UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008
or

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

The Savannah Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Georgia	**0-18560**	**58-1861820**
State of Incorporation	SEC File Number	Tax I.D. Number

25 Bull Street, Savannah, Georgia 31401
(Address of principal executive offices) (Zip Code)

912-629-6486
(Registrant's telephone number, including area code)

[None]
(Former name, former address and former fiscal year,
if changed since last report.)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer [ ]

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Class	Outstanding as of October 31, 2008
Common stock, $1.00 par value per share	**5,933,789**

THE SAVANNAH BANCORP, INC. AND SUBSIDIARIES
Form 10-Q Index
September 30, 2008

Part I – Financial Information
Item 1. Financial Statements

THE SAVANNAH BANCORP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
($ in thousands, except share data)

	September 30, 2008	December 31, 2007	September 30, 2007
Assets	**(Unaudited)**		(Unaudited)
Cash and due from banks	**$ 14,968**	$ 12,721	$ 16,211
Federal funds sold	**11,570**	4,435	6,747
Interest-bearing deposits in banks	**4,221**	20,148	2,073
Cash and cash equivalents	**30,759**	37,304	25,031
Securities available for sale, at fair value (amortized cost of $61,200, $60,241 and $62,192, respectively)	**61,803**	61,057	62,171
Loans held for sale	**326**	180	41
Loans, net of allowance for loan losses of $12,390, $12,864 and $9,842, respectively	**842,057**	795,787	768,420
Premises and equipment, net	**11,196**	6,830	6,525
Other real estate owned	**6,168**	2,112	1,152
Bank-owned life insurance	**6,160**	5,985	5,926
Goodwill and other intangible assets, net	**2,678**	2,806	2,773
Other assets	**20,194**	20,398	17,157
Total assets	**$ 981,341**	$ 932,459	$ 889,196
Liabilities			
Deposits:			
Noninterest-bearing	**$ 86,290**	$ 88,503	$ 90,342
Interest-bearing demand	**118,951**	127,902	107,879
Savings	**14,572**	16,168	17,043
Money market	**186,659**	176,615	188,947
Time deposits	**397,011**	355,030	341,667
Total deposits	**803,483**	764,218	745,878
Short-term borrowings	**67,782**	70,599	48,453
Federal Home Loan Bank advances – long-term	**11,756**	2,973	3,058
Subordinated debt to nonconsolidated subsidiaries	**10,310**	10,310	10,310
Other liabilities	**8,415**	8,087	6,333
Total liabilities	**901,746**	856,187	814,032
Shareholders' equity			
Preferred stock, par value $1 per share: authorized 10,000,000 shares, none issued	-	-	-
Common stock, par value $1 per share: authorized 20,000,000 shares; issued 5,933,789, 5,923,797 and 5,916,797 shares, respectively	**5,934**	5,924	5,917
Additional paid-in capital	**38,496**	38,279	38,260
Retained earnings	**33,514**	30,512	30,870
Treasury stock, 318 shares in 2008 and 2007	**(4)**	(4)	(4)
Accumulated other comprehensive income, net	**1,655**	1,561	121
Total shareholders' equity	**79,595**	76,272	75,164
Total liabilities and shareholders' equity	**$ 981,341**	$ 932,459	$ 889,196

The accompanying notes are an integral part of these consolidated financial statements.

THE SAVANNAH BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Income
($ in thousands, except per share data)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	**2008**	2007
Interest and dividend income				
Loans, including fees	**$ 13,333**	$ 15,196	**$ 40,991**	$ 44,420
Loans held for sale	**20**	15	**52**	84
Investment securities:				
Taxable	**665**	717	**2,016**	1,901
Tax-exempt	**23**	21	**67**	72
Dividends	**34**	56	**181**	167
Deposits with banks	**30**	44	**131**	245
Federal funds sold	**31**	130	**117**	426
Total interest and dividend income	**14,136**	16,179	**43,555**	47,315
Interest expense				
Deposits	**5,391**	6,963	**16,873**	19,534
Short-term borrowings	**269**	647	**1,289**	1,889
Federal Home Loan Bank advances	**82**	48	**214**	367
Subordinated debt	**143**	213	**471**	629
Total interest expense	**5,885**	7,871	**18,847**	22,419
Net interest income	**8,251**	8,308	**24,708**	24,896
Provision for loan losses	**1,505**	635	**3,730**	1,530
Net interest income after provision for loan losses	**6,746**	7,673	**20,978**	23,366
Noninterest income				
Trust and asset management fees	**713**	379	**2,157**	744
Service charges on deposit accounts	**513**	339	**1,434**	1,034
Mortgage related income, net	**86**	141	**235**	517
Other operating income	**726**	305	**1,616**	928
Loss on sale of OREO	**(17)**	-	**(1)**	(6)
Gain on sale of securities	**-**	-	**134**	-
Total noninterest income	**2,021**	1,164	**5,575**	3,217
Noninterest expense				
Salaries and employee benefits	**3,479**	2,919	**10,441**	8,721
Occupancy and equipment	**967**	796	**2,766**	2,336
Information technology	**424**	388	**1,212**	1,194
Other operating expense	**1,364**	1,073	**4,116**	3,099
Total noninterest expense	**6,234**	5,176	**18,535**	15,350
Income before income taxes	**2,533**	3,661	**8,018**	11,233
Income tax expense	**895**	1,280	**2,790**	3,950
Net income	**$ 1,638**	$ 2,381	**$ 5,228**	$ 7,283
Net income per share:				
Basic	**$ 0.28**	$ 0.41	**$ 0.88**	$ 1.25
Diluted	**$ 0.28**	$ 0.40	**$ 0.88**	$ 1.23
Dividends per share	**$ 0.125**	$ 0.120	**$ 0.375**	$ 0.360

The accompanying notes are an integral part of these consolidated financial statements.

THE SAVANNAH BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Shareholders' Equity
($ in thousands, except share data)
(Unaudited)

	For the Nine Months Ended September 30, 2008	2007
Common shares issued		
Shares, beginning of period	**5,923,797**	5,781,381
Common stock issued	**6,211**	71,000
Exercise of options	**3,781**	64,416
Shares, end of period	**5,933,789**	5,916,797
Treasury shares owned		
Shares, beginning of period	**318**	318
Shares issued from treasury shares	**-**	-
Shares, end of period	**318**	318
Common stock		
Balance, beginning of period	**$ 5,924**	$ 5,781
Common stock issued	**6**	71
Exercise of options	**4**	65
Balance, end of period	**5,934**	5,917
Additional paid-in capital		
Balance, beginning of period	**38,279**	35,747
Common stock issued, net of issuance costs	**68**	1,709
Stock-based compensation, net	**117**	121
Exercise of options	**32**	683
Balance, end of period	**38,496**	38,260
Retained earnings		
Balance, beginning of period	**30,512**	25,681
Net income	**5,228**	7,283
Dividends	**(2,226)**	(2,094)
Balance, end of period	**33,514**	30,870
Treasury stock		
Balance, beginning and end of period	**(4)**	(4)
Accumulated other comprehensive income (loss), net		
Balance, beginning of period	**1,561**	(631)
Change in unrealized gains/losses on securities available for sale, net of tax	**(133)**	139
Change in fair value of derivative instruments, net of tax	**227**	613
Balance, end of period	**1,655**	121
Total shareholders' equity	**$ 79,595**	$ 75,164
Other comprehensive income, net		
Net income	**$ 5,228**	$ 7,283
Change in unrealized gains/losses on securities available for sale, net of tax	**(133)**	139
Change in fair value of derivative instruments, net of tax	**227**	613
Other comprehensive income, net	**$ 5,322**	$ 8,035

The accompanying notes are an integral part of these consolidated financial statements.

THE SAVANNAH BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
($ in thousands)
(Unaudited)

	For the Nine Months Ended September 30, 2008	2007
Operating activities		
Net income	**$ 5,228**	$ 7,283
Adjustments to reconcile net income to cash		
provided by operating activities:		
Provision for loan losses	**3,730**	1,530
Loans originated for sale	**(10,168)**	(21,997)
Proceeds from sale of loans originated for sale	**10,069**	22,986
Net accretion of securities	**(94)**	(80)
Depreciation and amortization	**875**	752
Amortization of client list	**108**	12
Stock-based compensation expense	**117**	123
Accretion of gain on termination of derivatives	**(1,194)**	-
Decrease (increase) in deferred income taxes, net	**586**	(326)
Gain on sale of loans, net	**(47)**	(116)
Gain on sale of securities	**(134)**	-
Write-down of other real estate owned	**86**	-
Loss on sales of foreclosed assets	**1**	6
Equity in net income of nonconsolidated subsidiary	**(68)**	(69)
Increase in CSV of bank-owned life insurance policies	**(175)**	(166)
Proceeds from termination of derivatives	**2,369**	-
Change in other assets and other liabilities, net	**288**	1,910
Net cash provided by operating activities	**11,577**	11,848
Investing activities		
Activity in available for sale securities		
Purchases	**(21,015)**	(22,660)
Sales	**4,168**	-
Maturities and calls	**16,116**	14,710
Loan originations and principal collections, net	**(50,000)**	(57,986)
Purchase of other real estate owned	**(5,311)**	(805)
Proceeds from sale of foreclosed assets	**1,168**	192
Investment in consolidated subsidiary	**-**	(1,875)
Additions to premises and equipment	**(5,241)**	(912)
Net cash used in investing activities	**(60,115)**	(69,336)
Financing activities		
Net decrease in noninterest-bearing deposits	**(2,213)**	(10,814)
Net increase in interest-bearing deposits	**41,478**	49,868
Net (decrease) increase in short-term borrowings		
To repurchase and federal funds purchased	**(2,817)**	7,766
Net increase (decrease) in FHLB advances	**8,783**	(10,251)
Payment on note payable	**(1,122)**	-
Dividends paid	**(2,226)**	(2,094)
Issuance of common stock	**74**	-
Exercise of options	**36**	747
Net cash provided by financing activities	**41,993**	35,222
Decrease in cash and cash equivalents	**(6,545)**	(22,266)
Cash and cash equivalents, beginning of period	**37,304**	47,297
Cash and cash equivalents, end of period	**$ 30,759**	$ 25,031

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements of The Savannah Bancorp, Inc. (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Securities and Exchange Commission (“SEC”) Form 10-Q and Article S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine month period ended September 30, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and footnotes thereto, included in the Company's annual report on Form 10-K for the year ended December 31, 2007. Certain prior period balances and formats have been reclassified to conform to the current period presentation.

The September 30, 2008 financial statements include the operations of Minis & Co., Inc. (“Minis”), a registered investment advisor, whose net assets were acquired as of the close of business on August 31, 2007.

Note 2 - Acquisitions

The Company acquired all of the net assets of Minis as of August 31, 2007. The net assets of Minis were incorporated into a new, wholly-owned subsidiary of the Company which will continue to operate under the name of Minis & Co., Inc. The acquisition was accounted for using the purchase method of accounting, and accordingly, the results of Minis’ operations have been included in the consolidated financial statements beginning September 1, 2007. Minis is a registered investment advisor based in Savannah, Georgia, offering a full line of investment management services. Minis’ assets under management at September 1, 2007 were approximately $500 million.

The aggregate purchase price was $3.80 million, consisting of 71,000 shares of the Company’s common stock valued at $1.78 million, $1.853 million in cash, net of $118,000 in cash received at closing, and approximately $48,000 in direct acquisition costs, primarily consisting of external legal and accounting fees. The value of the common shares issued was determined based on the average market price of the Company’s common stock on the day before and the day on which the terms of the acquisition were publicly announced.

The terms of the asset purchase agreement provide for contingent earn-out consideration to the former Minis shareholders. Such consideration will be based on actual revenue earned from existing clients at August 31, 2007 as compared to a target level of revenues through June 30, 2010. Based on the assumptions at the time the asset purchase agreement was executed, the Company expected that the aggregate contingent consideration, including interest, would be approximately $2.2 million payable as near as practicable to the June 30, 2010 determination date. However, Minis’ failure to generate revenue at the agreed upon targeted level or above will result in lower contingent consideration paid to the former Minis shareholders.

Note 2 - Acquisitions (continued)

The purchase price allocation relating to the Minis acquisition was as follows:

($ in thousands)	September 1, 2007
Assets acquired	
Cash	$ 118
Accounts receivable	53
Premises and equipment	85
Prepaid expense	4
Deferred income tax benefits	876
Intangible assets	1,400
Goodwill, net of tax benefits	1,435
Total assets acquired	3,971
Liabilities assumed	
Unearned revenue	171
Total liabilities assumed	171
Net assets acquired	$ 3,800

Of the $2.835 million of acquired intangible assets, $1.435 million was allocated to goodwill and $1.4 million to identifiable intangible assets (customer contracts). The customer contracts have an estimated weighted-average useful life of 10 years. The goodwill and the customer contracts intangible assets will be deductible for tax purposes over a 15-year period. Any additional earn-out consideration to be paid will be accounted for as additional purchase price under the terms of the agreement and will be added to goodwill when determined to be payable.

Russell W. Carpenter, a shareholder of Minis who owned 40 percent of its shares, has served as a director of the Company since 1989 and expects to continue in such role until April 2010.

Note 3 - Restrictions on Cash and Demand Balances Due from Banks and Interest-Bearing Bank Balances

The Savannah Bank, N.A., Bryan Bank & Trust and Harbourside Community Bank (collectively referred to as the "Subsidiary Banks") are required by the Federal Reserve Bank to maintain minimum cash reserves based on reserve requirements calculated on their deposit balances. Cash reserves of $449,000, $469,000 and $689,000 were required as of September 30, 2008, December 31, 2007 and September 30, 2007, respectively. The Company pledged interest-bearing cash balances at the Federal Home Loan Bank of Atlanta ("FHLB") in lieu of investment securities to secure public fund deposits and securities sold under repurchase agreements. Pledged cash balances were $3,300,000, $18,500,000 and $500,000 at September 30, 2008, December 31, 2007 and September 30, 2007, respectively.

Note 4 - Earnings Per Share

Basic earnings per share represent net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options, and are determined using the treasury stock method. Earnings per common share have been computed based on the following:

	For the Three Months Ended September 30,		**For the Nine Months Ended September 30,**	
(Amounts in thousands)	**2008**	2007	**2008**	2007
Average number of common shares outstanding - basic	**5,930**	5,862	**5,929**	5,823
Effect of dilutive options	**13**	66	**20**	82
Average number of common shares outstanding - diluted	**5,943**	5,928	**5,949**	5,905

Note 5 - Fair Value

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In October of 2008, the Financial Accounting Standards Board ("FASB") issued Staff Position No. 157-3 to clarify the application of SFAS 157 in a market that is not active and to provide key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The statement describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value.

Investment securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

Loans held for sale: The fair value of loans held for sale is determined, when possible, using quoted secondary-market prices. If no such quoted price exists, the fair value of a loan is determined using quoted prices for a similar asset or assets, adjusted for the specific attributes of that loan.

Impaired loans: Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable. Its fair value is generally determined based on real estate appraisals or other independent evaluations by qualified professionals. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

Derivative instruments: Our derivative instruments consist of interest rate floors and caps and/or collars. As such, significant fair value inputs can generally be verified and do not typically involve significant judgments by management.

Assets and liabilities measured at fair value under SFAS 157 on a recurring basis are summarized below:

		Fair Value Measurements at September 30, 2008 Using		
($ in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Investment securities	$ 61,803	$ -	$ 61,803	$ -
Loans held for sale	326	-	326	-
Impaired loans	17,753	-	-	17,753
Derivative asset positions	1,154	-	1,154	-

Note 6 - Recent Accounting Pronouncements

On February 15, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159") which permits companies to report selected financial assets and liabilities at fair value. Subsequent unrealized gains and losses on those items will be reported in earnings. SFAS 159 also requires entities to display the fair value of those assets and liabilities for which the entity has chosen to use fair value on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements included in other accounting standards. SFAS 159 is effective for fiscal years beginning after November 15, 2007. As the Company did not elect to apply SFAS 159 to any of its existing eligible items as of January 1, 2008, the adoption of SFAS 159 did not have an impact on the Company's financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

The Company may, from time to time, make written or oral "forward-looking statements," including statements contained in the Company's filings with the SEC (including this quarterly report on Form 10-Q) and in its reports to shareholders and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

This MD&A and other Company communications and statements may contain "forward-looking statements." These forward-looking statements may include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and which may change based on various factors, many of which are beyond our control. The words "may," "could," "should," "would," "will," "believe," "anticipate," "estimate," "expect," "intend," "indicate," "plan" and similar words are intended to identify expressions of the future. These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; inflation, interest rates, market and monetary fluctuations; competitors' products and services; technological changes; acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exhaustive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Overview

For a comprehensive presentation of the Company's financial condition at September 30, 2008 and 2007 and results of operations for the three and nine month periods ended September, 2008 and 2007, the following analysis should be reviewed with other information including the Company's December 31, 2007 Annual Report on Form 10-K and the Company's Condensed Consolidated Financial Statements and the Notes thereto included in this report.

THE SAVANNAH BANCORP, INC. AND SUBSIDIARIES
Third Quarter Financial Highlights
($ in thousands, except share data)
(Unaudited)

Balance Sheet Data at September 30	**2008**		2007		% Change
Total assets	**$ 981,341**		$ 889,196		*10*
Interest-earning assets	**914,010**		844,287		*8.3*
Loans	**854,447**		778,262		*9.8*
Allowance for loan losses	**12,390**		9,842		*26*
Nonaccruing loans	**17,753**		5,028		*NM*
Loans past due 90 days – accruing	**4,274**		1,728		*NM*
Other real estate owned	**6,168**		1,152		*NM*
Net charge-offs	**4,204**		642		*NM*
Deposits	**803,483**		745,878		*7.7*
Interest-bearing liabilities	**807,041**		717,357		*13*
Shareholders' equity	**79,595**		75,164		*5.9*
Allowance for loan losses to total loans	**1.45**	%	1.26	%	*15*
Nonperforming assets to total loans and OREO	**3.28**	%	1.02	%	*NM*
Loan to deposit ratio	**106.34**	%	104.34	%	*1.9*
Equity to assets	**8.11**	%	8.45	%	*(4.0)*
Tier 1 capital to risk-weighted assets	**10.32**	%	11.04	%	*(6.5)*
Total capital to risk-weighted assets	**11.58**	%	12.29	%	*(5.8)*
Outstanding shares	**5,934**		5,917		*0.3*
Book value per share	**$ 13.41**		$ 12.70		*5.6*
Tangible book value per share	**$ 12.96**		$ 12.23		*6.0*
Market value per share	**$ 13.25**		$ 24.69		*(46)*

Performance Data for the Third Quarter					
Net income	**$ 1,638**		$ 2,381		*(31)*
Return on average assets	**0.68**	%	1.08	%	*(37)*
Return on average equity	**8.24**	%	13.04	%	*(37)*
Net interest margin	**3.63**	%	3.95	%	*(8.1)*
Efficiency ratio	**60.69**	%	54.65	%	*11*
Per share data:					
Net income – basic	**$ 0.28**		$ 0.41		*(32)*
Net income – diluted	**$ 0.28**		$ 0.40		*(30)*
Dividends	**$ 0.125**		$ 0.120		*4.2*
Average shares (000s):					
Basic	**5,930**		5,862		*1.2*
Diluted	**5,943**		5,928		*0.3*

Performance Data for the First Nine Months					
Net income	**$ 5,228**		$ 7,283		*(28)*
Return on average assets	**0.74**	%	1.14	%	*(35)*
Return on average equity	**8.88**	%	13.94	%	*(36)*
Net interest margin	**3.70**	%	4.08	%	*(9.3)*
Efficiency ratio	**61.21**	%	54.60	%	*12*
Per share data:					
Net income – basic	**$ 0.88**		$ 1.25		*(30)*
Net income – diluted	**$ 0.88**		$ 1.23		*(28)*
Dividends	**$ 0.375**		$ 0.360		*4.2*
Average shares (000s):					
Basic	**5,929**		5,823		*1.8*
Diluted	**5,949**		5,905		*0.7*

Introduction

Management's Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) provides supplemental information, which sets forth the major factors that have affected the Company's financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements and related notes. The MD&A is divided into subsections entitled:

Introduction
Critical Accounting Estimate
Results of Operations
Financial Condition and Capital Resources
Liquidity and Interest Rate Sensitivity Management
Off-Balance Sheet Arrangements

These discussions should facilitate a better understanding of the major factors and trends that affect the Company's earnings performance and financial condition and how the Company's performance during the three and nine month periods ended September 30, 2008 compared with the same periods in 2007. Throughout this section, The Savannah Bancorp, Inc., and its subsidiaries, collectively, are referred to as "SAVB" or the "Company." The Savannah Bank, N.A. is referred to as "Savannah," Bryan Bank & Trust is referred to as “Bryan” and Harbourside Community Bank is referred to as “Harbourside.” Minis & Co., Inc. is referred to as “Minis.” The operations of Minis, a registered investment advisor and wholly-owned subsidiary, are included beginning September 1, 2007. The Company formed a new subsidiary, SAVB Holdings, LLC (“SAVB Holdings”), in the third quarter 2008 for the purpose of holding problem loans and other real estate. Collectively, Savannah, Bryan and Harbourside are referred to as the “Subsidiary Banks.”

The averages used in this report are based on the sum of the daily balances for each respective period divided by the number of days in the reporting period.

The Company is headquartered in Savannah, Georgia and, as of September 30, 2008, had ten banking offices and twelve ATMs in Savannah and surrounding Chatham County, Georgia, Richmond Hill, Georgia and Hilton Head Island and Bluffton, South Carolina. In the third quarter 2008 Bryan opened its second office in Richmond Hill. The Company also relocated its regional banking operations center to this facility from previously leased space. The Company also has mortgage lending offices in Savannah, Richmond Hill and Hilton Head Island and an investment management office in Savannah. In addition, the Company has hired lenders in the Brunswick/St. Simons Island, Georgia market and opened a loan production office during the third quarter 2008.

Savannah and Bryan are in the relatively diverse, stable and growing Savannah Metropolitan Statistical Area. The diversity of major employers includes manufacturing, port related transportation, construction, military, healthcare, tourism, education, warehousing and the supporting services and products for each of these major employers. The real estate market is experiencing moderate government and commercial growth and slower residential growth. Coastal Georgia and South Carolina continue to be desired retiree residential destinations.

Harbourside specifically targets real estate lending and related full service banking opportunities in the coastal South Carolina market. During 2006 and 2007, the business strategy changed resulting in a significant reduction in the sale of loans on a servicing retained basis.

The primary risks to the Company include those disclosed in Item 1A in the Company’s Annual Report on Form 10-K for December 31, 2007.

The primary strategic objectives of the Company are growth in loans, deposits, product lines and service quality in existing markets, and quality expansion into new markets, within acceptable risk parameters, which result in enhanced shareholder value.

Critical Accounting Estimate – Allowance for Loan Losses

The Company considers its policies regarding the allowance for loan losses to be its most critical accounting estimate due to the significant degree of management judgment involved. The allowance for loan losses is established through charges in the form of a provision for loan losses based on management's continuous evaluation of the loan portfolio. Loan losses and recoveries are charged or credited directly to the allowance. The amount of the allowance reflects management's opinion of an adequate level to absorb loan losses inherent in the loan portfolio at September 30, 2008. The amount charged to the provision and the level of the allowance is based on management's judgment and is dependent upon growth in the loan portfolio, the total amount of past due loans and nonperforming loans, known loan deteriorations and concentrations of credit. Other factors affecting the allowance are market interest rates, average loan size, portfolio maturity and composition, collateral values and general economic conditions. Finally, management's assessment of probable losses, based upon internal credit grading of the loans and periodic reviews and assessments of credit risk associated with particular loans, is considered in establishing the allowance amount.

No assurance can be given that the Company will not sustain loan losses which would be sizable in relationship to the amount reserved or that subsequent evaluation of the loan portfolio, in light of conditions and factors then prevailing, will not require significant changes in the allowance for loan losses by future charges or credits to earnings. The allowance for loan losses is also subject to review by various regulatory agencies through their periodic examinations of the Subsidiary Banks. Such examinations could result in required changes to the allowance for loan losses.

The allowance for loan losses totaled $12,390,000, or 1.45 percent of total loans, at September 30, 2008. This is compared to an allowance of $12,864,000, or 1.59 percent of total loans, at December 31, 2007. For the nine months ended September 30, 2008, the Company reported net charge-offs of $4,204,000 compared to net charge-offs of $642,000 for the same period in 2007. The significantly higher level of charge-offs resulted primarily from nonperforming residential real estate-related loans in the Hilton Head Island / Bluffton, South Carolina area. In addition when SAVB Holdings was formed the loans sold to the new entity were marked to market through a charge to the allowance for loan losses.

During the first nine months of 2008 and 2007, a provision for loan losses of $3,730,000 and $1,530,000, respectively, was added to the allowance for loan losses. Growth in the loan portfolio, loan losses, a continued weak residential real estate market, level or declining real estate values and tighter credit markets provide the primary basis for the higher provision for loan losses.

If the allowance for loan losses had changed by five percent, the effect on net income would have been approximately $405,000. If the allowance had to be increased by this amount, it would not have changed the holding company or the Subsidiary Banks' status as well-capitalized financial institutions.

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The following table provides historical information regarding the allowance for loan losses and nonperforming loans and assets for the most recent five quarters ended September 30, 2008.

The Savannah Bancorp, Inc. and Subsidiaries
Allowance for Loan Losses and Nonperforming Loans
(Unaudited)

	2008			2007	
($ in thousands)	**Third Quarter**	Second Quarter	First Quarter	Fourth Quarter	Third Quarter
Allowance for loan losses					
Balance at beginning of period	**$ 12,445**	$ 12,128	$ 12,864	$ 9,842	$ 9,517
Provision for loan losses	**1,505**	1,155	1,070	3,145	635
Net charge-offs	**(1,560)**	(838)	(1,806)	(123)	(310)
Balance at end of period	**$ 12,390**	$ 12,445	$ 12,128	$ 12,864	$ 9,842
As a % of loans	**1.45%**	1.48%	1.45%	1.59%	1.26%
As a % of nonperforming loans	**56.25%**	66.61%	69.26%	73.83%	145.68%
As a % of nonperforming assets	**43.94%**	59.18%	62.08%	65.85%	124.46%
Net charge-offs as a % of average loans (a)	**0.75%**	0.40%	0.90%	0.07%	0.17%
Risk element assets					
Nonaccruing loans	**$ 17,753**	$ 16,991	$ 16,915	$ 14,663	$ 5,028
Loans past due 90 days – accruing	**4,274**	1,693	596	2,761	1,728
Total nonperforming loans	**22,027**	18,684	17,511	17,424	6,756
Other real estate owned	**6,168**	2,346	2,025	2,112	1,152
Total nonperforming assets	**$ 28,195**	$ 21,030	$ 19,536	$ 19,536	$ 7,908
Loans past due 30-89 days	**$ 8,841**	$ 6,528	$ 11,014	$ 4,723	$ 5,302
Nonperforming loans as a % of loans	**2.58%**	2.22%	2.10%	2.24%	0.87%
Nonperforming assets as a % of loans and other real estate owned	**3.28%**	2.50%	2.33%	2.51%	1.01%
Nonperforming assets as a % of capital (b)	**30.65%**	23.13%	21.47%	21.92%	9.30%

(a) Annualized
(b) Capital includes the allowance for loan losses

Impaired loans under Statement of Financial Accounting Standards No. 114 were all on nonaccrual status and totaled $17,753,000 and $14,663,000 at September 30, 2008 and December 31, 2007, respectively.

Nonperforming assets include a single residential property of approximately $4.0 million that was added in the third quarter 2008. The Company does not expect any loss on this property. In addition, the Company had approximately $2.2 million of other real estate that was under contract at September 30, 2008 and sold subsequent to quarter-end without significant loss.

Results of Operations

Third Quarter, 2008 Compared to the Third Quarter, 2007

Net income for the third quarter 2008 was $1,638,000, down from $2,381,000 in the third quarter 2007, a decrease of 31 percent. Net income per diluted share was 28 cents in the third quarter 2008 compared to 40 cents per share in the third quarter 2007, a decrease of 30 percent. The decline in third quarter earnings results primarily from a higher provision for loan losses. Return on average equity was 8.24 percent, return on average assets was 0.68 percent and the efficiency ratio was 60.69 percent in the third quarter 2008. Third quarter 2008 earnings include the net income derived from the previously announced acquisition of Minis on August 31, 2007.

Third quarter average interest-earning assets increased 7.6 percent to $902 million in 2008 from $838 million in 2007. Third quarter net interest income was $8,251,000 in 2008 compared to $8,308,000 in 2007, a decrease of $57,000. Third quarter average loans were $830 million in 2008, 9.2 percent higher when compared to $760 million in 2007. Third quarter net interest margin decreased to 3.63 percent in 2008 from 3.95 percent in the same period in 2007. The prime rate decreased from 7.75 percent to 5.00 percent during the twelve month period ended September 30, 2008. As shown in Table 2, the decline in net interest margin was primarily due to the decline in noninterest-bearing deposits over the last 12 months and higher levels of noninterest-earning assets.

As shown in Table 1, the Company's balance sheet is asset-sensitive since the interest-earning assets reprice faster than interest-bearing liabilities. Deposit pricing in the Savannah and Bryan markets has also been impacted by new entrants into the market paying special deposit rates that are significantly higher than market deposit rates. Additionally, as a new entrant in its market, Harbourside continues to incur higher than market deposit rates.

Third quarter provision for loan losses was $1,505,000 for 2008, compared to $635,000 for the comparable period in 2007. Third quarter net charge-offs were $1,560,000 for 2008 compared to $310,000 in the same quarter in 2007. Third quarter loan growth was $16 million in 2008 compared to $26 million in loan growth in the third quarter 2007. The significantly higher level of charge-offs resulted primarily from nonperforming residential real estate-related loans in the Hilton Head Island / Bluffton, South Carolina market.

Noninterest income increased $857,000, or 74 percent in the third quarter of 2008 versus the same period in 2007. The increase was due to higher trust and asset management fees of $334,000, all of which was from Minis, higher service charges of $174,000 and a non-operating hedging related gain of $430,000 partially offset by $55,000 in lower mortgage related income. The higher service charges were primarily due to a new payment optimization program started in the first quarter 2008.

Noninterest expense increased to $6,234,000, up $1,058,000 or 20 percent in the third quarter 2008 compared to the third quarter 2007. Third quarter 2008 noninterest expense included $338,000 of expenses related to Minis. Noninterest expense also included $121,000 of higher FDIC insurance premiums and approximately $63,000 of higher expense related to other real estate and loan costs. A new banking office in Bluffton, South Carolina which opened in December 2007 also comprised approximately $135,000 of the third quarter increase in costs. The remainder of the increase was due to higher personnel, occupancy and equipment and other expense in existing offices and departments.

The third quarter income tax expense was $895,000 in 2008 and $1,280,000 in 2007. The combined effective federal and state tax rates were 35.3 percent and 35.0 percent in the third quarter of 2008 and 2007, respectively. The Company has never recorded a valuation allowance against deferred tax assets. All significant deferred tax assets are considered to be realizable due to expected future taxable income.

First Nine Months, 2008 Compared to the First Nine Months, 2007

Net income in the first nine months 2008 was $5,228,000, down from $7,283,000 in the first nine months 2007, a decrease of 28 percent. Net income per diluted share was 88 cents in the first nine months 2008 and $1.23 in the same period in 2007, a decrease of 28 percent. While the Company experienced growth in interest-earning assets it was offset by a higher provision for loan losses and higher noninterest expenses. Return on average equity was 8.88 percent, return on average assets was 0.74 percent and the efficiency ratio was 61.21 percent in the first nine months 2008. Earnings for the first nine months of 2008 include the net income derived from the previously announced acquisition of Minis.

Average interest-earning assets for the first nine months increased 8.5 percent to $890 million in 2008 from $820 million in 2007. First nine months net interest income was $24,708,000 in 2008 compared to $24,896,000 in 2007, a decrease of $188,000. Average loans were $817 million for the first nine months of 2008, 10 percent higher when compared to $743 million in 2007. The net interest margin decreased to 3.70 percent in the first nine months of 2008 from 4.08 percent in the same period in 2007. As shown in Table 3, the decline in net interest margin was primarily due to the decline in noninterest-bearing deposits over the last 12 months and higher levels of noninterest-earning assets.

As shown in Table 1, the Company's balance sheet is asset-sensitive since the interest-earning assets reprice faster than interest-bearing liabilities. Rising interest rates favorably impact the net interest margin of an asset-sensitive balance sheet and falling rates adversely impact the net interest margin. However, when the prime rate stops decreasing, the interest rates on time deposits, certain non-maturity deposits and other funding sources will continue to decline due to the re-pricing lag associated with those liabilities.

First nine months provision for loan losses was $3,730,000 for 2008, compared to $1,530,000 for 2007. Net charge-offs for the first nine months were $4,204,000 for 2008 compared to $642,000 in the same period in 2007. Changes in the provision are impacted as discussed under the "Allowance for Loan Losses" section above. First nine months loan growth was $46 million in 2008, primarily in real estate secured loans, compared to $57 million in the first nine months 2007. The significantly higher level of charge-offs resulted primarily from nonperforming residential real estate-related loans in the Hilton Head Island / Bluffton, South Carolina market.

Noninterest income was $5,575,000 in the first nine months 2008 compared to $3,217,000 in the first nine months 2007, an increase of $2,358,000 or 73 percent. The increase was due to higher trust and asset management fees of $1,413,000, all of which was from Minis, and non-operating hedging related gains of $714,000 partially offset by lower mortgage related income. Customer service charges increased 39 percent, or $400,000, primarily due to a new payment optimization program. No market valuation adjustments were required for loans held for sale during the first nine months of 2008 or 2007.

Noninterest expense was $18,535,000 in the first nine months of 2008 compared to $15,350,000 in 2007, an increase of $3,185,000, or 21 percent. In 2008 noninterest expense included $1,034,000 of expenses related to Minis. A new banking office in Bluffton, South Carolina which opened in December 2007 also comprised approximately $410,000 of the increase in costs. Salaries and benefits increased $1,720,000, or 20 percent. Occupancy and equipment expenses increased approximately $430,000, or 18 percent. Other operating expense increased $1,017,000 or 33 percent and included $396,000 of higher FDIC insurance premiums and approximately $323,000 of higher expense related to other real estate and loan costs.

The first nine months income tax expense was $2,790,000 in 2008 and $3,950,000 in 2007. The combined effective federal and state tax rates were 34.8 percent and 35.2 percent in the first nine months of 2008 and 2007, respectively. Lower taxable income at the higher 35 percent tax bracket and higher low income housing tax credits are the primary contributors to the lower effective tax rate in 2008. The Company has never recorded a valuation allowance against deferred tax assets. All deferred tax assets are considered to be realizable due to expected future taxable income.

Financial Condition and Capital Resources

Balance Sheet Activity

The changes in the Company's assets and liabilities for the current and prior period are shown in the consolidated statements of cash flows. The $46 million increase in loans in the first nine months of 2008 was funded primarily by $39 million in net deposit growth. Short and long-term borrowings increased approximately $6 million.

Average total assets increased 11 percent to $950 million in the first nine months of 2008 from $855 million in the same period in 2007. Total assets were $981 million and $889 million at September 30, 2008 and 2007, respectively, an increase of 10 percent.

The Company has classified all investment securities as available for sale. The unrealized gain/loss on investment securities and the net change in the fair value of derivative instruments are included in shareholders' equity at September 30, 2008 and 2007 as accumulated other comprehensive income (loss), net of tax.

Brokered time deposits and institutional money market accounts totaled $182 million at September 30, 2008 compared to $127 million at December 31, 2007.

Short-term borrowings include a $12.5 million note payable to a related party, the proceeds of which were used to fund SAVB Holdings. The note bears interest at prime plus two percent with a floor of six percent. Principal payments are due monthly based on repayments, sales or other activity in the assets held by SAVB Holdings. Interest is due monthly. The note requires a cumulative principal pay down of $2.5 million by September 30, 2009, with all indebtedness due and payable by September 30, 2010. The agreement includes customary performance covenants and a guarantee of the Company.

Loans

The following table shows the composition of the loan portfolio as of September 30, 2008 and December 31, 2007, including a more detailed breakdown of real estate-secured loans by collateral type and purpose.

($ in thousands)	**9/30/08**	% of Total	12/31/07	% of Total	% Dollar Change
Non-residential real estate					
Owner-occupied	**$ 138,570**	*16*	$ 118,714	*15*	*17*
Non owner-occupied	**122,867**	*14*	118,904	*15*	*3*
Construction	**24,036**	*3*	33,923	*4*	*(29)*
Commercial land and lot development	**41,690**	*5*	38,127	*5*	*9*
Total non-residential real estate	**327,163**	*38*	309,668	*39*	*6*
Residential real estate					
Owner-occupied – 1-4 family	**84,589**	*10*	83,828	*10*	*1*
Non owner-occupied – 1-4 family	**130,804**	*15*	114,992	*14*	*14*
Construction	**52,239**	*6*	57,541	*7*	*(9)*
Residential land and lot development	**110,071**	*13*	109,718	*14*	*0*
Home equity lines	**50,586**	*6*	43,322	*5*	*17*
Total residential real estate	**428,289**	*50*	409,401	*50*	*5*
Total real estate loans	**755,452**	*88*	719,069	*89*	*5*
Commercial	**80,991**	*10*	71,370	*9*	*13*
Consumer	**18,260**	*2*	18,692	*2*	*(2)*
Unearned fees, net	**(256)**	-	(480)	-	*(47)*
Total loans, net of unearned fees	**$ 854,447**	*100*	$ 808,651	*100*	*6*

Capital Resources

The banking regulatory agencies have adopted capital requirements that specify the minimum level for which no prompt corrective action is required. In addition, the FDIC assesses FDIC insurance premiums based on certain "well-capitalized" risk-based and equity capital ratios. As of September 30, 2008, the Company and the Subsidiary Banks exceeded the minimum requirements necessary to be classified as "well-capitalized."

Total tangible equity capital for the Company was $76.9 million, or 7.84 percent of total assets at September 30, 2008. The table below includes the regulatory capital ratios for the Company and each Subsidiary Bank along with the minimum capital ratio and the ratio required to maintain a well-capitalized regulatory status.

($ in thousands)	Company	Savannah	Bryan	Harbourside	Minimum	Well-Capitalized
Qualifying Capital						
Tier 1 capital	$ 85,262	$ 53,478	$ 19,851	$ 6,966	-	-
Total capital	95,611	60,188	22,456	7,793	-	-
Leverage Ratios						
Tier 1 capital to average assets	8.84%	8.42%	8.76%	7.34	4.00%	5.00%
Risk-based Ratios						
Tier 1 capital to risk-weighted assets	10.32%	9.99%	9.53%	10.61%	4.00%	6.00%
Total capital to risk-weighted assets	11.58%	11.25%	10.78%	11.86%	8.00%	10.00%

Tier 1 and total capital at the Company level includes $10 million of subordinated debt issued to the Company's nonconsolidated subsidiaries. Total capital also includes the allowance for loan losses up to 1.25 percent of risk-weighted assets.

The capital ratios are above the well-capitalized threshold. The Company currently has the regulatory capacity to add approximately $14 million of trust preferred borrowings and has access to the capital markets, if needed, to maintain the well-capitalized status of the Subsidiary Banks. However, due to the recent events in the capital markets, the cost of trust preferred borrowings has increased from three-month LIBOR plus 150 basis points to the same index plus 400 to 450 basis points and the availability is currently less certain than in the past.

The Company is evaluating the TARP and other liquidity programs recently provided by the United States Treasury. Under TARP the Company has access to approximately $8 to $24 million in additional capital.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Liquidity and Interest Rate Sensitivity Management

The objectives of balance sheet management include maintaining adequate liquidity and preserving reasonable balance between the repricing of interest sensitive assets and liabilities at favorable interest rate spreads. The objective of liquidity management is to ensure the availability of adequate funds to meet the loan demands and the deposit withdrawal needs of customers. This is achieved through maintaining a combination of sufficient liquid assets, core deposit growth and unused capacity to purchase and borrow funds in the money markets.

During the first nine months of 2008, portfolio loans increased $46 million to $854 million and deposits increased $39 million to $803 million. The deposit growth includes a $29 million increase in the institutional money market accounts. The loan to deposit ratio was 106 percent at September 30, 2008. In addition to local deposit growth, primary funding and liquidity sources include borrowing capacity with the FHLB, temporary federal funds purchased lines with correspondent banks and non-local institutional and brokered deposits. Contingency funding and liquidity sources include the ability to sell loans, or participations in certain loans, to investors and borrowings from the Federal Reserve Bank ("FRB") discount window.

The Subsidiary Banks have Blanket Floating Lien Agreements with the FHLB. Under these agreements, the Subsidiary Banks have credit lines up to 75 percent of the FHLB qualifying collateral value of their 1-4 family first mortgage loans and up to 50 percent of the FHLB qualifying collateral value of their home equity lines of credit and second mortgage residential loans. The Subsidiary Banks' individual borrowing limits range from 10 to 25 percent of assets. In aggregate, the Subsidiary Banks had secured borrowing capacity of approximately $116 million of which $45 million was advanced at September 30, 2008. These credit arrangements serve as a core funding source as well as liquidity backup for the Subsidiary Banks. The Subsidiary Banks also have conditional federal funds borrowing lines available from correspondent banks that management believes can provide up to $20 million of funding needs for 30-60 days. The Subsidiary Banks have been approved to access the FRB discount window to borrow on a secured basis at 25 basis points over the Federal Funds Target Rate. The amount of credit available is subject to the amounts and types of collateral available when borrowings are requested.

A continuing objective of interest rate sensitivity management is to maintain appropriate levels of variable rate assets, including variable rate loans and shorter maturity investments, relative to interest rate sensitive liabilities, in order to control potential negative impacts upon earnings due to changes in interest rates. Interest rate sensitivity management requires analyses and actions that take into consideration volumes of assets and liabilities repricing and the timing and magnitude of their price changes to determine the effect upon net interest income. The Company utilizes hedging strategies to reduce interest rate risk as noted below.

The Company's cash flow, maturity and repricing gap at September 30, 2008 was $67 million at one year, or 7.3 percent of total interest-earning assets. At December 31, 2007 the gap at one year was $61 million, or 6.9 percent of total interest-earning assets. Interest-earning assets with maturities over five years totaled approximately $63 million, or 6.9 percent of total interest-earning assets. See Table 1 for cash flow, maturity and repricing gap. The gap position between one and five years is of less concern because management has time to respond to changing financial conditions and interest rates with actions that reduce the impact of the longer-term gap positions on net interest income. However, interest-earning assets with maturities and/or repricing dates over five years may include significant rate risk and market value of equity concerns in the event of significant interest rate increases.

The Company is asset-sensitive within one year. The decreases in the prime rate from 7.75 percent to 5.00 percent over the past year through September 30, 2008, the level of nonaccruing loans and changes in the deposit mix have negatively impacted net interest income and net interest margin in the first nine months of 2008 compared to the same period in 2007. Over the past year earning assets repriced faster than our deposits and our growth was primarily in higher cost deposits resulting in net interest margin compression in the first nine months of 2008 as compared to the first nine months of 2007.

The Company has implemented various strategies to reduce the Company's asset-sensitive position, primarily through the increased use of fixed rate loans, short maturity funding sources and hedging strategies such as interest rate floors, collars and swaps. In the first nine months of 2008, the Company terminated $50 million of interest rate swap positions for a gain of $2,369,000. $714,000 of this gain was recognized as noninterest income due to hedge ineffectiveness and the remainder will be amortized into interest income on a straight-line basis over the remaining lives of the swaps. The Company still has in place $75 million of prime rate-based floors and collars with a floor strike rate of 6 percent. These actions have reduced the Company's exposure to falling interest rates.

Management monitors interest rate risk quarterly using rate-sensitivity forecasting models and other balance sheet analytical reports. If and when projected interest rate risk exposures are outside of policy tolerances or desired positions, specific strategies to return interest rate risk exposures to desired levels are developed by management, approved by the Asset-Liability Committee and reported to the Board of Directors.

Table 1 – Cash Flow/Maturity Gap and Repricing Data

The following is the cash flow/maturity and repricing data for the Company as of September 30, 2008:

($ in thousands)	Immediate	0-3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Total
Interest-earning assets							
Investment securities	$ -	$ 6,427	$ 12,380	$ 15,882	$ 11,775	$ 14,736	$ 61,200
Interest-bearing deposits	3,686	-	120	415	-	-	4,221
Federal funds sold	11,570	-	-	-	-	-	11,570
Loans held for sale	-	326	-	-	-	-	326
Loans - fixed rates	-	56,901	130,539	143,935	38,625	40,660	410,660
Loans - variable rates	-	394,784	13,113	4,685	5,920	7,531	426,033
Total interest-earnings assets	15,256	458,438	156,152	164,917	56,320	62,927	914,010
Interest-bearing liabilities							
NOW and savings	-	6,677	13,352	33,381	40,057	40,056	133,523
Money market accounts	-	92,103	38,934	22,248	33,374	-	186,659
Time deposits	-	137,808	194,762	56,644	7,584	213	397,011
Short-term borrowings	57,782	10,000	-	-	-	-	67,782
FHLB advances - long-term	-	487	1,004	10,011	12	242	11,756
Subordinated debt	-	10,310	-	-	-	-	10,310
Total interest-bearing liabilities	57,782	257,385	248,052	122,284	81,027	40,511	807,041
Gap-Excess assets (liabilities)	(42,526)	201,053	(91,900)	42,633	(24,707)	22,416	106,969
Gap-Cumulative	$ (42,526)	$ 158,527	$ 66,627	$ 109,260	$ 84,553	$ 106,969	$ 106,969
Cumulative sensitivity ratio *	.26	1.50	1.12	1.16	1.11	1.13	1.13

* Cumulative interest-earning assets / cumulative interest-bearing liabilities

Table 2 – Average Balance Sheet and Rate/Volume Analysis – Third Quarter, 2008 and 2007

The following table presents average balances of the Company and the Subsidiary Banks on a consolidated basis, the taxable-equivalent interest earned and the interest paid during the third quarter of 2008 and 2007.

Average Balance		Average Rate			Taxable-Equivalent Interest (b)			(a) Variance Attributable to	
QTD 9/30/08	QTD 9/30/07	QTD 9/30/08	QTD 9/30/07		QTD 9/30/08	QTD 9/30/07	Vari-ance	Rate	Volume
($ in thousands)		(%)			($ in thousands)			($ in thousands)	
				Assets					
$ 5,530	$ 3,370	2.15	5.18	Interest-bearing deposits	$ 30	$ 44	$ (14)	$ (26)	$ 12
57,053	60,393	4.88	5.13	Investments - taxable	702	781	(79)	(38)	(41)
1,912	2,320	5.39	6.16	Investments - non-taxable	26	36	(10)	(5)	(5)
6,356	10,183	1.94	5.06	Federal funds sold	31	130	(99)	(80)	(19)
1,189	825	6.67	7.21	Loans held for sale	20	15	5	(1)	6
829,952	760,495	6.37	7.94	Loans (c)	13,334	15,212	(1,878)	(3,009)	1,131
901,992	837,586	6.22	7.68	Total interest-earning assets	14,143	16,218	(2,075)	(3,082)	1,007
62,770	37,946			Noninterest-earning assets					
$964,762	$875,532			Total assets					
				Liabilities and equity					
				Deposits					
$118,182	$114,157	1.15	2.04	NOW accounts	344	586	(242)	(256)	14
15,450	17,722	0.90	0.99	Savings accounts	35	44	(9)	(4)	(5)
134,961	138,104	2.42	4.20	Money market accounts	822	1,462	(640)	(620)	(20)
71,632	37,577	2.40	5.30	MMA - institutional	433	502	(69)	(275)	206
150,487	135,026	4.28	5.38	CDs, $100M or more	1,625	1,831	(206)	(374)	168
95,919	76,391	3.26	4.97	CDs, broker	787	956	(169)	(329)	160
133,062	123,740	4.01	5.07	Other time deposits	1,345	1,582	(237)	(331)	94
719,693	642,717	2.97	4.30	Total interest-bearing deposits	5,391	6,963	(1,572)	(2,155)	583
11,802	3,108	2.76	6.13	FHLB advances - long-term	82	48	34	(26)	60
52,162	50,760	2.05	5.06	Short-term borrowings	267	647	(380)	(388)	8
10,310	10,310	5.50	8.20	Subordinated debt	143	213	(70)	(70)	-
793,967	706,895	2.94	4.42	Total interest-bearing liabilities	5,883	7,871	(1,988)	(2,637)	649
83,562	88,654			Noninterest-bearing deposits					
8,198	7,547			Other liabilities					
79,035	72,436			Shareholders' equity					
$964,762	$875,532			Liabilities and equity					
		3.28	3.26	Interest rate spread					
		3.63	3.95	Net interest margin					
				Net interest income	$ 8,260	$ 8,347	$ (87)	$ (445)	$ 358
$108,025	$130,691			Net earning assets					
$803,255	$731,371			Average deposits					
		2.66	3.78	Average cost of deposits					
103%	104%			Average loan to deposit ratio					

(a) This table shows the changes in interest income and interest expense for the comparative periods based on either changes in average volume or changes in average rates for interest-earning assets and interest-bearing liabilities. Changes which are not solely due to rate changes or solely due to volume changes are attributed to volume.

(b) The taxable equivalent adjustment results from tax exempt income less non-deductible TEFRA interest expense and was $7 and $39 in the third quarter 2008 and 2007, respectively.

(c) Average nonaccruing loans have been excluded from total average loans and categorized in noninterest

Table 3 - Average Balance Sheet and Rate/Volume Analysis – First Nine Months, 2008 and 2007

The following table presents average balances of the Company and the Subsidiary Banks on a consolidated basis, the taxable-equivalent interest earned and the interest paid during the first nine months of 2008 and 2007.

Average Balance		Average Rate			Taxable-Equivalent Interest (b)			(a) Variance Attributable to	
YTD 9/30/08	YTD 9/30/07	YTD 9/30/08	YTD 9/30/07		YTD 9/30/08	YTD 9/30/07	Vari-ance	Rate	Volume
($ in thousands)		(%)			($ in thousands)			($ in thousands)	
				Assets					
$ 6,038	$ 6,246	2.89	5.24	Interest-bearing deposits	$ 131	$ 245	$ (114)	$ (110)	$ (4)
57,646	56,146	5.09	4.99	Investments - taxable	2,203	2,095	108	42	66
1,915	2,107	5.50	7.23	Investments - non-taxable	79	114	(35)	(27)	(8)
6,618	10,928	2.36	5.21	Federal funds sold	117	426	(309)	(234)	(75)
968	1,510	7.16	7.44	Loans held for sale	52	84	(32)	(3)	(29)
816,939	742,703	6.69	8.01	Loans (c)	40,997	44,468	(3,471)	(7,359)	3,888
890,124	819,640	6.52	7.74	Total interest-earning assets	43,579	47,432	(3,853)	(7,507)	3,654
59,689	35,696			Noninterest-earning assets					
$949,813	$855,336			Total assets					
				Liabilities and equity					
				Deposits					
$118,278	$114,477	1.29	2.05	NOW accounts	1,141	1,752	(611)	(653)	42
15,773	18,301	0.90	1.00	Savings accounts	106	137	(31)	(14)	(17)
136,467	125,176	2.47	4.39	Money market accounts	2,529	4,106	(1,577)	(1,804)	227
63,994	37,577	2.83	4.33	MMA - institutional	1,361	1,218	143	(423)	566
148,809	125,933	4.67	5.35	CDs, $100M or more	5,219	5,038	181	(643)	824
78,462	74,866	3.66	4.83	CDs, broker	2,153	2,706	(553)	(658)	105
131,476	121,651	4.42	5.03	Other time deposits	4,364	4,577	(213)	(557)	344
693,259	617,981	3.24	4.23	Total interest-bearing deposits	16,873	19,534	(2,661)	(4,593)	1,932
9,812	9,454	2.91	5.19	FHLB advances - long-term	214	367	(153)	(162)	9
65,973	49,416	2.60	5.11	Short-term borrowings	1,289	1,889	(600)	(931)	331
10,310	10,310	6.09	8.16	Subordinated debt	471	629	(158)	(160)	2
779,354	687,161	3.22	4.36	Total interest-bearing liabilities	18,847	22,419	(3,572)	(5,881)	2,309
83,738	91,527			Noninterest-bearing deposits					
8,105	6,792			Other liabilities					
78,616	69,856			Shareholders' equity					
$949,813	$855,336			Liabilities and equity					
		3.30	3.38	Interest rate spread					
		3.70	4.08	Net interest margin					
				Net interest income	$24,732	$ 25,013	$ (281)	$(1,626)	$ 1,345
$110,770	$132,479			Net earning assets					
$776,997	$709,508			Average deposits					
		2.89	3.68	Average cost of deposits					
105%	105%			Average loan to deposit ratio					

(a) This table shows the changes in interest income and interest expense for the comparative periods based on either changes in average volume or changes in average rates for interest-earning assets and interest-bearing liabilities. Changes which are not solely due to rate changes or solely due to volume changes are attributed to volume.

(b) The taxable equivalent adjustment results from tax exempt income less non-deductible TEFRA interest expense and was $24 and $117 in 2008 and 2007, respectively.

(c) Average nonaccruing loans have been excluded from total average loans and categorized in nonintererest-earning assets.

Table 4 - Off-Balance Sheet Arrangements

In order to meet the financing needs of its customers, the Company is a party to financial instruments with off-balance sheet risks in the normal course of business. At September 30, 2008, the Company had unfunded commitments to extend credit of $126 million and outstanding stand-by letters of credit of $8 million. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in establishing commitments and issuing letters of credit as it does for on-balance sheet instruments. Management does not anticipate that funding obligations arising from these financial instruments will adversely impact its ability to fund future loan growth or deposit withdrawals.

On February 24, 2006, Harbourside entered into a 20-year noncancellable operating lease for the main office building. In March 2007, Harbourside entered into a ten-year lease agreement for a branch office location in Bluffton, South Carolina. Also in March 2007, the Company entered into a five-year data processing agreement with its current processor. Each of these obligations is included in the table below.

The following table includes a breakdown of short-term and long-term payment obligations due under long-term contracts:

($ in thousands)		**Payments due by period**			
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
FHLB advances – long-term	$ 11,756	$ 1,586	$ -	$ -	$ 10,170
Subordinated debt	10,310	-	-	-	10,310
Operating leases – buildings	11,452	1,021	1,516	6,889	2,026
Information technology contracts	4,172	1,178	2,463	531	-
Total	$ 37,690	$ 3,785	$ 3,979	$ 7,420	$ 22,506

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures - We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q as required by Rule 13a-15 of the Securities Exchange Act of 1934, as amended. This evaluation was carried out under the supervision and with the participation of our management, including our chief executive officer and chief financial officer. Based on this evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in our periodic SEC filings.

Changes in Internal Control over Financial Reporting - No change in our internal control over financial reporting occurred during the second fiscal quarter covered by this Quarterly Report on Form 10-Q that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings.

Management is not aware of any significant pending legal proceedings.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in "Item 1A. Risk Factors" of Part I of the 2007 Form 10-K, which could materially affect our business, financial condition and/or operating results. There have been no material changes from those risk factors previously disclosed in "Item 1A. Risk Factors" of Part I of the 2007 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. None

Item 3. Defaults Upon Senior Securities. None

Item 4. Submission of Matters to a Vote of Security Holders. None

Item 5. Other Information. None

Item 6. Exhibits.

Exhibit 11 Computation of Earnings Per Share

- Data required by Statement of Financial Accounting Standards No. 128, "Earnings per Share," is provided in Note 4 to the condensed consolidated financial statements in this report.

Exhibit 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Signatures

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

The Savannah Bancorp, Inc.
(Registrant)

Date: *11/10/08*

/s/ John C. Helmken II
John C. Helmken II
President and Chief Executive Officer
(Principal Executive Officer)

Date: *11/10/08*

/s/ Michael W. Harden, Jr.
Michael W. Harden, Jr.
Acting Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John C. Helmken II, certify that:

1. I have reviewed this report on Form 10-Q of The Savannah Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2008

/s/ John C. Helmken II
John C. Helmken II
President and Chief Executive Officer

Exhibit 31.2

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael W. Harden, Jr., certify that:

1. I have reviewed this report on Form 10-Q of The Savannah Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2008

/s/ Michael W. Harden, Jr.
Michael W. Harden, Jr.
Acting Chief Financial Officer

Exhibit 32

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

We certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2008 (the "Report") of The Savannah Bancorp, Inc. (the "Company") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: *11/10/08*

/s/ John C. Helmken II
John C. Helmken II
President and Chief Executive Officer
(Principal Executive Officer)

Date: *11/10/08*

/s/ Michael W. Harden, Jr.
Michael W. Harden, Jr.
Acting Chief Financial Officer
(Principal Financial and Accounting Officer)