#)**SELECTED FINANCIAL INFORMATION OF BANCORP**

The following table sets forth certain consolidated financial information of Bancorp. This information is based on, and should be read in conjunction with, the consolidated financial statements and related notes of Bancorp contained in its annual report on Form 10-K for the year ended December 31, 2005, and its quarterly report on Form 10-Q for the quarter ended September 30, 2006, which are incorporated by reference into this proxy statement/prospectus. See

Where You Can Find More Information on page 67.

<i>(Dollars in thousands, except per share data)</i>	As of and for the Nine Months Ended September 30,		As of and for the Years Ended December 31,			
	2006	2005	2005	2004	2003	2002
Results of Operations:						
Interest income	\$113,068	\$88,810	\$122,160	\$108,981	\$112,048	\$122,388
Interest expense	41,917	23,557	33,982	34,768	37,432	44,113
Net interest income	71,151	65,253	88,178	74,213	74,616	78,267
Provision for loan and lease losses	2,545	1,600	2,600	0	0	2,865
Net interest income after provision for loan and lease losses	68,606	63,653	85,578	74,213	74,616	75,402
Noninterest income, excluding securities gains	28,830	24,404	33,647	30,409	32,973	27,937
Securities gains	1	2,601	3,262	540	996	2,016
Noninterest expenses	62,878	56,334	77,194	92,474	67,040	63,843
Income before taxes	34,559	34,324	45,293	12,688	41,545	41,512
Income tax expense (benefit)	10,002	9,204	12,195	(1,679)	9,479	10,927
Net income	24,557	25,120	33,098	14,367	32,066	30,585
Per Share Data:						
Net income basic	\$1.66	\$1.72	\$2.26	\$0.99	\$2.21	\$2.11
Net income diluted	1.65	1.70	2.24	0.98	2.18	2.08
Dividends declared	0.66	0.62	0.84	0.78	0.74	0.69
Book value (at year end)	15.78	14.23	14.73	13.34	13.35	12.25
Tangible book value (at year end) ⁽¹⁾	14.15	13.07	13.21	12.16	12.03	10.76
Financial Condition (at year end):						
Assets	\$2,598,458	\$2,383,360	\$2,459,616	\$2,309,343	\$2,334,424	\$2,308,424
Deposits	1,947,850	1,804,888	1,803,210	1,732,501	1,561,830	1,492,210
Loans and leases	1,815,490	1,579,135	1,684,379	1,445,525	1,153,428	1,063,810
Securities	551,138	584,316	567,432	666,108	998,205	1,046,210
Borrowings	393,459	343,673	417,378	361,535	563,381	613,710
Stockholders' equity	233,693	208,090	217,883	195,083	193,449	178,020
Performance Ratios (for the year):						
Return on average equity	14.64	% 16.74	% 16.21	% 7.27	% 17.29	% 18.89
Return on average assets	1.29	1.44	1.41	0.60	1.37	1.42
Net interest margin	4.30	4.39	4.39	3.68	3.78	4.21
Efficiency ratio GAAP based	62.89	61.06	61.71	87.93	61.74	58.99
Efficiency ratio traditional	57.98	57.73	58.16	62.86	56.26	54.09
	40.00	36.47				

Dividends declared per share to diluted net income per share							
				37.50	79.59	33.94	33.17

Capital and Credit Quality Ratios:

Average equity to average assets	8.81	%	8.62	%	8.68	%	8.21	%	7.91	%	7.49
Allowance for loan and lease losses to loans and leases	1.07		1.03		1.00		1.01		1.29		1.41
Non-performing assets to total assets	0.15		0.14		0.06		0.08		0.13		0.12
Net charge-offs to average loans and leases	0.00		0.00		0.02		0.02		0.01		0.05

(1) Total stockholders' equity, net of goodwill and other intangible assets, divided by the number of shares of common stock outstanding at the end of the applicable period.

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RISK FACTORS

In addition to the other information contained or incorporated by reference in this proxy statement/prospectus, the following factors should be considered carefully when evaluating the proposal to approve the merger agreement and the merger at the special meeting of shareholders, as well as your election or non-election to receive cash or stock merger consideration.

Because the market price of Bancorp common stock may fluctuate, you cannot be sure of the value of the stock portion of the merger consideration that you may receive.

Upon completion of the merger, each share of Potomac common stock will be converted into the right to receive merger consideration consisting of cash or shares of Bancorp common stock. Because Bancorp is issuing its shares at a fixed exchange ratio as part of the merger consideration, any change in the price of Bancorp common stock prior to completion of the merger will affect the value of any shares of Bancorp common stock you receive upon completion of the merger. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in the respective businesses, operations and prospects of Bancorp and Potomac, and regulatory considerations. Many of these factors are beyond the control of Bancorp and Potomac. Accordingly, at the time of the special meeting of shareholders, you will not be able to determine the value of the Bancorp common stock you may receive upon completion of the merger.

The market price of the shares of Bancorp common stock may be affected by factors different from those affecting the shares of Potomac common stock.

Upon completion of the merger, certain holders of Potomac common stock will become holders of Bancorp common stock. Some of Bancorp's current businesses and markets differ from those of Potomac, and accordingly, the results of operations of Bancorp after the merger may be affected by factors different from those currently affecting the results of operations of Potomac. For further information on the business of Bancorp and the factors to consider in connection with its business, see the documents incorporated by reference into this proxy statement/prospectus and referred to under "Where You Can Find More Information" on page 67.

You cannot be certain of the form of merger consideration that you will receive.

Bancorp will pay cash, at a price of \$21.75 per share, without interest, for 50% of the Potomac common stock outstanding at the effective time of the merger and issue shares of Bancorp common stock, based upon the exchange ratio, for 50% of the Potomac common stock outstanding at the effective time of the merger. If the number of Potomac shares for which an election to receive cash is made is higher than 50% of the outstanding shares of Potomac common stock, a pro rata portion of the shares for which an election to receive cash is made will be converted into the right to receive Bancorp common stock in order to result in a 50% cash and 50% stock allocation. If the number of Potomac shares for which an election to receive cash is made is lower than 50% of the outstanding shares of Potomac common stock, first a pro rata portion of the shares for which no election is made, and then, if and to the extent necessary, a pro rata portion of shares for which a stock election has been made, will be converted into the right to receive cash, in each case in order to result in a 50% cash and 50% stock allocation. If such a proration is required, holders of Potomac common stock who elected to receive cash may receive a portion of their consideration in Bancorp common stock, holders who made an election to receive stock may receive a portion of their consideration in cash, and holders who made no election may receive their consideration in any combination of cash and/or stock. Accordingly, there is a risk that you will receive merger consideration in the form that you do not desire, which could result in, among other things, tax consequences that differ from those that would have resulted had you received the form of consideration you elected, including the recognition of taxable gain to the extent cash is received.

We may fail to realize the cost savings we estimate for the merger.

The success of the merger will depend, in part, on our ability to realize the estimated cost savings from combining the businesses of SSB and Potomac. While we believe, as of the date of this proxy statement/prospectus, that these cost savings estimates are achievable, it is possible that the potential cost savings could turn out to be more difficult to achieve than we anticipated. Our cost savings estimates also depend on our ability to combine the businesses of SSB and Potomac in a manner that permits those cost savings to be realized. If our estimates turn out to be incorrect or we are not able to combine successfully these two banks, the anticipated cost savings may not be realized fully or at all, or may take longer to realize than expected.

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Combining SSB and Potomac may be more difficult, costly or time-consuming than we expect, or could result in the loss of customers.

SSB and Potomac have operated, and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each bank's ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect the ability to maintain relationships with clients and employees or to achieve the anticipated benefits of the merger. There also may be disruptions that cause us to lose customers or cause customers to withdraw their deposits. There can be no assurance that customers will readily accept changes to their banking arrangements after the merger.

Certain officers and directors of Potomac have potential conflicts of interest in the merger.

Potomac shareholders should be aware of potential conflicts of interest and the benefits available to Potomac officers and directors when considering Potomac's board of directors' recommendation to approve the merger agreement and the merger. Certain officers, directors and employees of Potomac will become directors, advisory board members or employees of Bancorp and/or SSB. In addition, Potomac's president and chief executive officer will be employed by SSB pursuant to an employment agreement with SSB effective as of the effective time of the merger. In addition, certain officers of Potomac will receive change in control payments upon or shortly after the effective date of the merger. See [Interests of Certain Persons in the Merger - Change in Control Payments](#) on page 51.

Restrictions in Bancorp's articles of incorporation and bylaws with respect to unfriendly acquisitions could prevent a takeover of Bancorp.

Bancorp's articles of incorporation and bylaws contain provisions that could discourage takeover attempts that are not approved by Bancorp's board of directors. These provisions include supermajority provisions for the approval of certain business combinations, certain provisions relating to meetings of stockholders, a staggered board of directors and provisions authorizing the issuance of additional shares without stockholder approval. The Maryland General Corporation Law also includes provisions that make an acquisition of Bancorp more difficult. These provisions may prevent a future takeover attempt in which Bancorp's stockholders otherwise might receive a substantial premium for their shares over then-current market prices. See [Comparative Rights of Shareholders - Anti-Takeover Provisions](#) beginning on page 62.

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

This document contains information about possible or assumed future results of operation or the performance of Bancorp and Potomac after the merger is completed. This proxy statement/prospectus and Bancorp's public documents contain forward-looking statements within the meaning of and pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. A forward-looking statement encompasses any estimate, prediction, opinion or statement of belief in this document and the underlying management assumptions. These forward-looking statements can be identified by words such as *believes*, *expects*, *anticipates*, *intends* and similar expressions although not all forward-looking statements contain such words or expressions. Forward-looking statements appear in the discussions of matters such as the benefits of the merger between Potomac and Bancorp, including future financial and operating results and cost saving enhancements to revenue that may be realized from the merger, and Bancorp's and Potomac's plans, objectives, expectations and intentions and other statements contained in this document that are not historical facts. These statements are based upon the current reasonable expectations and assessments of the respective management teams of Bancorp and Potomac and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Bancorp and Potomac. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

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In addition to factors that Bancorp has previously disclosed in its reports filed with the SEC and those that are referenced elsewhere in this proxy statement/prospectus, the following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- the businesses of SSB and Potomac may not be combined successfully, or such combination may take longer, be more difficult, time-consuming or costly to accomplish than expected;
- Bancorp may experience lower than expected revenues after the merger, higher than expected operating costs after the merger or higher than expected losses of deposits, customers and business after the merger;
- after the merger, Bancorp may experience lower than expected cost savings from the merger, or delays in obtaining, or an inability to obtain, cost savings from the merger;
- customer relationship losses, increases in operating costs and business disruption following the merger may be greater than expected;
- technological changes and systems integration may be more difficult or expensive than Bancorp expects;
- adverse effects on relationships with employees may be greater than expected;
- the regulatory approvals required for the merger may not be obtained on the proposed terms or on the anticipated schedule;
- adverse governmental or regulatory policies may be enacted;
- the interest rate environment may adversely affect net interest income;
- adverse affects may be caused by adverse changes to credit quality;
- competition from other financial services companies in Bancorp's and Potomac's markets could adversely affect operations;
- an economic slowdown could adversely affect credit quality and loan originations, especially if such a slowdown were to occur in a market where Bancorp or Potomac operate;
- social and political conditions such as war, political unrest and terrorism or natural disasters could have unpredictable negative effects on the businesses of Bancorp and Potomac and the economy; and
- changes in securities markets could impact Bancorp's stock price.

Forward-looking statements are made as of the date of the applicable document and, except as required by applicable law, Bancorp and Potomac assume no obligation to update these forward-looking statements or to update the reasons why actual results could differ from those in the forward-looking statements. You should consider these risks and uncertainties in evaluating forward-looking statements and you should not place undue reliance on these statements.

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THE SPECIAL MEETING OF POTOMAC SHAREHOLDERS

Potomac is providing this document to you as its proxy statement in connection with the solicitation of proxies by Potomac's board of directors to be voted at the special meeting of Potomac shareholders to be held on February 8, 2007, and at any adjournments or postponements of the special meeting. Bancorp is also providing this document to you as a prospectus in connection with the offer and sale by Bancorp of its shares of common stock as a result of the proposed merger.

Date, Time and Place of Meeting The special meeting of Potomac shareholders is scheduled to be held as follows:

Date: February 8, 2007

Time: 10:30 a.m., local time

Place: Westwood Country Club, 800 Maple Avenue East, Vienna, Virginia

Purpose of the Special Meeting

At the special meeting, shareholders of Potomac will be asked to:

approve the merger agreement, under which Potomac will merge with and into SSB, with SSB surviving the merger and continuing as a wholly owned subsidiary of Bancorp, and, as described in this proxy statement/prospectus, each outstanding share of Potomac common stock will be converted into the right to receive cash or shares of Bancorp common stock (See The Merger Agreement Merger Consideration on page 36);

approve a proposal, if necessary, to adjourn the special meeting to permit the further solicitation of proxies if and to the extent there are not sufficient votes at the time of the special meeting to approve the merger agreement and the merger; and

transact any other business that may properly come before the special meeting or any postponements or adjournments of the special meeting.

Record Date and Outstanding Shares

Potomac's board of directors has fixed the close of business on December 21, 2006 as the record date for the special meeting of Potomac shareholders and only shareholders of record of Potomac common stock at the close of business on the record date are entitled to notice of, and to vote at, the special meeting. Each holder of record of Potomac common stock at the close of business on the record date is entitled to one vote for each share of Potomac common stock then held on each matter voted on by shareholders at the special meeting. At the close of business on the record date, there were 2,849,288 shares of Potomac common stock issued and outstanding and entitled to vote.

Vote Required to Approve the Merger Agreement and the Merger

The approval of the merger agreement and the merger requires the affirmative vote of more than two-thirds of the outstanding shares of Potomac common stock as of the record date (i.e. at least 1,899,526 shares of Potomac common stock).

Vote Required to Approve the Proposal, If Necessary, to Adjourn the Special Meeting

The approval of the proposal to adjourn the special meeting if and to the extent necessary to permit the further solicitation of proxies in the event there are not sufficient votes at the special meeting to approve the merger agreement and the merger requires a majority of the votes cast at the special meeting, even if less than a quorum.

Quorum; Abstentions and Broker Non-Votes

Holders of a majority of the outstanding shares of Potomac common stock entitled to vote at the special meeting must be present in person or represented by proxy to constitute a quorum for the transaction of business at the special meeting. Accordingly, at least 1,424,645 shares of Potomac common stock must be present at the special meeting to constitute a quorum for the conduct of business. If a share is represented for any purpose at the special meeting, it is deemed to be present for the transaction of all business. Abstentions are counted for purposes of determining whether a quorum exists.

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Notwithstanding the foregoing, pursuant to Potomac's bylaws the special meeting may be adjourned by a majority of the votes cast at the special meeting, even if less than a quorum.

If you hold your shares of Potomac common stock in street name through a broker, bank or other nominee, generally the nominee may only vote your Potomac common stock in accordance with your instructions. However, if your nominee has not timely received your instructions, such nominee may vote on matters for which it has discretionary voting authority. Brokers will not have discretionary voting authority to vote on the proposal to approve the merger agreement and the merger. If a nominee cannot vote on a matter because it does not have discretionary voting authority, this is a broker non-vote with respect to that matter. Broker shares that are not voted on any matter at the special meeting will not be counted as shares present or represented at the special meeting for purposes of determining whether a quorum exists. In the event that a quorum is not present at the special meeting of Potomac shareholders, it is expected that the special meeting will be adjourned or postponed to permit further solicitation of proxies.

For purposes of the vote with respect to the merger agreement and the merger required under Virginia law, a failure to vote, a vote to abstain and a broker non-vote will each have the same legal effect as a vote against approval of the merger agreement and the merger.

Voting by Directors and Executive Officers

As of the record date, Potomac directors and officers beneficially owned 664,359 shares of Potomac common stock, or approximately 23.32% of the shares entitled to vote at the special meeting of Potomac shareholders. The directors and officers of Potomac, in their capacity as shareholders of Potomac, have entered into a voting agreement with Bancorp whereby each has agreed to vote their respective shares for approval of the merger agreement and the merger at the special meeting and each has executed an irrevocable proxy that enables Bancorp to vote these shares to approve the merger agreement and the merger. Potomac's directors and officers were not paid any additional consideration in connection with the voting agreement or the irrevocable proxy granted thereby. The voting agreement terminates upon any termination of the merger agreement. See [The Merger Voting Agreement](#).

Voting and Revocation of Proxies

After carefully reading and considering the information presented in this proxy statement/prospectus, you should complete, date, sign and promptly return the enclosed proxy card in the enclosed postage-prepaid envelope so that your shares are represented at the special meeting of Potomac shareholders. You can also vote at the special meeting, but we encourage you to submit your proxy now in any event.

All shares of Potomac common stock represented by each properly executed and valid proxy received by the secretary of Potomac before the special meeting will be voted in accordance with the instructions given on the proxy. If a Potomac shareholder executes a proxy card without giving instructions, the shares of Potomac common stock represented by that proxy card will be voted FOR approval of the merger agreement and the merger and FOR the approval of the proposal, if necessary, to adjourn the special meeting to permit the further solicitation of proxies in the event there are not sufficient votes at the special meeting to approve the merger agreement and the merger. Potomac's board of directors is not aware of any other matters to be voted on at the special meeting of Potomac shareholders. If any other matter properly comes before the special meeting, the persons named on the proxy card will vote the shares represented by all properly executed proxies on those matters in their discretion.

You may revoke your proxy at any time before the proxy is voted by one of the following means:

- by delivering a written notice to the secretary of Potomac stating that you would like to revoke your proxy;
- by submitting another duly executed proxy with a later date; or

by attending the special meeting *and* voting in person at the special meeting (your attendance at the special meeting will not by itself revoke your proxy). If you hold your shares in street name, you will need additional documentation from your bank or broker to vote your shares in person at the meeting.

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Election to Receive Merger Consideration

If you make an election of the type of merger consideration you prefer to receive, you must send the stock certificates representing the shares of Potomac common stock with respect to which you have made an election with your completed election form and letter of transmittal. The completed election form and letter of transmittal and related stock certificates must be received by the exchange agent no later than 5:00 p.m. eastern time on February 1, 2007. If you do not submit stock certificates representing all of your shares of Potomac common stock in connection with your election, you will receive a letter of transmittal from the exchange agent after the completion of the merger with instructions for sending in your stock certificates. See *The Merger Agreement Procedures for Surrendering Potomac Stock Certificates*. **You should not send your election form, letter of transmittal or Potomac stock certificates with your proxy card or to Potomac.**

Solicitation of Proxies and Expenses

The accompanying proxy is being solicited by Potomac's board of directors, and Potomac will pay for the entire cost of the solicitation, other than certain costs of filing, printing and mailing this proxy statement/prospectus, 75% of which are being borne by Bancorp. Arrangements will also be made with brokerage houses and other custodians, nominees and fiduciaries for forwarding the solicitation material to the beneficial owners of Potomac common stock held of record by those persons, and Potomac may reimburse the brokerage houses, custodians, nominees and fiduciaries for reasonable transaction and clerical expenses. In addition to the use of the mail, proxies may be solicited personally or by telephone, facsimile or other means of communication by Potomac's directors, officers and regular employees. These people will receive no additional compensation for these services, but will be reimbursed for any expenses incurred by them in connection with these services. Potomac may engage a proxy solicitation firm to assist it in obtaining proxies from shareholders on a timely basis. As of the date of this proxy statement/prospectus, Potomac has not engaged a firm for the purpose of soliciting proxies.

Board Recommendation

Potomac's board of directors unanimously determined that the merger agreement and the transactions contemplated by the merger agreement are in the best interests of Potomac and its shareholders. **Accordingly, Potomac's board of directors unanimously approved and adopted the merger agreement and the transactions contemplated by the merger agreement and the merger, and unanimously recommends that Potomac's shareholders vote FOR the proposal to approve the merger agreement and the merger and FOR the proposal, if necessary, to approve an adjournment of the special meeting to permit the further solicitation of proxies in the event that there are not sufficient votes at the special meeting to approve the merger agreement and the merger.**

The proposed merger is of great importance to the shareholders of Potomac. You are urged to read and carefully consider the information presented in this proxy statement/prospectus, and to complete, date, sign and promptly return the enclosed proxy card in the enclosed postage-prepaid envelope.

Appraisal Rights

Under Virginia law, you may exercise appraisal rights in connection with the merger. The provisions of Virginia law governing appraisal rights are complex and you should review them carefully. A Potomac shareholder may take actions that prevent that shareholder from successfully asserting these rights, and multiple steps must be taken to properly exercise and perfect the rights. A copy of all relevant provisions of Section 13.1-729 through 13.1-741 of the VSCA is attached to this proxy statement/prospectus as Appendix C.

For a more complete description of appraisal rights, please refer to the section of this proxy statement/prospectus entitled "The Merger: Appraisal Rights" beginning on page 33.

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THE COMPANIES

Bancorp

Bancorp is the holding company for SSB and SSB's principal subsidiaries, Sandy Spring Insurance Corporation, The Equipment Leasing Company and West Financial Services, Inc. Bancorp is the third largest publicly traded banking company headquartered in Maryland. As of September 30, 2006, Bancorp had total assets of approximately \$2.60 billion, total net loans of \$1.82 billion, total deposits of approximately \$1.95 billion and approximately \$233.7 million in stockholders' equity. Bancorp's common stock is listed on the Nasdaq Global Select Market under the symbol SASR. The deposits associated with Bancorp's affiliated banks are insured by the Federal Deposit Insurance Corporation (the FDIC). Through its subsidiaries, Bancorp offers a comprehensive menu of leasing, insurance and investment management services.

The principal executive offices of Bancorp are located at 17801 Georgia Avenue, Olney, Maryland 20832 and Bancorp's telephone number is 301-774-6400.

SSB

SSB is a wholly owned subsidiary of Bancorp. SSB is a community banking organization that focuses its lending and other services on businesses and consumers in the Baltimore-Washington region. SSB was founded in 1868 and offers a broad range of commercial banking, retail banking and trust services through 32 community offices and 77 ATMs located throughout Maryland. SSB is affiliated with the Allpoint ATM Network, which offers free nationwide access at 34,000 ATM locations.

Recent Developments

Acquisition of CN Bancorp

On December 14, 2006, Bancorp announced that it executed an agreement to acquire CN Bancorp, Inc. and its subsidiary, County National Bank. The transaction is structured as a merger of CN Bancorp with and into Bancorp and a merger of County National Bank with and into SSB, with Bancorp and SSB as the surviving entities. Under the terms of the merger agreement, the stockholders of CN Bancorp would be entitled to receive either cash in an amount of \$25 per share or Bancorp common stock based upon an exchange ratio of 0.6657 of a share of Bancorp common stock for each share of CN Bancorp common stock. Holders of CN Bancorp common stock would be entitled to elect the form of merger consideration they will receive, subject to an allocation to provide for a minimum of 40% cash and a maximum of 50% cash and a minimum of 50% Bancorp common stock and a maximum of 60% Bancorp common stock.

The acquisition of CN Bancorp and County National is expected to add approximately \$151 million in total assets, \$97.4 million in net loans, \$129.4 million in total deposits, and 4 full service branches located in the Maryland communities of Glen Burnie, Pasadena, Odenton and Millersville, as well as an administrative center located in Glen Burnie.

Although Bancorp expects to complete the acquisition of CN Bancorp and County National in the second quarter of 2007, the transaction is subject to numerous conditions, some of which are beyond the control of Bancorp, such as regulatory approvals and the approval of CN Bancorp's stockholders. Accordingly, there can be no assurance that the acquisition will close within the time period referenced above or at all.

Potomac

Potomac was organized in 1997 under the laws of the Commonwealth of Virginia as a Virginia chartered bank. Potomac commenced operations in 1998 and currently operates out of its main office in Fairfax, Virginia and its three

full service branch offices in Vienna, Merrifield and Chantilly, Virginia. As of September 30, 2006, Potomac had total assets of approximately \$254.4 million, total loans of \$190.1 million, total deposits of approximately \$197.9 million and approximately \$25.5 million in shareholders' equity. Potomac provides a wide range of services to its customers, including commercial loans, lines of credit, personal loans, cash management products and financing arrangements for personal and business needs. Potomac's common stock is quoted on the OTC Bulletin Board under the symbol PBOV.

Potomac's principal executive offices are located at 9910 Main Street, Fairfax, Virginia 22031 and Potomac's telephone number is 703-319-9000.

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THE MERGER

General

We are providing this document to holders of Potomac common stock in connection with the solicitation of proxies by Potomac's board of directors to be voted at Potomac's special meeting of shareholders, and at any adjournments or postponements of such meeting. At the special meeting of shareholders, Potomac will ask its shareholders to vote upon (i) a proposal to approve the agreement and plan of merger, dated as of October 10, 2006, by and among Bancorp, SSB and Potomac and the merger contemplated thereby, (ii) a proposal, if necessary, to adjourn the special meeting to permit the further solicitation of proxies in the event there are not sufficient votes at the special meeting to approve the merger agreement and the merger, and (iii) any other matters that are properly brought before the special meeting.

The merger agreement provides for the merger of Potomac with and into SSB, with SSB continuing as the surviving bank and a wholly-owned subsidiary of Bancorp. We have attached a copy of the merger agreement as Appendix A to this proxy statement/prospectus. We urge you to read the merger agreement in its entirety.

Background of and Reasons for the Merger; Recommendation of the Potomac Board

Background of the Merger

From time to time over the last several years, the board of directors of Potomac has considered the question of whether the best interests of Potomac, its shareholders and the other constituencies it serves would be best served by the sale of Potomac to another institution or a continued course of independent operations. On two occasions during this period, Potomac engaged in limited and preliminary discussions with other financial institutions and provided limited information to the other institutions in connection with limited and preliminary due diligence. Neither of these situations resulted in pricing and other terms which Potomac's board of directors believed to be as favorable to Potomac's shareholders as continued independent operations.

In mid-June 2006, G. Lawrence Warren, the president and chief executive officer of Potomac, received a call from Hunter R. Hollar, the president and chief executive officer of Bancorp, during which Mr. Hollar expressed Bancorp's interest in discussing a potential transaction between Bancorp and Potomac. On June 15, 2006, Mr. Hollar and Mr. Warren met and had a conversation which focused on general matters regarding a potential transaction between Bancorp and Potomac and the respective community banking philosophies and policies of SSB and Potomac. No discussion of pricing or other merger deal terms occurred during the meeting.

Following the initial meeting, Mr. Warren, in accordance with Potomac's governance policy, advised Mr. William Roeder, the chairman of the board of Potomac and Mr. Marshall Groom, the former chairman and a current director of Potomac, of the conversations he had with Mr. Hollar. Subsequently, each member of the board of directors of Potomac was advised about the meeting. Based upon these initial discussions, the similarities between Bancorp's and Potomac's business philosophy and corporate culture, and Potomac's board of directors' general consensus that Bancorp may be a serious, attractive acquirer, Mr. Warren advised Mr. Hollar that Potomac would continue discussions regarding a potential transaction with Bancorp.

On June 27, 2006, Messrs. Warren, Groom and Roeder met informally with Mr. Hollar and three other Bancorp officers and directors. Deal terms were not discussed during this meeting. On June 29, 2006, Mr. Hollar called Mr. Warren to express his view that the meeting resulted in a positive exchange and suggested good compatibility between the companies and requested further, more specific, discussions regarding a possible transaction, to which Mr. Warren agreed. Following a meeting on July 10, 2006 between Messrs. Hollar and Warren, Bancorp requested

confidential due diligence materials from Potomac. On July 19, 2006, Bancorp executed a confidentiality agreement requested by Potomac, and Potomac provided nonpublic documents to Bancorp.

On August 3, 2006 Bancorp delivered to Potomac in letter form a non-binding expression of interest, outlining the basic terms of a proposed merger between SSB and Potomac. The letter proposed, *inter alia*, a fifty percent cash, fifty percent stock transaction valued at \$21.50 per share; the cashing out of all options to purchase Potomac common stock; the appointment of two directors of Potomac to Bancorp's board of directors; continued operation of the Potomac franchise as a division of SSB under the name Potomac Bank; and the retention of substantially all customer contact employees of Potomac. The letter did not provide an exchange ratio for the conversion of shares of Potomac common stock into Bancorp common stock.

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On August 7, 2006, Mr. Warren, with the concurrence of Potomac's board of directors, the members of which has been polled by phone, contacted Danielson Capital, LLC, a financial advisory firm with extensive experience and expertise in valuing and advising banking institutions on strategic matters, including in connection with the merger or sale of banking institutions. Danielson had previously provided Potomac with financial advisory, strategic and valuation services in the ordinary course of Potomac's business and activities. Danielson was asked to review the terms of Bancorp's expression of interest and to provide appropriate materials to assist Potomac's board of directors in evaluating the potential transaction.

Danielson's analysis was presented to Potomac's board of directors on August 17, 2006. The presentation reviewed among other things (i) the financial and nonfinancial terms of the expression of interest; (ii) other potential acquirers of Potomac including likely level of interest and ability to afford a high price; (iii) Bancorp's potential earnings and capital dilution; (iv) the pricing relative to earnings and book of national, regional, local and most comparable transactions; (v) Potomac's historic and potential future performance given industry risks and risk specific to Potomac; (vi) a detailed historical analysis of Bancorp and other potential merger partners; and (vii) recommendations to Potomac's board on potential courses of action and the merits of each. Following the Danielson presentation, Potomac's board received a presentation on its fiduciary duties from representatives of its counsel, Kennedy & Baris, LLP.

Potomac's board engaged in extensive discussions on the issues of whether to proceed with talks with Bancorp toward a sale of Potomac, whether to market Potomac actively in an auction or limited auction process, or to maintain a course of independent operations. Potomac's board of directors discussed, among other things, the degree of execution risk for Potomac as an independent company and the risks inherent in delaying a sale, resulting from possible declines in the pricing of bank acquisitions and the reduction in the number of potential acquirers as other community banks are acquired.

After a general discussion of the Danielson presentation and the views of each of Potomac's board members, Potomac's board of directors decided that pursuing the Bancorp proposal was the best option for the shareholders of Potomac. Based on the discussions between Potomac representatives and representatives of Bancorp, Potomac's board of directors believed there were positive cultural similarities between Potomac and SSB, and an affiliation with Bancorp would provide excellent opportunities for most of the employees of Potomac as well as enhanced services and banking opportunities for the customers and communities served by Potomac.

Counsel led Potomac's board of directors in a discussion of the principal terms of the Bancorp letter, during which Potomac's board identified the principal factors which it believed required changes or clarification before Potomac would continue discussions. Potomac's board of directors appointed a special committee, consisting of Thomas Dungan III and Messrs. Groom, Roeder and Warren, to meet with representatives of Kennedy & Baris and Danielson, determine Potomac's response to Bancorp, and negotiate, review and report on any draft merger agreement resulting from continued discussions.

The special committee met on August 21, 2006 and determined that the principal issues on which to engage Bancorp prior to the preparation of a definitive agreement were the level of compensation and the manner of fixing the exchange ratio. Mr. Warren and Arnold Danielson, the chairman of Danielson, met with Mr. Hollar and representatives of Bancorp's financial adviser on August 22, 2006. Negotiations continued until August 25, 2006 when Bancorp delivered a revised expression of interest that included, among other things, a fixed exchange ratio of 0.6143 for the stock portion of the transaction and \$21.75 per share for the cash portion of the transaction. Based on those terms, Potomac's special board committee recommended to Potomac's board of directors that Bancorp be permitted to conduct a full due diligence investigation and that counsel and the special committee review the draft agreement to be provided by Bancorp. Potomac's board of directors subsequently authorized these recommendations.

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Over the course of the next five weeks, Bancorp conducted its due diligence examination of Potomac and Potomac conducted a due diligence examination of Bancorp. During this period, counsel and members of Potomac's special board committee reviewed and discussed the draft merger agreement, the first draft of which was received on September 15, 2006. Counsel to Potomac and members of Potomac's special board committee met or spoke frequently from September 15, 2006 through early October to discuss proposed changes and Bancorp's responses. On October 5, 2006, Potomac's special board committee reviewed with Potomac's counsel and Danielson a revised draft of the merger agreement. Following a presentation by Danielson and extensive discussion, Potomac's special board committee determined that subject to satisfactory resolution of certain drafting issues, it would recommend approval of the merger agreement to Potomac's full board of directors. On October 10, 2006, Potomac's full board of directors met and reviewed the procedures effected to date; a report on the due diligence effected by Potomac, a discussion of changes made since the original draft, and a presentation by Potomac's counsel on the board of directors' fiduciary obligations. Danielson delivered its opinion that as of October 10, 2006, the consideration to be paid is fair from a financial point of view to Potomac's shareholders. Potomac's board of directors unanimously approved the merger agreement and the merger and authorized Mr. Warren to execute the merger agreement on behalf of Potomac. Potomac and Bancorp exchanged signature pages after the close of business.

Reasons for the Merger

In reaching the conclusion that the merger agreement and the merger are in the best interests of and advisable for Potomac and its shareholders, and in approving the merger agreement and the merger, Potomac's board of directors considered and reviewed with management and Potomac's financial and legal advisors a number of factors, including the following:

The per share consideration offered by Bancorp of \$21.75 cash or .6143 shares of Bancorp common stock is in line with the prices paid in the most comparable transactions.

The consideration offered by Bancorp equals or exceeds the value which Potomac could reasonably expect to achieve if it maintained independent operations.

Bancorp's common stock is traded on The Nasdaq Global Select Market, and has substantially greater liquidity than that of Potomac, which trades infrequently.

Bancorp's common stock currently pays a dividend at a rate of \$0.88 per year (or approximately \$0.54 per share of Potomac common stock converted into Bancorp common stock) and this rate has increased annually for at least 25 years, while Potomac does not currently pay a cash dividend.

The board of directors believes a merger with SSB makes strategic sense for Potomac given the higher lending limits, wider array of products and services, greater opportunities for employees, and the increasingly competitive environment in which Potomac operates.

The banking philosophy and community orientation of SSB and Potomac are very similar. SSB is a stable, profitable community bank.

SSB expects to retain all customer contact employees, enabling customers to continue banking with the same people while enjoying a wider and more diversified array of products than Potomac currently offers.

There are risks to shareholder value in continued independent operations, including risks relating to the inherent uncertainties about future growth and performance, management succession and the market for bank acquisitions.

Danielson delivered a written opinion dated October 10, 2006, that the consideration to be received by Potomac shareholders is fair from a financial point of view as of such date.

The merger will generally allow shareholders to defer recognition of taxable gain to the extent they receive Bancorp common stock.

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The interests of Potomac's officers and directors may be different from, or in addition to, the interest of Potomac's shareholders generally.

The likelihood of the merger being approved by regulatory authorities without burdensome conditions or delay and in accordance with the terms proposed.

The above discussion of the information and factors considered by Potomac's board of directors is not intended to be exhaustive, but indicate the material matters considered by Potomac's board of directors. In reaching its determination to approve the agreement and the merger, Potomac's board did not quantify, rank or assign any relative or specific weight to the foregoing factors, and individual directors may have considered various factors differently. Potomac's board of directors did not undertake to make any specific determination as to whether any factor or particular aspect of any factor supported or did not support its ultimate determination. Moreover, in considering the factors and information described above, individual directors may have given differing weights to different factors. The Potomac board of directors based its determination on the totality of the information presented.

Recommendation of Potomac's Board of Directors

Potomac's Board of Directors has unanimously approved the merger agreement and the merger and unanimously recommends that you vote FOR the merger agreement and the merger and FOR the proposal, if necessary, to adjourn the special meeting to permit the further solicitation of proxies in the event there are not sufficient votes at the special meeting to approve the merger agreement and the merger.

Opinion of Potomac's Financial Advisor

Potomac retained Danielson to advise Potomac's board of directors as to the fairness to its shareholders of the financial terms of the offer to be acquired by Bancorp. Danielson was selected by Bancorp because of its knowledge, expertise and reputation in the financial services industry, as well as, its specific knowledge of Virginia markets and banking organizations operating in those markets. Danielson is regularly engaged in the valuation of banks and bank holding companies in connection with mergers, acquisitions and other securities transactions.

Danielson reviewed the merger agreement with respect to the pricing and other terms and conditions of the merger. Danielson rendered its opinion directly to the Potomac board of directors on October 10, 2006, which it also confirmed in writing, that as of the date of the opinion, the financial terms of the Bancorp offer were fair to Potomac and its shareholders. No limitations were imposed by the Potomac board of directors upon Danielson with respect to the investigation made or procedures followed by it in arriving at its opinion. While Potomac's board of directors considered the Danielson opinion in its determination, the decision to accept the offer was ultimately made by the board of directors of Potomac.

In arriving at its opinion, Danielson:

Reviewed certain business and financial information relating to Potomac and Bancorp including call report data from January 1, 2000 through June 30, 2006, quarterly earnings releases from January 1, 2000 through June 30, 2006 and Annual Reports for fiscal years ended December 31, 2004 and December 31, 2005.

Discussed with members of Potomac's executive management their assessment of the strategic rationale for, and potential benefits of, the merger described under "The Merger Background of and Reasons for the Merger; Recommendation of the Potomac Board" beginning on page 22.

Discussed the past and current operations, financial condition and future prospects of Potomac and Bancorp with senior executives of Potomac and Bancorp.

Reviewed and compared the financial terms, to the extent publicly-available, with comparable transactions.

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Reviewed the merger agreement and certain related documents.

Considered such other factors as were deemed appropriate.

Danielson did not obtain any independent appraisal of assets or liabilities of Potomac or Bancorp. Furthermore, Danielson did not independently verify the information provided by Potomac or Bancorp and assumed the accuracy and completeness of all such information.

In arriving at its opinion, Danielson performed a variety of financial analyses. Danielson believes that its analyses must be considered as a whole and that consideration of portions of such analyses could create an incomplete view of Danielson's opinion. The preparation of a fairness opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description.

In its analyses, Danielson made certain assumptions with respect to industry performance, business and economic conditions, and other matters, many of which were beyond Potomac's or Bancorp's control. Any estimates contained in Danielson's analyses are not necessarily indicative of future results of value, which may be significantly more or less favorable than such estimates. Estimates of the value of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold.

The following is a summary of selected analyses considered by Danielson in connection with its opinion letter.

Fair Value Analysis of Bancorp Common Stock

In determining the fairness of the offer by Bancorp to acquire all of the common stock and outstanding options to buy common stock of Potomac for approximately \$65 million in the aggregate, in a combination of cash and stock of which approximately 50% would be Bancorp common stock, Danielson considered whether the Bancorp common stock was fairly valued and the impact of the Potomac acquisition on Bancorp's primary determinant of stock value, which is earnings per share. The analysis evaluated, among other things, Bancorp's financial performance, financial condition, dividend yield, stock liquidity and location compared to similar banks and possible dilution in earnings and earnings per share and/or capital adequacy as a result of the Potomac acquisition.

Comparable Companies

The Bancorp common stock to be exchanged for the common stock of Potomac was compared to ten publicly-traded bank holding companies (comparable banks). These comparable banks had assets between \$1 billion and \$10 billion; were located in Delaware, Maryland, Pennsylvania, Virginia, West Virginia and the District of Columbia; had equity to assets under 10% as of June 30, 2006; and return on equity in the trailing twelve months from June 30, 2006 of at least 10%.

Description of Comparable Banks*

Names	Assets	Headquarters
	(In millions)	
United Bankshares, Inc.	\$6,718	Charleston, W.V.
Provident Bankshares Corporation	6,409	Baltimore, Md.

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National Penn Bancshares, Inc.	5,225	Boyertown, Pa.
Harleysville National Corporation	3,217	Harleysville, Pa.
Sterling Financial Corporation	3,094	Lancaster, Pa.
Union Bankshares Corporation	2,078	Bowling Green, Va.
Univest Corporation of Pennsylvania	1,852	Souderton, Pa.
Virginia Commerce Bancorp, Inc.	1,729	Arlington, Va.
Virginia Financial Group, Inc.	1,594	Culpeper, Va.
First Mariner Bancorp	1,397	Baltimore, Md.
Sandy Spring Bancorp, Inc	\$2,586	Olney, Md.

* Assets between \$1 and \$10 billion, equity-to-assets under 10%, ROE over 10%, in Delaware, Maryland, Pennsylvania, Virginia, West Virginia and the District of Columbia as of June 30, 2006.

Source: SNL Financial, Charlottesville, Virginia.

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Danielson compared Bancorp's financial performance, balance sheet strength and stock price with the medians of the comparable banks. Among the financial performance criteria compared were net income and net operating income as a percent of average assets and return on average equity. The balance sheet items compared were equity, tangible equity, nonperforming assets (NPAs), and the mix of loans and deposits all as a percent of assets or tangible assets. The current pricing ratios compared were price as a multiple of trailing twelve months earnings per share, price as a multiple of projected 2007 earnings per share, price as a percent of book and tangible book, dividend yield and payout ratio.

In making these comparisons, Danielson noted that Bancorp's financial performance, balance sheet strength, book value appreciation and return on equity were generally superior to the medians of the comparable banks. Bancorp's current price to book was higher than the comparable bank median, but Bancorp's current price to tangible book was significantly lower than the comparable bank median. Bancorp's balance sheet mix was not materially different from the comparable banks, though, its asset quality was better. None of the comparable banks had any significant asset quality issues. In terms of dividend yield, Bancorp was slightly lower, but this was partially due to a lower payout ratio. With about 26,000 shares traded daily, the liquidity of the Bancorp common stock was typical for a bank of its size and not a concern.

The impact of location value is difficult to statistically compare as population density, affluence and growth rates do not always reflect market value. The markets served by Bancorp—Montgomery, Frederick, Howard, Carroll, Prince George's and Anne Arundel counties in Maryland—are affluent markets with significant business activity and are generally considered to have a high investor/acquirer appeal. Thus, Danielson concluded that Bancorp is at least as good, if not better, than the comparable banks from a location perspective.

Bancorp Comparable Banks Summary*

	Bancorp	Comparable Banks Medians	
	<u> </u>	<u> </u>	<u> </u>
<u>Income</u>			
Net income/Avg. assets	1.28	% 1.34	%
Net oper. income**/Avg. assets	2.24	% 2.16	%
Return on average equity	15.70	% 13.99	%
<u>Balance Sheet</u>			
Equity/Assets	8.77	% 9.22	%
Tangible capital/Tangible assets	7.95	% 6.98	%
NPAs***/Assets	.10	% .30	%
Loans/Assets	70	% 70	%
Deposits/Assets	74	% 76	%
<u>Stock Price****</u>			
Price/Trailing 12 Months EPS	16.2	X 15.8	X
Price/2007 Projected EPS*****	14.9	X 14.5	X
Price/Book	241	% 215	%
Price/Tangible book	269	% 322	%
Dividend yield	2.38	% 2.66	%

Payout ratio

39 %40 %
27

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- * June 30, 2006 or the twelve months ending June 30, 2006.
 - ** Net interest income plus noninterest income less operating expense.
 - *** NPAs including loans 90 days past due and still accruing.
 - **** Closing prices as of October 9, 2006 and financial data for June 30, 2006 or the twelve months ending June 30, 2006.
 - ***** Two of the comparable banks did not have publicly available, independent projections for 2007 EPS.
- Source: SNL Financial, Charlottesville, Virginia.

With Bancorp's stock price, when valued as a multiple of trailing and projected earnings, only slightly above the comparable banks' median and Bancorp's financial performance, balance sheet condition and location that, collectively, are superior to the medians of the comparative banks, Danielson concluded that the Bancorp common stock to be exchanged for the common stock of Potomac is fairly valued.

Pro Forma Merger Analyses

Danielson analyzed the likely impact on Bancorp's future earnings, book value per share and capital adequacy of its \$65 million offer for all of the outstanding shares of Potomac common stock and options to purchase Potomac common stock. This analysis found that while the deal may be dilutive to Bancorp's pro forma earnings per share, even after expected cost savings, the dilution is not large and should not have a significant negative impact on Bancorp's earnings per share or stock price. The impact on Bancorp's capital adequacy is negligible. Accordingly, Danielson concluded that the Bancorp common stock is fairly valued by the market and that any dilution from the transaction is manageable.

Comparable Transaction Analysis

Danielson compared the consideration to be paid by Bancorp for all of the common stock and options to buy common stock of Potomac as a multiple of earnings and percent of book with the pricing of bank acquisitions nationally and in the similar, highly attractive East Coast markets between Richmond and New Jersey. In so doing, Danielson stated that in determining the fair sale value of Potomac, the key factor is the prices paid in recent comparable bank transactions. The national group was comprised of bank sales in 2006 with deal values in excess of \$10 million and excluding mergers of equals. This group had median deal values of 23.1 times earnings and 229% of book. The most comparable bank transactions were considered to be those for banks in attractive urban markets between Richmond and New Jersey since 2002 where the seller had low return on equity, but high franchise appeal. This group of transactions had median deal values of 41.6 times earnings and 244% of book.

Comparable Transaction Summary

	Median Price		
	Times Earnings	Percent of Book	
<u>Acquisition Pricing</u>			
National median 2006* (138 Deals)	23.1	X 229	%
Most Comparable** (5 Deals)	41.6	244	

* Bank deals above \$10 million announced in 2006.

Comparable bank deals in attractive urban markets in the Middle Atlantic since 2002 where seller had low

** return on equity.

If recent bank acquisition pricing were applied to Potomac, it would suggest a value range from 230% to 260% of book value per share. This pricing range times Potomac's book value per share as of June 30, 2006 of \$8.65 creates a fair value range based on the comparable transactions of \$58.4 million to \$66.3 million, or \$19.90 to \$22.50 per share.

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Discounted Dividends Analysis

Danielson applied present value calculations to Potomac's estimated dividend stream under several specific growth and earnings scenarios. The projected dividend streams and terminal values, which were based on a range of earnings multiples, were then discounted to present value using discount rates based on assumptions regarding the rates of return required by holders or prospective buyers of Potomac common stock. The discounted dividend calculation resulted in a value of 28.1 times earnings, with a 12% discount rate, 12% growth rate, 25% cost savings and a terminal value of 14 times earnings. If the discount rate is reduced to 10%, the value increases to 38.2 times earnings. The results of this analysis showed the most applicable discounted dividend analysis to be below recent acquisition pricing.

Value Adjustments

In addition to performing the analyses summarized above, Danielson also considered other factors. These included how Potomac compared with other banks that were sold relative to earnings, capitalization, market size, deposit and asset mix, asset quality and management. When the various components of Potomac's value were considered, Danielson determined that although Potomac was not generating normal bank earnings in the trailing twelve months ended June 30, 2006, it was modestly further along in developing normal earnings than the sellers in the most comparable transactions. Based on this determination, Danielson applied a 5% premium to the fair value range suggested by the comparable transactions. This yielded a fair value range for Potomac of \$61.3 million to \$69.6 million or \$20.90 to \$23.60 per share.

Conclusion

Since no comparable banks or bank acquisitions used in the various analyses are totally identical to Bancorp, Potomac or the particulars of this merger, the results do not represent mathematical certainty. Instead the comparisons rely on the likelihood that the median stock prices and the bank acquisition prices of comparable banks are applicable to the pertinent stock and acquisition values in this merger.

The summary set forth above is not a complete description of the analyses and procedures performed by Danielson in the course of arriving at its opinion. The full text of the opinion of Danielson dated October 10, 2006, which sets forth the assumptions made and matters considered, is attached hereto as Appendix B of this Proxy Statement/Prospectus. **Potomac shareholders should read the opinion in its entirety.** Danielson's opinion is directed only to the fairness of the consideration received by Potomac shareholders and does not constitute a recommendation to any Potomac shareholder as to how such shareholder should vote relative to this merger. Further, Danielson's opinion was not intended to address the propriety of every individual shareholder's decision as to how such shareholder should elect to allocate such shareholder's receipt of the merger consideration.

Compensation of Financial Advisor

Pursuant to a contract dated August 21, 2006, Danielson will be paid a fee of 0.60% of the transaction's value at closing. At the time of the announcement of the merger, this fee would have been approximately \$390,000.

Accounting Treatment

Bancorp will account for the merger as a purchase, as that term is used under accounting principles generally accepted in the United States, for accounting and financial reporting purposes. Under purchase accounting, the assets and liabilities of Potomac as of the effective time of the merger will be recorded at their respective fair values and added to those of Bancorp. The amount by which the purchase price paid by Bancorp exceeds the fair value of the net tangible

and identifiable intangible assets acquired by Bancorp through the merger will be recorded as goodwill. Financial statements of Bancorp issued after the effective time of the merger will reflect the values of such Potomac assets and will not be restated retroactively to reflect the historical financial position or results of operations of Potomac. A comparison of the most recent annual financial statements of Bancorp and Potomac indicates that Bancorp's investment in Potomac will represent less than 10% of Bancorp's assets.

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Regulatory Approvals Required for the Merger

Bancorp and Potomac have agreed to use their best efforts to obtain all regulatory approvals required to consummate the transactions contemplated by the merger agreement, which include the approval of the Board of Governors of the Federal Reserve System, the Maryland Commissioner of Financial Regulation, and the State Corporation Commission of the Commonwealth of Virginia (through the Virginia Bureau of Financial Institutions). The merger cannot proceed without these regulatory approvals and Bancorp and Potomac have made applications and other filings for the purpose of obtaining such approvals. It is presently contemplated that if any additional governmental approvals or actions are required, such approvals or actions will be sought. Although Bancorp and Potomac expect to obtain all necessary regulatory approvals, there can be no assurance as to if and when these regulatory approvals will be obtained, or whether a regulatory agency with jurisdiction over Bancorp, SSB or Potomac will impose conditions upon the parties before providing their approval. There can likewise be no assurance that the United States Department of Justice or any state attorney general will not attempt to challenge the merger on antitrust grounds, and, if such a challenge is made, there can be no assurance as to its result.

A governmental authority's approval may contain terms or impose conditions or restrictions relating or applying to, or requiring changes in or limitations on, the operation or ownership of any asset or business of Bancorp, Potomac or any of their subsidiaries, or Bancorp's ownership of Potomac, or requiring asset divestitures. It is a condition to Bancorp's obligation to consummate the merger that all governmental approvals are granted without the imposition of any condition that Bancorp, reasonably and in good faith, has determined to be materially burdensome to Bancorp or SSB. We can provide no assurance that the required regulatory approvals will be obtained on terms that satisfy the conditions to the closing of the merger or within the time frame contemplated by Bancorp and Potomac. See *The Merger Agreement - Conditions to the Completion of the Merger* on page 42.

Material United States Federal Income Tax Consequences

General

The following section discusses the material United States federal income tax consequences of the merger. This discussion is based on the Internal Revenue Code of 1986, as amended, applicable Treasury regulations, administrative interpretations and court decisions as in effect as of the date of this proxy statement/prospectus, all of which may change, possibly with retroactive effect.

This discussion only addresses the consequences of the exchange of shares of Potomac common stock held as capital assets. It does not address all aspects of federal income taxation that may be important to a Potomac shareholder in light of that shareholder's particular circumstances or to a Potomac shareholder subject to special rules, such as a shareholder who:

- is not a citizen or resident of the United States;
- is a financial institution or insurance company;
- is a tax-exempt organization;
- is a dealer or broker in securities;
- holds Potomac common stock as part of a hedge, appreciated financial position, straddle, conversion or other integrated transaction; or
- is a shareholder who acquired Potomac common stock pursuant to the exercise of compensatory options or otherwise as compensation.

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Federal Income Tax Consequences of the Transaction

Tax Opinion. It is a condition to the obligation of each of Bancorp and Potomac to consummate the merger that RSM McGladrey, Inc. deliver an opinion to the effect that:

the merger will be a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and that Bancorp, SSB and Potomac will each be a party to that reorganization within the meaning of Section 368(b) of the Internal Revenue Code;

no gain or loss will be recognized by Bancorp, SSB or Potomac as a result of the merger;

no gain or loss will be recognized by any Potomac shareholder (except in connection with the receipt of cash in lieu of a fractional share of Bancorp common stock or upon exercise of appraisal rights) upon the exchange of Potomac common stock for Bancorp common stock in the merger;

the basis of the Bancorp common stock received by a Potomac shareholder who exchanges Potomac common stock for Bancorp common stock will be the same as the basis of the Potomac common stock surrendered in exchange therefor (subject to adjustments required as a result of receipt of cash in lieu of a fractional share of Bancorp common stock);

the holding period of the Bancorp common stock received by a Potomac shareholder receiving Bancorp common stock will include the period during which the Potomac common stock surrendered in exchange therefor was held (provided that such common stock of such Potomac shareholder was held as a capital asset at the effective time of the merger); and

cash received by a Potomac shareholder in lieu of a fractional share interest of Bancorp common stock will be treated as having been received as a distribution in redemption of the fractional share interest of Bancorp common stock which such shareholder would otherwise be entitled to receive, subject to the provisions and limitations of the Internal Revenue Code.

In rendering the above described tax opinion, RSM McGladrey, Inc. will rely on customary representations and warranties of officers Bancorp and Potomac. The tax opinion neither binds the Internal Revenue Service (IRS) nor precludes the IRS or the courts from adopting a contrary position. Neither Bancorp nor Potomac intends to obtain a ruling from the IRS on the tax consequences of the merger. RSM McGladrey, Inc. and Bancorp's independent registered public accounting firm, McGladrey & Pullen LLP, are members of RSM International, an affiliation of separate and independent legal entities.

Federal Income Tax Treatment of the Merger. We expect that the merger will be a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, and that Bancorp, SSB and Potomac will each be a party to that reorganization within the meaning of Section 368(b) of the Internal Revenue Code. Bancorp, SSB and Potomac will not recognize any gain or loss for federal income tax purposes as a result of the merger.

Federal Income Tax Consequences to Potomac Shareholders. For federal income tax purposes:

A holder of Potomac common stock who receives only shares of Bancorp common stock in the merger generally will not recognize any gain or loss, except for any gain or loss recognized with respect to cash received in lieu of a fractional share of Bancorp common stock. See *Cash Received in Lieu of a Fractional Share* below.

A holder of Potomac common stock who receives only cash in the merger will recognize gain or loss equal to the difference between the amount of cash received and the holder's adjusted federal income tax basis in the shares of Potomac common stock surrendered in exchange. If, however, a holder of Potomac common stock actually or constructively owns shares of Bancorp common stock after the merger, the shareholder might be subject to dividend treatment in certain circumstances. See *Possible Treatment of Cash as a Dividend* below.

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A holder of Potomac common stock who receives both Bancorp common stock and cash in the merger will not generally recognize any loss on the exchange, and will recognize gain (if any) equal to the lesser of: (1) the amount of cash received (other than cash received in lieu of a fractional share); and (2) the amount of gain realized (that is, the excess of the sum of the amount of cash received and the fair market value, on the date of the merger, of the shares of Bancorp common stock received over the Potomac shareholder's adjusted federal income tax basis for the shares of Potomac common stock surrendered in exchange). See *The Merger Agreement Proration* on page 38 regarding the potential for Potomac's shareholders to receive Bancorp common stock and cash.

A holder of Potomac common stock who receives Bancorp common stock will have a tax basis in the Bancorp common stock received in the merger equal to the adjusted federal income tax basis of the shares of Potomac common stock surrendered (other than any basis allocable to cash received in lieu of a fractional share of Bancorp common stock), increased by the amount of gain, if any, recognized (other than any gain recognized with respect to cash received in lieu of a fractional share), and decreased by the amount of cash, if any, received (other than cash received in lieu of a fractional share).

The holding period for shares of Bancorp common stock received in exchange for shares of Potomac common stock in the merger will include the holding period for the shares of Potomac common stock surrendered in the merger.

In the case of a Potomac shareholder who holds shares of Potomac common stock with differing tax bases and/or holding periods, the preceding rules must be applied separately to each identifiable block of shares of Potomac common stock.

Capital Gain Treatment. Any gain recognized with respect to shares of Potomac common stock as a consequence of participating in the merger will generally be capital gain, and generally will be long-term capital gain if the shares have been held for more than one year. Long-term capital gain is generally taxable to individual shareholders at the rate of 15% for United States federal income tax purposes.

Possible Treatment of Cash as a Dividend. It is anticipated that any gain recognized by most Potomac shareholders will be treated as capital gain, as described above. However, it is possible that a Potomac shareholder would instead be required to treat all or part of such gain as dividend income, if that shareholder's percentage ownership in Bancorp (including shares that the Potomac shareholder is deemed to own) after the transaction is not meaningfully reduced from what the shareholder's percentage ownership would have been if the holder had received solely shares of Bancorp common stock rather than a combination of cash and Bancorp common stock in the merger. A Potomac shareholder described in the preceding sentence should consult its own tax advisor about whether the shareholder's receipt of cash in the merger will be treated as capital gain or dividend income under the Internal Revenue Code.

Cash Received in Lieu of a Fractional Share. Holders will generally recognize gain or loss on any cash received in lieu of a fractional share of Bancorp common stock. The amount of such gain or loss will be equal to the difference between the amount of cash received in lieu of the fractional share and the portion of the holder's aggregate adjusted tax basis of the shares of Potomac common stock surrendered that is allocable to the fractional share. Such gain or loss generally will be long-term capital gain or loss if the holding period for Potomac common stock is more than one year as of the effective date of the merger.

Federal Income Tax Consequences to Bancorp Stockholders. For federal income tax purposes, holders of Bancorp common stock will not recognize gain or loss as a result of the merger.

Appraisal Rights. If a Potomac shareholder properly exercises appraisal rights, such shareholder will recognize gain or loss equal to the difference between the amount of cash received through the exercise of such rights and such shareholder's tax basis in its Potomac shares. See *The Merger Appraisal Rights* regarding the proper exercise of such rights.

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Backup Withholding and Information Reporting. Information returns will be filed with the IRS in connection with cash payments for shares of Potomac common stock pursuant to the merger. Backup withholding at a rate of 28% may apply to cash paid to a Potomac shareholder, unless the Potomac shareholder furnishes a correct taxpayer identification number and certifies that he or she is not subject to backup withholding on the substitute Form W-9 included in the letter of transmittal. Any amount withheld under the backup withholding rules will be allowable as a refund or credit against United States federal income tax liability, provided required information is furnished to the IRS. The IRS may impose a penalty upon any taxpayer that fails to provide the correct taxpayer identification number.

Reporting Requirements. If you receive Bancorp common stock as a result of the merger, you will be required to retain records pertaining to the merger and you will be required to file with your United States federal income tax return for the year in which the merger takes place a statement setting forth facts relating to the merger, including:

the cost or other basis of your shares of Potomac common stock transferred in the merger; and
the fair market value of the Bancorp common stock and the amount of cash you receive in the merger.

This discussion of material United States federal income tax consequences is not a complete analysis or description of all potential federal income tax consequences of the merger. This discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances. In addition, it does not address any non-income tax or any foreign, state or local tax consequences of the merger. **Accordingly, we strongly urge each Potomac shareholder to consult his or her own tax advisor to determine the particular United States federal, state, local or foreign income or other tax consequences of the merger to him or her.**

Appraisal Rights

Under Sections 13.1-729 through 13.1-741 of the Virginia Stock Corporation Act, referred to as the VSCA, Potomac shareholders may assert appraisal rights with respect to the merger and demand in writing that SSB pay the fair value of their shares if the merger is completed. Sections 13.1-729 through 13.1-741 of the VSCA, which set forth the procedures a shareholder requesting payment for his or her shares must follow, is reprinted in its entirety as Appendix C to this proxy statement/prospectus. The following discussion is not a complete statement of the law relating to appraisal rights under Sections 13.1-729 through 13.1-741 of the VSCA, and is qualified in its entirety by reference to Appendix C. This discussion and Appendix C should be reviewed carefully by any shareholder who wishes to exercise appraisal rights or who wishes to preserve the right to do so, as failure to strictly comply with the procedures set forth in Sections 13.1-729 through 13.1-741 of the VSCA will result in the loss of appraisal rights.

Under Sections 13.1-729 through 13.1-741 of the VSCA, when a merger agreement is to be submitted for approval at a meeting of shareholders, such as the Potomac special meeting, the corporation must notify each of the holders of its stock for whom appraisal rights are available that such rights are available and include in each such notice a copy of Sections 13.1-729 through 13.1-741 of the VSCA. This proxy statement/prospectus shall constitute such notice to the record holders of Potomac common stock. Neither Bancorp nor Potomac will give you any notice of your appraisal rights other than as described in this document and as required by the VSCA.

General requirements

Sections 13.1-729 through 13.1-741 of the VSCA generally require the following:

Notice of intent to demand payment. Potomac shareholders who desire to exercise their appraisal rights must deliver to Potomac, before the vote on the merger is taken at the special meeting, a written notice of their intent to demand payment for their shares. A vote against the merger agreement or the merger will not satisfy such notice requirement. The notice of intent to demand payment should be addressed to Potomac Bank of Virginia, 9910 Main Street, Fairfax, Virginia 22031, Attention: Patricia A. Ferrick. It is

important that Potomac receive all written notices before the vote concerning the merger is taken. As explained below, this written notice should be signed by, or on behalf of, the shareholder of record. The written notice of intent to demand payment should specify the shareholder's name and mailing address, the number of shares of stock owned, and that the shareholder intends to demand payment for such shareholder's shares.

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Refrain from voting for or consenting to the merger proposal. If you wish to exercise your appraisal rights, you must not vote in favor of the merger agreement or the merger. If you return a properly executed proxy that does not instruct the proxy holder to vote against or to abstain on the merger, or otherwise vote in favor of the merger agreement or the merger, your appraisal rights will terminate, even if you previously filed a written notice of intent to demand payment. You do not have to vote against the merger in order to preserve your appraisal rights.

Continuous ownership of Potomac shares. You must continuously hold your shares of Potomac common stock from the date you provide notice of your intent to demand payment for your shares through the closing of the merger.

Written notice

Within 10 days after the closing of the merger, SSB, as successor to Potomac and surviving bank in the merger, must give written notice that the merger has become effective to each shareholder who has fully complied with the conditions of Sections 13.1-729 through 13.1-741 of the VSCA and who has not voted in favor of or consented to the merger agreement or the merger. The notice shall state where the payment demand shall be sent and where certificates shall be deposited. The notice shall also supply a form for demanding payment and set a date, not fewer than 40 nor more than 60 days after delivery of the appraisal notice by which SSB must receive a payment demand from a shareholder asserting appraisal rights. Within the time frame set forth in the notice, a Potomac shareholder asserting appraisal rights must demand payment for his or her Potomac shares and otherwise comply with Sections 13.1-729 through 13.1-741 of the VSCA. Except as required by law, none of Bancorp, SSB or Potomac will notify shareholders of any dates by which appraisal rights must be exercised.

Requirements for written demand for payment

A written demand for payment for Potomac common stock is only effective if it is signed by, or for, the shareholder of record who owns the shares at the time the demand is made. The demand must be signed as the shareholder's name appears on its stock certificate(s). If you are a beneficial owner of Potomac common stock and hold your shares through an intermediary (such as a broker, fiduciary, trustee, guardian or custodian, depository or other nominee) you must have the shareholder of record for the shares sign a demand for payment on your behalf.

If you own Potomac common stock in a fiduciary capacity, such as a trustee, guardian or custodian, you must disclose the fact that you are signing the demand for payment in that capacity.

If you own Potomac common stock with one or more other persons, such as in a joint tenancy or tenancy in common, all of the owners must sign, or have signed for them, the demand for payment. An authorized agent, which could include one or more of the owners, may sign the demand for payment for a shareholder of record; however, the agent must expressly disclose who the shareholder of record is and that he or she is signing the demand as such shareholder's agent.

Payment

Within 30 days after receipt of a payment demand by a shareholder asserting appraisal rights, SSB shall pay in cash the amount it estimates to be the fair value of such shareholder's shares, plus accrued interest, except with respect to shareholders who do not certify in the appraisal notice that they acquired all of their shares before the date of first public announcement of the merger. The payment shall be accompanied by:

- certain financial statements of Potomac;
- a statement of SSB's estimate as to the fair value of the Potomac common stock; and
- a statement of the shareholder's right to demand payment under VSCA Section 13.1-739.

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If such shareholder does not demand payment under VSCA Section 13.1-739 within the time period specified therein, such shareholder shall be deemed to have accepted such payment in full satisfaction of Potomac's and SSB's obligations under Sections 13.1-729 through 13.2-741 of the VSCA. If the shareholder is dissatisfied with the amount of such payment, the shareholder may notify SSB in writing of his or her own estimate of the fair value of his or her shares and the amount of interest due, and demand payment of such estimate less the amount received from SSB. The shareholder must notify SSB within 30 days of receiving such payment. SSB may elect to withhold the cash payment from any shareholder who did not certify in its appraisal notice that it acquired all of its Potomac shares before the date of first public announcement of the merger. A Potomac shareholder from whom the cash payment is withheld in accordance with the preceding sentence will be provided with comparable information to that sent to certifying shareholders, together with an offer to pay the amount estimated by SSB as the fair value of the Potomac shares with interest, and a statement that if the shareholder does not satisfy the requirements for demanding appraisal, such shareholder shall be deemed to have accepted the offer. Within 40 days after sending such information, SSB shall pay in cash to each such shareholder the amount SSB estimated as the fair value of the Potomac shares, with interest.

Petition with the court

If a shareholder's demand for payment remains unsettled, SSB must bring a proceeding in the Circuit Court of the City of Richmond, Virginia to have the court determine the fair value of the shares and accrued interest. As part of this proceeding, the court is authorized to appoint one or more appraisers. The court assesses all costs, including appraisers appointed by the court, against SSB except that the court has the right to make an assessment against any shareholder asserting appraisal rights who acted arbitrarily, vexatiously or not in good faith. The court may also assess fees and expenses of counsel and experts for the parties against either SSB or the shareholders seeking appraisal.

Termination of rights

A Potomac shareholder's right to obtain payment pursuant to the exercise of appraisal rights is terminated whenever the proposed corporate action is abandoned or is permanently enjoined or set aside or when the shareholder's demand for payment is withdrawn with the consent of SSB. If a Potomac shareholder withdraws its demand for payment, the shareholder will be entitled to receive the merger consideration provided in the merger agreement.

U.S. federal income tax consequences

With respect to the tax consequences of exercising appraisal rights, please refer to the section of the proxy statement/prospectus entitled "The Merger-Federal Income Tax Consequences of the Transaction Appraisal Rights" on page 32.

Loss of shareholder rights

If you exercise appraisal rights, after the closing of the merger you will not be entitled to:

- vote shares of stock for which you have demanded payment for any purpose;
- receive payment of dividends or any other distribution with respect to your shares, except for dividends or distributions, if any, that are payable to holders of record as of a record date before the closing of the merger, or
- receive the merger consideration provided for in the merger agreement.

If you fail to comply strictly with these procedures you will lose your appraisal rights. Consequently, if you wish to exercise your appraisal rights, we strongly urge you to consult a legal advisor before attempting to exercise your appraisal rights.

Voting Agreement

As an inducement to Bancorp to enter into the merger agreement, each director and officer of Potomac, in his or her capacity as a Potomac shareholder, entered into a voting agreement with Bancorp and agreed to vote all of their shares in favor of the merger agreement and the merger. As of the record date, such shares represented approximately 23.32% of the issued and outstanding shares of Potomac common stock.

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Pursuant to the voting agreement, Potomac's directors and officers also agreed that they would vote against the approval of any action or agreement that would result in a breach of any covenant, representation, warranty or any other obligation of Potomac under the merger agreement and against any extraordinary corporate transaction involving Potomac (other than the merger contemplated by the merger agreement), including, without limitation, a merger, consolidation, or other business combination involving Potomac or a sale of a material amount of Potomac's assets. In the voting agreement, Potomac's directors and officers also agreed to waive their appraisal rights with respect to the merger. The foregoing agreements do not, however, restrict Potomac's directors from acting in accordance with their fiduciary duties in their capacities as directors.

Under the voting agreement, Potomac's directors and officers revoked any and all previous proxies and granted an irrevocable proxy appointing Bancorp as their attorney-in-fact and proxy, with authority to vote their shares at the special meeting of Potomac's shareholders. Potomac's directors and officers also agreed they would not grant any proxies or enter into any other agreement with respect to the voting of their shares or sell, transfer, encumber or otherwise dispose of any of their shares of Potomac common stock. The voting agreement terminates upon any termination of the merger agreement.

THE MERGER AGREEMENT

The following is a summary of the material terms and conditions of the merger agreement. This summary may not contain all the information about the merger agreement that is important to you. This summary is qualified in its entirety by reference to the full text of the merger agreement, which is attached as Appendix A to this proxy statement/prospectus. We encourage you to read the merger agreement in its entirety.

Explanatory Note Regarding the Summary of the Merger Agreement

The following summary of the merger agreement is intended to provide information about the terms of the merger. The terms and information in the merger agreement should not be relied on as disclosures about Bancorp or Potomac. Bancorp's public disclosures are those set forth in its reports filed with the SEC. The merger agreement, although included as an appendix to this proxy statement/prospectus, is not intended to change or supplement the disclosures in Bancorp's SEC filings.

Structure of the Merger

The merger agreement provides for Bancorp's acquisition of Potomac through a merger of Potomac with and into SSB, a Maryland bank and trust company and a wholly owned subsidiary of Bancorp, with SSB being the surviving bank in the merger. Each share of Potomac common stock issued and outstanding at the effective time of the merger will be converted into the right to receive either an amount of cash or a number of shares of Bancorp common stock, as described below. After completion of the merger, the SSB charter will be the charter of the surviving bank and the SSB bylaws will be the bylaws of the surviving bank.

Upon the closing of the merger, G. Lawrence Warren, Potomac's president and chief executive officer, will have the same title with respect to a division of SSB that is expected to operate under the Potomac name for a period after the merger. As of the effective time of the merger, Marshall H. Groom, a current director of Potomac, will be appointed to Bancorp's board of directors. At Bancorp's first annual shareholders' meeting after the merger, Bancorp agreed to nominate Mr. Groom for re-election and agreed to nominate William F. Roeder, Jr., a current director of Potomac, for election as a director of Bancorp.

Merger Consideration

At the effective time of the merger, each issued and outstanding share of Potomac common stock will be converted into the right to receive either:

\$21.75 in cash without interest; or
shares of Bancorp common stock at an exchange ratio of 0.6143 of a share of Bancorp common stock for each share of Potomac common stock.

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Bancorp will pay cash, at the per share price referenced above, for 50% of the outstanding shares of Potomac common stock and issue shares of Bancorp common stock, in accordance with the exchange ratio referenced above, for the remaining 50% of the outstanding shares of Potomac common stock. No fractional shares of Bancorp common stock will be issued to any holder of Potomac common stock. For each fractional share of Bancorp common stock that would otherwise be issued, Bancorp will pay cash in an amount equal to the product of such fraction multiplied by the \$21.75 cash election price. In this proxy statement/prospectus, we refer to the cash and Bancorp common stock to be received by Potomac shareholders in the merger as the merger consideration. The right of the Potomac shareholders to elect to convert their shares into cash or Bancorp common stock is subject to proration to result in a 50% cash and 50% stock allocation. See the section entitled *Election Procedure* below.

Potomac shareholders who perfect their rights in accordance with Virginia law will have appraisal rights and will be entitled to receive the fair value of their shares in lieu of the merger consideration. See the section entitled *Shares Subject to Properly Exercised Appraisal Rights* on page 43.

In the merger agreement, Bancorp has agreed to have the shares of Bancorp common stock to be issued as merger consideration to be approved for listing on the Nasdaq Global Select Market, subject to the official notice of issuance.

No assurance can be given that the current market price of the Bancorp common stock will be equivalent to the market price of Bancorp common stock on the date that stock merger consideration is received by a Potomac shareholder or at any other time. The market price of Bancorp common stock when received by a Potomac shareholder pursuant to the merger agreement may be greater or less than the current market price of Bancorp common stock.

Subject to Bancorp's right to cure as described below, Potomac may, during a three day period commencing on the tenth day prior to the closing, terminate the merger agreement if:

the average closing price of the Bancorp common stock for the 10 trading day period ending at the beginning of such three-day period is less than \$28.91; and
Bancorp's common stock has underperformed the Nasdaq Bank Index by 20% or more since October 10, 2006, the date of the merger agreement.

This termination right is subject to Bancorp's right to increase the exchange ratio and/or the number of shares of Potomac common stock that will be converted into the right to receive cash to the extent necessary to cause the failure of either of the above two conditions to be satisfied, but this cure right is not available to the extent it would jeopardize the intended tax treatment of the merger. See *Termination of the Merger Agreement* on page 49.

Election Procedure

Potomac shareholders will have the right, subject to proration to result in a 50% cash and 50% stock allocation, to elect to convert their shares of Potomac common stock into cash or shares of Bancorp common stock or a combination of cash and shares of Bancorp common stock.

Cash Election Shares. Potomac shareholders who validly elect to receive cash for some or all of their shares will, subject to proration, receive \$21.75 in cash, without interest, for each share of Potomac common stock for which a valid cash election is made. In this proxy statement/prospectus we refer to the shares for which Potomac shareholders have made cash elections as *cash election shares*.

Stock Election Shares. Potomac shareholders who validly elect to receive Bancorp common stock for some or all of their shares will, subject to the proration, receive 0.6143 of a share of Bancorp common stock for each share of Potomac common stock for which a valid stock election is made. In this proxy statement/prospectus we refer to the

shares for which Potomac shareholders have made stock elections as stock election shares.

Non-Election Shares. Potomac shareholders who do not make a valid election for shares of Potomac common stock will be deemed to have made a non-election. In this proxy statement/prospectus, shares held by Potomac shareholders who have not made an election are referred to as non-election shares.

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Proration

As mentioned above, Bancorp will pay cash for 50% of the outstanding shares of Potomac common stock and issue shares of Bancorp common stock for the remaining 50% of outstanding shares of Potomac common stock. **Because of the 50% cash and 50% stock allocation and because it is unlikely that elections will be made in the exact proportions provided for in the merger agreement, you cannot be certain of receiving the form of merger consideration you elect with respect to all of your shares of Potomac common stock.**

If, after elections are made, the amount of cash to be paid in respect of cash election shares is higher than the product of \$21.75 times 50% of the number of outstanding shares of Potomac common stock as of immediately prior to the effective time of the merger, a pro rata portion of the cash election shares will be converted into the right to receive Bancorp common stock in order to result in a 50% cash and 50% stock allocation. Similarly, if, after elections are made, the amount of cash to be paid is less than the product of \$21.75 times 50% of the number of outstanding shares of Potomac common stock as of immediately prior to the effective time of the merger, a pro rata portion of first, the non-electing shares, and then (if and to the extent necessary), the stock election shares, will be converted into the right to receive cash in order to result in a 50% cash and 50% stock allocation.

Over-election of Cash. If there is an over-election of cash as described above, then:

each stock election share and each non-election share will be converted into the right to receive 0.6143 of a share of Bancorp common stock;
the exchange agent will select, by a pro rata selection process, a sufficient number of cash election shares (other than dissenters' shares) such that the total cash to be paid equals as closely as practicable the product of \$21.75 times 50% of the number of outstanding shares of Potomac common stock as of immediately prior to the effective time of the merger, which selected cash election shares will then each be converted into the right to receive 0.6143 of a share of Bancorp common stock; and
each cash election share that is not selected by the exchange agent to be converted into the right to receive Bancorp common stock pursuant to the above bullet point will be converted into the right to receive \$21.75 in cash, without interest.

Under-election of Cash. If there is an under-election of cash as described above, then:

each cash election share will be converted into the right to receive \$21.75 in cash, without interest;
the exchange agent will select, by a pro rata selection process, a sufficient number of first, non-election shares, and then, if and to the extent necessary, stock election shares, such that the total cash to be paid equals as closely as practicable the product of \$21.75 times 50% of the number of outstanding shares of Potomac common stock as of immediately prior to the effective time of the merger, which selected non-election and/or stock election shares will then each be converted into the right to receive \$21.75 in cash, without interest; and
each non-election share and each stock election share that is not selected by the exchange agent to be converted into the right to receive cash pursuant to the prior bullet point will be converted into the right to receive 0.6143 of a share of Bancorp common stock.

No Over-election or Under-election of Cash. If there is no over-election or under-election of cash as described above, then:

each cash election share will be converted into the right to receive \$21.75 in cash, without interest; and
each stock election share and each non-election share will be converted into the right to receive 0.6143 of a share of Bancorp common stock.

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Because of the United States federal income tax consequences of receiving cash, Bancorp common stock, or both cash and Bancorp common stock will differ, Potomac shareholders are urged to read carefully the information set forth under the section entitled The Merger Material United States Federal Income Tax Consequences and to consult their tax advisors for a full understanding of the merger's tax consequences to them. In addition, because the stock consideration may fluctuate in value, the economic value per share received by Potomac shareholders who receive the stock consideration may, as of the date of receipt by them, be more or less than the \$21.75 cash election price set forth in the merger agreement.

Election Form

Registered holders of Potomac common stock will receive an election form and letter of transmittal in a separate mailing. The election form allows each Potomac shareholder to specify the number of shares with respect to which it may elect to receive cash and the number of shares with respect to which it may elect to receive Bancorp common stock.

Potomac shareholders should carefully review and follow the instructions set forth in the election form and letter of transmittal. Shares of Potomac common stock as to which the holder has not made a valid election prior to the election deadline, which is 5:00 p.m., eastern time, on February 1, 2007, will be deemed to be non-electing shares.

To make a valid election, a properly completed election form and letter of transmittal, along with the stock certificates representing the shares of Potomac common stock as to which an election will be made, must be received by the exchange agent by or prior to the election deadline in accordance with the instructions on the election form and letter of transmittal. Do not send your election form, letter of transmittal or stock certificates with your proxy card or to Potomac. The proxy card should be mailed in accordance with the instructions stated thereon.

Any election form may be revoked or changed at or prior to the election deadline. In the event an election form is revoked prior to the election deadline, the shares of Potomac common stock corresponding to such election form will become non-election shares and the certificates representing such shares of Potomac common stock will be promptly returned without charge.

If you own shares of Potomac common stock in street name through a broker or other financial institution and you wish to make an election to receive cash, you will receive or should seek instructions from the institution holding your shares concerning how to make your election. Street name holders may be subject to an election deadline earlier than 5:00 p.m., eastern time, on February 1, 2007. Therefore, you should carefully read any materials you receive from your broker. If you instructed a broker to submit an election for your shares, you must follow such person's directions for changing those instructions.

Subject to the terms of the merger agreement and the terms of the election notice, the exchange agent will have reasonable discretion to determine whether any election, revocation or change has been properly or timely made and to disregard immaterial defects in the election forms, and any good faith decisions of Bancorp regarding such matters will be binding and conclusive. Neither Bancorp nor the exchange agent will be under any obligation to notify any person of any defect in an election form.

Your completed election form, letter of transmittal and stock certificates should be returned to the exchange agent at the following address:

By Mail:

By Hand or Courier:

American Stock Transfer & Trust Company
Operations Center
Attn: Reorganization Department
P.O. Box 2042
New York, NY 10272-2042

American Stock Transfer & Trust Company
Operations Center
Attn: Reorganization Department
6201 15th Avenue
Brooklyn, NY 11219

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Do not return your stock certificates or election form with your proxy card or to Potomac. Doing so will not constitute a valid election, and may delay your receipt of the merger consideration.

Procedures for Surrendering Potomac Stock Certificates

Soon after the election deadline, the exchange agent will allocate and, if necessary, prorate the merger consideration to result in a 50% cash and 50% stock allocation. Within three business days after the effective time of the merger, the exchange agent will send a letter of transmittal to each person who was a Potomac shareholder at the effective time of the merger but did not previously submit a valid election form. This mailing will contain instructions on how to surrender shares of Potomac common stock in exchange for the merger consideration the holder is entitled to receive under the merger agreement.

Until you surrender your Potomac stock certificates for exchange, you will accrue, but will not be paid, with respect to Bancorp common stock into which any of your Potomac shares may have been converted, any dividends or other distributions declared on the Bancorp common stock after the effective time of the merger. When you surrender your Potomac certificates, Bancorp will pay to you any unpaid dividends or other distributions, without interest. After the effective time of the merger, there will be no transfers on the stock transfer books of Potomac of any shares of Potomac common stock.

If certificates representing shares of Potomac common stock are presented for transfer after the completion of the merger, they will be canceled and exchanged for the merger consideration into which the shares of Potomac common stock represented by that certificate shall have been converted.

If new certificates for Bancorp common stock are to be issued in the name other than that in which the Potomac certificate surrendered in exchange is registered, it is a condition of the issuance that the Potomac certificate surrendered in exchange be properly endorsed in proper form for transfer and that the person requesting such transfer pay the exchange agent any required transfer or other taxes, or establish to the satisfaction of the exchange agent that such tax has been paid or is not payable.

If a certificate for Potomac has been lost, stolen or destroyed, the exchange agent will issue the consideration properly payable under the merger agreement upon receipt of appropriate evidence as to that loss, theft or destruction, appropriate evidence as to the ownership of that certificate by the claimant, and appropriate and customary indemnification.

Treatment of Potomac Options

As of the effective time of the merger, each outstanding unexercised and vested option to acquire a share of Potomac common stock (including rights to acquire shares of Potomac common stock under Potomac's employee stock purchase plan) will be converted into, at the election of Bancorp but subject to any limitations imposed by Potomac's equity compensation plans, either:

- cash in an amount equal to the difference between \$21.75 and the per share exercise price for such option subject to any withholding of taxes; or
- a fully vested option to purchase Bancorp common stock, subject to adjustment in accordance with the exchange ratio, which will be governed by the terms of the Potomac stock option plan under which such option was granted.

Bancorp has agreed to file a registration statement on Form S-8 registering any shares of Bancorp common stock issuable upon exercise of a Potomac option that is assumed by Bancorp under the merger agreement.

Bancorp Employee Benefit Plans and Severance for Potomac Employees

Employee Benefit Plans. Following the effective time of the merger, former Potomac employees who become employees of Bancorp or SSB will be eligible to participate in those Bancorp benefit plans in which similarly situated employees of Bancorp or SSB participate. With respect to participation in Bancorp's employee benefit plans after the merger, prior service with Potomac will be credited for purposes of determining eligibility and vesting, but not for accrual of benefits under defined benefit pension plans.

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At the closing of the merger or as soon as practicable thereafter, Potomac's 401(k) plan will, subject to applicable law and the applicable plan provisions, be merged into Bancorp's cash and deferred profit sharing plan. If it is not feasible to merge the plans due to applicable law, regulation or plan provisions, the Potomac 401(k) plan will be terminated and the account balances will be distributed to the plan participants in accordance with applicable law and Potomac's 401(k) plan.

Severance Payments. Any Potomac employee who is:

not offered employment with Bancorp or SSB at a base salary and benefits which are at least as favorable as the employee received from Potomac; or

who is dismissed, other than for cause, within one year after the closing of the merger,

will be entitled to receive a severance payment from Bancorp at the rate of two weeks cash base salary for each full year of employment with Potomac, subject to a minimum severance payment of four weeks base salary and a maximum severance payment of 26 weeks base salary. Potomac officers who are entitled to receive the change of control payments described below are not eligible to receive a severance payment.

Change of Control Payments

Under the merger agreement, Bancorp agreed to pay certain Potomac employees the amounts listed below upon the closing of the merger. Each Potomac employee listed below is entitled, under their existing employment or change of control agreement, to receive the referenced payment upon a change of control if the employee is either terminated without cause or terminates its employment for good reason, (as these terms are defined in the agreements), generally within six months prior to a change in control or within two years after a change of control. Under the merger agreement these payments will be reduced to the extent they are subject to the excise tax under Section 280G of the Internal Revenue Code. In addition, the timing of the payment of these amounts is subject to Section 409A of the Internal Revenue Code. See *Interests of Certain Persons in the Merger* on page 51.

Potomac Employee	Amount of Change of Control Payment
G. Lawrence Warren	\$553,150
Craig S. Underhill	\$384,780
Richard C. Stonbraker	\$242,528
Patricia A. Ferrick	\$125,000
Stephanie H. Ogle	\$104,400

Restrictions on Resales by Potomac Affiliates

Shares of Bancorp common stock to be issued to Potomac shareholders in the merger have been registered under the Securities Act of 1933 (the 1933 Act) and may be traded freely and without restriction by those Potomac shareholders who are not deemed to be affiliates (as that term is defined under the 1933 Act) of Potomac. However, any subsequent transfer of shares by any person who is an affiliate of Potomac at the time the merger is submitted for a vote of Potomac shareholders will, under existing law, require either:

the further registration under the 1933 Act of the Bancorp common stock to be transferred; compliance with Rule 145 under the 1933 Act, which permits limited sales under certain circumstances; or the availability of another exemption from registration under the 1933 Act.

The above described restrictions are expected to apply to the directors and executive officers of Potomac and the holders of 10% or more of Potomac common stock as well as certain of their relatives or spouses and any trusts, estates, corporations or other entities in which they have a 10% or greater beneficial or equity interest. The certificates representing the shares of Bancorp common stock to be received by affiliates of Potomac will be endorsed with a legend summarizing these restrictions.

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If any person who is an affiliate of Potomac becomes an affiliate of Bancorp, such person may only transfer shares of Bancorp common stock in a manner permitted by Rule 144 under the 1933 Act.

Each person who is an affiliate of Potomac for purposes of Rule 145 under the 1933 Act has delivered to Bancorp a written agreement intended to ensure compliance with the 1933 Act.

Effective Time

The merger will become effective upon the latest of:

- the issuance of a certificate of merger by the Commissioner of Financial Regulation of Maryland;
- the issuance of a certificate of merger by the State Corporation Commission of Virginia; and
- a later effective date and time set forth in the above referenced certificates of merger.

We anticipate that the merger will be completed during the first quarter of 2007. However, completion of the merger could be delayed if there is a delay in satisfying any of the conditions to the merger. There can be no assurances as to whether, or when, Bancorp and Potomac will complete the merger. If the merger is not completed on or before April 15, 2007, either Bancorp or Potomac may terminate the merger agreement, unless the failure to complete the merger by that date is due to the failure of the party seeking to terminate the merger agreement to perform a material obligation under the merger agreement. See [The Merger Regulatory Approvals Required for the Merger](#) on page 30 and [Conditions to the Completion of the Merger](#) below.

Conditions to the Completion of the Merger

The obligations of Bancorp and Potomac to consummate the merger are subject to the satisfaction of the following conditions:

- the approval of the merger agreement by Potomac's shareholders;
- the absence of any governmental or judicial order restraining or prohibiting the merger;
- the making of all required filings, the receipt of all necessary approvals and the expiration of any applicable waiting periods in connection with the consummation of the merger;
- the effectiveness of the registration statement registering under the 1933 Act Bancorp's issuance of Bancorp common stock in the merger and the absence of any SEC stop order (or a proceeding seeking a stop order) suspending the effectiveness of the registration statement; and
- the delivery by RSM McGladrey, Inc. of an opinion that the merger will qualify as a reorganization for United States federal income tax purposes and other tax matters related to the merger.

The obligations of Bancorp to consummate the merger are subject to the satisfaction or Bancorp's waiver of the following additional conditions:

- delivery to Bancorp of a legal opinion from Potomac's counsel;
- Potomac's receipt of all necessary consents to Potomac's completion of the merger;
- there being no material adverse change in the financial condition, business or results of operation of Potomac;
- the accuracy of Potomac's representations and warranties in the merger agreement and Potomac's compliance with its covenants under the merger agreement as of the closing date;
- the receipt of all governmental approvals without the imposition of any condition that Bancorp determines, reasonably and in good faith, is materially burdensome to Bancorp or SSB;

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there being no outstanding litigation or other proceedings that would have a material adverse effect on Potomac;

there being no issuance or purchase by Potomac of its securities between the date of the merger agreement and the closing date, except for issuances upon exercises of Potomac options that were outstanding on the date of the merger agreement;

Potomac's compliance with any regulatory orders, directives or supervisory resolutions applicable to Potomac;

the delivery to Bancorp by the affiliates of Potomac of letter agreements relating to compliance with Rule 145 under the 1933 Act;

holders of less than 7.5% of Potomac's outstanding common stock having perfected appraisal rights under Virginia law;

Bancorp's receipt of documentation to its satisfaction that any existing employment or change of control agreements between Potomac and its employees will be terminated as of the effective time of the merger;

and

Potomac's delivery of a certificate to Bancorp that Potomac is not and has not been within five years of such certification, a United States real property holding corporation.

The obligations of Potomac to consummate the merger are subject to the satisfaction or Potomac's waiver of the following additional conditions:

delivery to Potomac of a legal opinion from Bancorp's counsel;

the accuracy of Bancorp's representations and warranties in the merger agreement and Bancorp's compliance with its covenants in the merger agreement as of the closing date;

there being no outstanding litigation or other proceedings that would have a material adverse effect on Bancorp;

approval for the listing on the Nasdaq Global Select Market of the shares of Bancorp common stock to be issued in the merger; and

Potomac's financial advisors having delivered a fairness opinion, substantially in the form attached to this proxy statement/prospectus as Appendix B, dated as of the date of the closing of the merger.

Shares Subject to Properly Exercised Appraisal Rights

Potomac shareholders who do not vote their shares of Potomac common stock in favor of the merger and who properly exercise appraisal rights for their shares in accordance with the VSCA will not have their shares converted into the right to receive cash and/or shares of Bancorp common stock to which they would otherwise be entitled pursuant to the merger agreement, but will instead have their shares converted into the right to receive such consideration as may be determined to be due with respect to such shares pursuant to the VSCA. If any Potomac shareholder fails to make an effective demand for payment or otherwise withdraws or loses his, her or its appraisal rights, such shareholder's shares will be treated as cash election shares.

Representations and Warranties

The merger agreement contains a number of representations and warranties made by both Bancorp and Potomac as to, among other things:

corporate existence, good standing and qualification to conduct business;

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capitalization;
subsidiaries;
bank regulatory filings;
financial statements;
the absence of undisclosed liabilities;
due authorization, execution, delivery and validity of the merger agreement;
absence of changes since December 31, 2005 having a material adverse effect;
the absence of material misstatements or omissions from information provided for inclusion in this proxy statement/prospectus;
the absence of legal proceedings;
compliance with laws and court orders;
required filings with and approvals of governmental authorities;
the absence of any conflict with organizational documents and the absence of any violation of material agreements, laws or regulations as a result of the consummation of the merger;
third-party consents and approvals necessary to complete the merger;
the absence of material misstatements and omissions from written materials exchanged by Bancorp and Potomac pursuant to the merger agreement;
fees payable to financial advisors in connection with the merger;
the absence of matters taken or known facts or circumstances that would prevent the merger from qualifying as a tax free reorganization; and
bank regulatory compliance and any agreements, memoranda of understanding or similar arrangements with bank regulatory agencies.

Bancorp also made representations and warranties relating to its SEC reports, the availability of sufficient cash and cash equivalents for Bancorp to pay the cash portion of the merger consideration and the reservation of a sufficient number of shares of Bancorp common stock to issue the stock portion of the merger consideration.

Potomac also made representations and warranties relating to: its loan portfolio, reserves and other loan matters, tax matters, property and assets, employees, employee benefit matters, material agreements and instruments, environmental matters, real estate, intellectual property, insurance, deposits, inapplicability of state takeover statutes and rights plans, accounting controls, the absence of registration obligations under the 1933 Act and the Securities Exchange Act of 1934 (the 1934 Act), its compliance with and ratings under the Community Reinvestment Act and its receipt of a fairness opinion from its financial advisors dated as of the date of the merger agreement.

Certain of the above described representations and warranties are qualified as to materiality or material adverse effect. For purposes of the merger agreement, certain conditions will not be taken into account in determining whether there has been or will be a material adverse effect.

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Each of Bancorp and Potomac agreed to update their respective disclosure schedules in the merger agreement to the extent that either of them learns, between the signing of the merger agreement and the closing, of an exception to its representations and warranties that did not result from a breach of its covenants under the merger agreement. However, for purposes of determining whether a material change has occurred with respect to the updating party, the resulting updates will be disregarded.

The representations and warranties in the merger agreement do not survive after the effective time of the merger or the termination of the merger agreement.

Potomac Shareholder Approval

The affirmative vote of more than two-thirds of the outstanding shares of Potomac common stock is required to adopt and approve the merger agreement in accordance with Virginia law and Potomac's articles of incorporation and bylaws. Potomac agreed to hold a special meeting of its shareholders for the purpose of such approval as soon as practicable after the effectiveness of the registration statement to which this proxy statement/prospectus relates, but in no event later than 45 days after the registration statement is declared effective.

Conduct of Potomac's Business Pending the Merger

Interim Operations of Potomac. Potomac's operations are subject to certain restrictions until either the effective time of the merger or the termination of the merger agreement. In general, Potomac is required to conduct its business in the ordinary course consistent with past practice and to use its best efforts to preserve intact its present business organizations and relationships and to keep available the services of its present officers and employees.

Specifically, during the period from the date of the merger agreement to the effective time, except as required by law or regulation, Potomac agreed to refrain from any of the following, without the prior written consent of Bancorp:

- changing, deleting or adding any provision to its articles of incorporation or bylaws;
- except for its issuance of shares upon the exercise of options outstanding on the date of the merger agreement, change the number of shares of authorized, issued or outstanding capital stock of Potomac;
- declare, set aside or pay any dividend or make any other distribution with respect to the outstanding capital stock of Potomac or reacquire any of Potomac's outstanding shares;
- incur any material liabilities or obligations other than in the ordinary course of business consistent with past practices;
- make any capital expenditure individually in excess of \$50,000 except for expenditures necessary to maintain existing assets in good repair and except for expenditures in connection with the ongoing construction, equipping and outfitting of the Lansdowne branch, currently under construction, in accordance with the plans, specifications and budget that existed on the date of the merger agreement;
- sell, transfer or otherwise dispose of any significant assets, other than sales of securities, loan participations and/or mortgage loans originated for the purpose of sale in the ordinary course of business consistent with past practice;
- except as otherwise expressly permitted by the merger agreement, pay or authorize the payment of any bonuses to any employee, officer, director or other person;
- enter into any new, or amend any existing employment, consulting, non-competition or independent contractor agreement or alter the terms of any existing incentive bonus or commission plan, except for the hire of personnel at or below an annual compensation rate of \$100,000 to satisfy Potomac's staffing needs in the ordinary course of business;

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adopt any new or amend in any material respect any existing employee benefit plan or grant any general increase in compensation to employees as a class or to officers or employees, except for ordinary salary increases of not more than five percent (5%) of the previous year's base salary per individual, and following not less than three (3) business days prior notice to Bancorp;

grant any increase in fees or other compensation or in other benefits to any directors, except for Potomac's payment of its 2006 and 2007 director retainer fees and director meeting fees in cash in lieu of shares of Potomac common stock;

enter into or extend any agreement, lease or license relating to real property, personal property, data processing or bankcard functions that involves an aggregate of \$25,000 or more;

acquire or agree to acquire any assets or equity securities or acquire direct or indirect control of another entity, except for foreclosures in the ordinary course of business with consultation with Bancorp;

originate, purchase, extend or grant any loan other than in accordance with Potomac's lending policies in effect as of the date of the merger agreement, and consistent with past practice, provided, however, that Potomac agreed to provide to SSB a copy of the books and records of Potomac's Loan Committee with respect to any loan to any party with an aggregate loan relationship of \$1,000,000 or more;

Potomac agreed to provide SSB with a copy of the minutes of all meetings of Potomac's Loan Committee; and

SSB will be entitled to have an observer present at all meetings of Potomac's Loan Committee;

file any branching applications or branching contracts or acquire or construct, or agree to acquire or construct, any interest in real property, except for acquisition or construction projects that were ongoing on the date of the merger agreement and consistent with the then existing plans, specifications and budgets;

form any new subsidiary;

increase or decrease the rate of interest payable on time deposits or on certificates of deposit, except in a manner and pursuant to policies consistent with Potomac's past practices;

take any action that is intended or may reasonably be expected to result in any of the conditions to the merger not being satisfied;

purchase, sell or otherwise acquire any derivative or other investment security, except for certain U.S. treasury securities and purchases of investment securities in accordance with Potomac's investment policy as in effect on the date of the merger agreement; or

commence any proceeding other than in accordance with past practice or settle any action, claim, or proceeding involving material money damages or restrictions upon any of Potomac's operations.

Potomac Board's Covenant to Recommend. Potomac's board of directors has agreed to recommend the approval of the merger and the adoption of the merger agreement by Potomac's shareholders and to call a special meeting of Potomac's shareholders for this purpose. Potomac's board, however, can fail to make, withdraw, or modify in a manner adverse to Bancorp its recommendation under the circumstances discussed below under "No Solicitation by Potomac".

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No Solicitation by Potomac. Potomac agreed that it would not, and would not authorize any officer, director, employee, investment banker, financial consultant, attorney, accountant or other representative of Potomac to, directly or indirectly, initiate contact with any third party in an effort to solicit, initiate or encourage or take any other action to facilitate or encourage any Takeover Proposal (as defined below). In addition, Potomac agreed that it would not, and it would not authorize any officer, director, employee, investment banker, financial consultant, attorney, accountant or other representative of Potomac to directly or indirectly:

cooperate with, or furnish or cause to be furnished any non-public information concerning Potomac;

negotiate any Takeover Proposal with any third party; or

enter into any agreement, letter of intent or agreement in principle with respect to any Takeover Proposal.

Notwithstanding the above and in compliance with the conditions set forth below, Potomac's board of directors, directly or indirectly, through advisors, agents or other intermediaries, may:

engage in negotiations or discussions with any third party that has made an unsolicited bona fide Takeover Proposal that Potomac's board of directors reasonably believes will lead to a Superior Proposal; furnish to a third party that has made a Takeover Proposal as described in the preceding bullet point nonpublic information relating to Potomac or any of its subsidiaries pursuant to a confidentiality agreement with terms no less favorable to Potomac than those contained in the confidentiality agreement between Bancorp and Potomac;

following receipt of a Takeover Proposal described in the first bullet point above, fail to make, withdraw, or modify in a manner adverse to Bancorp its approval recommendation of the merger to its shareholders; or

enter into an agreement concerning a Superior Proposal, but only after Potomac satisfies its obligation to notify Bancorp in writing of its intention to enter into such agreement at least 72 hours in advance and Bancorp does not, during such time, make an offer that is at least as favorable to Potomac's shareholders as such Superior Proposal.

Potomac's board of directors may only take the actions described in the first three bullet points above if it determines, in good faith by a majority vote after consultation with outside legal counsel, that taking such action is in the best interests of Potomac and its shareholders and that such action is necessary to comply with its fiduciary duties under Virginia law. In addition, Potomac's board of directors may not take any of the actions described in the first three bullet points above unless Potomac has provided Bancorp with prior written notice advising Bancorp that it intends to take such action, after which Potomac is required to continuously advise Bancorp.

Takeover Proposal means any offer, proposal, or indication of interest other than as contemplated by the merger agreement, for a merger or other business combination involving Potomac or any of its subsidiaries (including, without limitation, any joint venture involving Potomac, any Potomac subsidiary or any of their respective assets) or for the acquisition of a substantial equity interest in Potomac or any Potomac subsidiary or a substantial portion of the assets of Potomac or any Potomac subsidiary, by any third party.

Superior Proposal means any bona fide, unsolicited written Takeover Proposal on terms that Potomac's board of directors determines in good faith by a majority vote, after considering the advice of a financial advisor and taking into account all the terms and conditions of the Takeover Proposal, including any break-up fees, expense reimbursement provisions and conditions to consummation, are more favorable and provide greater value to all of Potomac's shareholders than as provided under the merger agreement and for which financing, to the extent required, is then fully committed or reasonably determined to be available by Potomac's board of directors.

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Potomac also agreed to terminate any discussions or negotiations with any third parties existing as of the date of the merger agreement.

Indemnification and Insurance for Potomac Directors and Officers. The merger agreement provides for Bancorp's agreement to indemnify Potomac's officers and directors for acts or omissions occurring at or before the effective time of the merger to the extent that such indemnification is an obligation of Potomac under Potomac's articles of incorporation, bylaws or a separate indemnification agreement existing as of the date of the merger agreement. Bancorp also agreed to provide these officers and directors with directors' and officers' liability insurance in respect of such acts or omissions for six (6) years after the effective time of the merger, subject to certain limitations. See *Interests of Certain Persons in the Merger - Indemnification and Insurance* on page 52.

Registration Statement; Proxy Statement. Bancorp and Potomac agreed to cooperate in the preparation of a registration statement to register under the 1933 Act the shares of Bancorp common stock to be issued in the merger, which registration statement will include Potomac's proxy statement to solicit proxies for the approval of Potomac's shareholders of the merger agreement and the merger. Bancorp agreed to file the registration statement within 45 days after the date of the merger agreement (subject to its receipt of the necessary information from Potomac) and to use its reasonable efforts to cause the registration statement to become effective at the earliest practicable date.

Best Efforts Covenant. Bancorp and Potomac have agreed to use their best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to complete the merger and the other transactions contemplated by the merger agreement.

Other Covenants. The merger agreement contains additional covenants, including:

Potomac's agreement to:

- provide Bancorp with access to the premises, books, records and employees of Potomac and its subsidiaries; and
- provide RSM McGladrey, Inc. with satisfactory letters to permit RSM McGladrey, Inc. to deliver its opinion relating to the tax treatment of the merger,

Bancorp's agreement to:

- not take any actions that would cause its representations or warranties to become materially inaccurate;
- use its best efforts to cause the shares of Bancorp common stock to be issued as merger consideration to be listed on the Nasdaq Global Select Market; and
- file a Form S-8 registration statement to register Bancorp's issuance of shares of Bancorp common stock upon exercise of the Potomac options that are assumed in the merger,

mutual covenants relating to:

- cooperation regarding filings with governmental and other agencies and organizations;
- obtaining any governmental or third-party consents or approvals;
- public announcements;
- further assurances; and
- confidential treatment of non-public information.

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Termination of the Merger Agreement

The merger agreement may be terminated at any time before the effective time of the merger, whether before or after approval by Potomac's shareholders, in any of the following ways:

by mutual written agreement of Bancorp and Potomac;

by either Bancorp or Potomac, if:

the merger has not been consummated on or before April 15, 2007, except that neither Bancorp nor Potomac can terminate the merger agreement for this reason if the delay was caused by its failure to perform a material obligation under the merger agreement, Potomac's shareholders fail to give the necessary approval at a duly-held shareholders' meeting, or there is a permanent legal prohibition to completing the merger, or a required regulatory approval is denied by a final order;

by Bancorp if:

there is a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Potomac in the merger agreement that would cause either the condition requiring the absence of any material adverse change to Potomac or the condition requiring Potomac's representations and warranties to be materially accurate not to be satisfied and such condition is not satisfied within 30 days of such notice, Potomac fails to hold the meeting of Potomac's shareholders to approve the merger and adopt the merger agreement, Potomac's board of directors fails to make, withdraws, or modifies in a manner adverse to Bancorp, its approval or recommendation of the merger agreement to Potomac's shareholders, or Potomac enters into, or publicly announces its intention to enter into, a definitive agreement or agreement in principle with respect to a Superior Proposal,

or,

by Potomac if:

there is a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Bancorp in the merger agreement that would cause either the condition requiring the absence of any material adverse change to Bancorp or the condition requiring Bancorp's representations and warranties to be materially accurate not to be satisfied and such condition is not satisfied within 30 days of such notice;

Potomac's board of directors authorizes Potomac to enter into an agreement concerning a Superior Proposal, and

Potomac gives Bancorp at least 72 hours prior written notice of its intention to terminate and to accept a Superior Proposal,

Bancorp does not make during this period an offer that is at least as favorable to Potomac shareholders as the Superior Proposal, and

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Potomac pays to Bancorp a termination fee of \$2,520,000;

or,

the average closing price of Bancorp's common stock for the 10 consecutive trading days ending on the 10th calendar day immediately prior to the closing date is less than \$28.91 *and* Bancorp's common stock price has underperformed the Nasdaq Bank Index by 20% or more since October 10, 2006, provided that this termination right:

may only be exercised by Potomac during the three-day period beginning on the 10th calendar day prior to the closing date of the merger; and
is subject to Bancorp's right to increase the exchange ratio or increase the number of shares of Potomac common stock for which Bancorp will pay cash as merger consideration, in either case as necessary to cure either of the above described conditions, but this cure right is not available to the extent that it would jeopardize the tax-free nature of the stock portion of the merger consideration.

If the merger agreement is validly terminated, the agreement will become void without any liability on the part of any party unless the party is in willful breach of the merger agreement. However, the provisions of the merger agreement relating to non-solicitation of Takeover Proposals (until December 31, 2007), payment of expenses, payment of the termination fee and confidentiality will continue in effect notwithstanding termination of the merger agreement.

Termination Fee Payable by Potomac

Potomac has agreed to pay Bancorp a fee of \$2,520,000 if:

Bancorp terminates the merger agreement as a result of:

Potomac's failure to hold a meeting of its shareholders to approve the merger agreement and the merger;
the failure of Potomac's board to recommend to Potomac's shareholders the approval of the merger agreement and the merger; or
Potomac's entering into or its public announcement to enter into, a definitive agreement or an agreement in principle with respect to a Superior Proposal,

or,

Potomac terminates the merger agreement to enter into a written agreement concerning a Superior Proposal, but only after Potomac's compliance with its obligation to give Bancorp 72 hours advance written notice and Bancorp fails to make an offer that is at least as favorable to the shareholders of Potomac as the Superior Proposal during the 72 hour period.

Amendments

The merger agreement may be amended at any time prior to the effective time of the merger, before or after the approval of Potomac's shareholders, by an agreement in writing, executed in the same manner as the merger agreement and authorized or ratified by the boards of directors of Bancorp and Potomac, that expressly states an intention to amend the merger agreement. However, after the adoption of the merger agreement by Potomac's shareholders, no amendment of the merger agreement may change the amount or form of merger consideration or change a term or condition of the merger agreement if the applicable change would, alone or in the aggregate, materially adversely affect the shareholders of Potomac.

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Waivers and Extensions of Time

At any time prior to the effective time of the merger, each of Bancorp and Potomac may, to the extent legally permitted:

extend the time of performance of any of the obligations or other acts of the other party;
waive any inaccuracies in the representations and warranties of the other party contained in the merger agreement or contained in any other document delivered pursuant to the merger agreement; or
waive compliance by the other with any of the agreements or conditions contained in the merger agreement.

Any agreement by Bancorp or Potomac to any extension or waiver shall only be valid if set forth in a written instrument signed on behalf of the party against which such waiver or extension is to be enforced.

Expenses

The merger agreement provides that each of Bancorp and Potomac will pay its own expenses in connection with the transactions contemplated by the merger agreement, except that expenses incurred in connection with the printing and mailing of this proxy statement/prospectus and its filing with the SEC will be paid 75% by Bancorp and 25% by Potomac.

INTERESTS OF CERTAIN PERSONS IN THE MERGER

In considering the recommendation of Potomac's board of directors that Potomac shareholders vote in favor of the proposal to approve the merger agreement and the merger, Potomac shareholders should be aware that Potomac's directors and officers may have interests in the transactions contemplated by the merger agreement, including the merger, that may be different from, or in addition to, their interests as shareholders of Potomac. Potomac's board of directors was aware of these interests and took them into account in its decision to approve and adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger.

Options and Rights to Purchase Shares

As of the record date, Potomac's directors and officers owned, in the aggregate, options and other rights to purchase 157,485 shares of Potomac common stock under Potomac's equity compensation plans. At the election of Bancorp, in its sole discretion subject to any applicable limitations on such discretion that is contained in Potomac's equity compensation plans, each issued and outstanding option or right to purchase shares of Potomac common stock as of the effective date will either:

be terminated as of the effective time of the merger in exchange for a cash payment in an amount equal to the excess of the \$21.75 per share cash consideration over the per share exercise price of such option or right, subject to any required withholding of taxes, or
converted into an option to purchase shares of Bancorp common stock, which option will be subject to the same terms and conditions as such Potomac option or right, except that the number of shares underlying such option or right and the per share exercise price will be adjusted in accordance with the exchange ratio. See "The Merger Agreement Treatment of Potomac Options" on page 40.

Change in Control Payments

Potomac currently has employment agreements with each of G. Lawrence Warren, its president and chief executive officer, and Craig S. Underhill, its senior vice president and chief loan officer, and change in control agreements with each of Richard C. Stonbraker, its senior vice president and chief compliance officer, Patricia A. Ferrick, its senior

vice president and chief financial officer, and Stephanie H. Ogle, Potomac's senior vice president and chief administrative officer. These agreements contain a change of control provision and, for the purpose of such agreements, the completion of the merger will constitute a change of control of Potomac. The employment agreements and change of control agreements generally provide that if a change of control of Potomac occurs *and* the employee is either terminated without cause or terminates its employment for good reason, (as these terms are defined in the agreements), generally within six months prior to a change in control or within two years after a change of control, the employee is entitled to a payment that is equal to a multiple, ranging from 1.0 to 2.99 times the full amount of the employee's annual base salary and any other benefits which the employee was entitled to at the time of the termination.

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Notwithstanding the foregoing, in the merger agreement Bancorp agreed to pay to each of the Potomac officers named above, at the effective time, the change of control payments described above. Under the merger agreement these payments will be reduced to the extent they are subject to the excise tax under 280G of the Internal Revenue Code. In addition, the timing of the payment of these amounts is subject to Section 409A of the Internal Revenue Code. The amounts of these change of control payments are set forth under the section entitled "The Merger Agreement - Change of Control Payments" on page 41.

Employment Agreement of G. Lawrence Warren

G. Lawrence Warren, the president and chief executive officer of Potomac, entered into an agreement with SSB that will become effective upon, and is contingent upon, the closing of the merger. The employment agreement provides that Mr. Warren will be employed as the president of the Potomac division of SSB for a period that initially expires on December 31, 2007, subject to a mutual option for Mr. Warren and SSB to extend the term until December 31, 2008. Mr. Warren will be entitled to a base salary of \$190,000 and will be eligible to participate in discretionary bonuses that SSB's board of directors may award from time to time to senior management employees. Mr. Warren will also participate in any other fringe benefits available to other senior management employees of SSB.

SSB may terminate Mr. Warren's employment agreement with or without just cause, upon Mr. Warren's death or disability or upon the occurrence of certain regulatory events. Mr. Warren may terminate the employment agreement by giving at least 60 days prior written notice to SSB. Upon termination of the agreement by Mr. Warren or by SSB for just cause or due to Mr. Warren's death or disability, Mr. Warren is bound by the confidentiality provisions of the employment agreement and, for the otherwise remaining term of the agreement, the non-competition covenant of the employment agreement. The non-competition covenant does not apply in the event of a termination of Mr. Warren's employment that results from a change in control of SSB.

Indemnification and Insurance

The merger agreement provides that Bancorp will, by operation of law, at the effective time, assume any and all legally enforceable obligations of Potomac to indemnify and defend the directors and officers of Potomac pursuant to, to the extent of, and in accordance with the terms and conditions of any such obligations that Potomac had to indemnify and defend such persons in effect immediately prior to the effective time, in connection with such persons' status or services as directors and officers of Potomac, whether by contractual right or by any provision of Potomac's articles of incorporation and bylaws, with respect to any claim asserted or made prior to or at any time after the effective time. However, the merger agreement does not increase or lengthen the duration of Bancorp's obligations over that to which Potomac would have been subject had the merger not been consummated. Bancorp and SSB agreed to use their best efforts to maintain in effect for six years after the effective time of the merger, if available, the current directors' and officers' liability insurance policy maintained by Potomac with respect to matters occurring prior to the effective time. Bancorp or SSB will not be required to expend more than the amount per year equal to 150% of the current annual amount expended by Bancorp and SSB to maintain or procure such insurance coverage.

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Board of Directors of Bancorp

As of the effective date of the merger, Bancorp will, by increasing the size of its board of directors, appoint Marshall H. Groom as a director of Bancorp. In connection with the next annual stockholders meeting of Bancorp following the effective time of the merger, Bancorp agreed to nominate Mr. Groom for re-election as a director of Bancorp and agreed to nominate William F. Roeder, Jr., a current director of Potomac, for election as a director of Bancorp.

DESCRIPTION OF BANCORP CAPITAL STOCK

Authorized Capital Stock

Bancorp is authorized to issue 50,000,000 shares of capital stock, par value \$1.00 per share, all of which were initially designated as common stock. Bancorp's board of directors may reclassify unissued shares of Bancorp's capital stock by setting or changing in any one or more respects the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions and dividends, qualifications or terms or conditions of redemption of such shares of stock. As of December 20, 2006:

14,810,474 shares of Bancorp common stock were issued and outstanding;
no unissued shares of Bancorp common stock had been reclassified as preferred stock; and
options or other rights to purchase an aggregate of 897,681 shares of Bancorp common stock were outstanding under Bancorp's equity compensation plans (not including shares issuable under Bancorp's dividend reinvestment plan).

Bancorp Common Stock

Bancorp Common Stock Outstanding. The outstanding shares of Bancorp common stock are, and the shares of Bancorp common stock issuable in the merger will be, duly authorized, validly issued, fully paid and nonassessable.

Voting Rights. Each share of Bancorp common stock is entitled to one vote, and except as otherwise provided in respect of any Bancorp preferred stock, the exclusive voting power for all purposes is vested in the holders of Bancorp common stock. Shares of Bancorp common stock are not entitled to cumulative voting rights.

Dividend Rights. Subject to applicable law and any preferential dividend rights granted to the holders of any shares of Bancorp preferred stock that may at the time be outstanding, holders of Bancorp common stock are entitled to receive dividends at such time and in such amounts as Bancorp's board of directors may deem advisable. The principal source of funds for any dividends that may be paid by Bancorp to holders of Bancorp common stock are dividends that Bancorp receives from its subsidiaries. The payment of dividends by such subsidiaries to Bancorp is subject to applicable state and federal law restrictions as well as to the laws of the subsidiary's state of incorporation.

Rights Upon Liquidation. Holders of shares of Bancorp common stock are entitled to share ratably, upon any liquidation, dissolution or winding up of Bancorp, whether voluntary or involuntary, in the remaining net assets of Bancorp available for distribution to stockholders after payment or provision for payment of the debts and other liabilities of Bancorp and the amount to which the holders of any shares of outstanding Bancorp preferred stock may be entitled.

Preemptive Rights. Holders of shares of Bancorp common stock have no preemptive right to purchase, subscribe for or otherwise acquire any unissued or treasury shares or other securities of Bancorp.

Transfer Agent

American Stock Transfer & Trust Co. is the transfer agent and registrar for the shares of Bancorp common stock.

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Stock Exchange Listing

Bancorp's common stock is listed on the Nasdaq Global Select Market. It is a condition to Potomac's obligation to consummate the merger that the shares of Bancorp common stock issuable in the merger be approved for listing on the Nasdaq Global Select Market, subject to official notice of issuance.

[Back to Contents](#)**COMPARATIVE STOCK PRICES AND DIVIDENDS**

Bancorp's common stock is listed on the Nasdaq Global Select Market under the symbol SASR. Potomac's common stock is quoted on the OTC Bulletin Board under the symbol PBOV. The following table sets forth, for the periods indicated, the high and low sales prices per share for Bancorp's common stock and the high and low bid prices for Potomac common stock as reported on the NASDAQ Global Select Market, with respect to Bancorp, and the OTC Bulletin Board, with respect to Potomac, and the cash dividends declared per share for Bancorp. The information listed below reflects interdealer prices, without retail markup, markdown or commissions, and may not represent actual transactions.

	Bancorp			Potomac		
	High	Low	Cash Dividend	High	Low	Cash Dividend
Quarter Ended:						
September 30, 2006	\$37.58	\$34.05	\$ 0.22	\$19.00	\$17.31	
June 30, 2006	37.85	33.88	0.22	19.00	15.25	
March 31, 2006	37.99	33.59	0.22	16.00	12.50	
Quarter Ended:						
December 31, 2005	38.55	31.54	0.22	12.92		