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MERCANTILE BANKSHARES CORP  
Form 10-Q  
August 09, 2001

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

-----  
FORM 10-Q

(MARK ONE)

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

For the Quarterly Period Ended June 30, 2001

OR

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

For the transition period from to

Commission File Number 0-5127  
-----

MERCANTILE BANKSHARES CORPORATION

-----  
(Exact name of registrant as specified in its charter)

Maryland

52-0898572

-----  
(State or other jurisdiction of  
incorporation or organization)

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

2 Hopkins Plaza, Baltimore, Maryland

21201

-----  
(Address of principal executive  
offices)

-----  
(Zip code)

(410) 237-5900

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

-----  
(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  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

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As of July 31, 2001, registrant had outstanding 69,744,072 shares of Common Stock.

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### PART I. FINANCIAL INFORMATION

#### Item 1. Financial Statements (Unaudited)

##### MERCANTILE BANKSHARES CORPORATION CONSOLIDATED BALANCE SHEETS

| (Dollars in thousands, except per share data)   | June 30,<br>2001                            |
|---|---|
| <hr style="border-top: 1px dashed black;"/>   |   |
| <b>ASSETS</b>   |   |
| Cash and due from banks.....  | \$ 294,679                                  |
| Interest-bearing deposits in other banks.....   | 356   |
| Federal funds sold.....   | 36,364                                      |
|   | <hr style="border-top: 1px dashed black;"/> |
| Total cash and cash equivalents.....  | 331,399                                     |
|   | <hr style="border-top: 1px dashed black;"/> |
| Investment securities:  |   |
| Available-for-sale at fair value  |   |
| U.S. Treasury and government agencies -- amortized cost of \$1,615,391 (2001) and \$1,600,232 (2000)..... | 1,639,236                                   |
| States and political subdivisions -- amortized cost of \$1,349 (2001) and \$1,350 (2000).....             | 1,370                                       |
| Other investments -- amortized cost of \$46,054 (2001) and \$49,507 (2000).....                           | 59,627                                      |
| Held-to-maturity at amortized cost  |   |
| States and political subdivisions -- fair value of \$42,131 (2001) and \$38,653 (2000).....               | 40,706                                      |
| Other investments -- fair value of \$13,454 (2001) and \$13,068 (2000).....                               | 13,454                                      |
|   | <hr style="border-top: 1px dashed black;"/> |
| Total investment securities.....  | 1,754,393                                   |
|   | <hr style="border-top: 1px dashed black;"/> |
| Loans held-for-sale.....  | 43,403                                      |
|   | <hr style="border-top: 1px dashed black;"/> |
| Loans.....  | 6,923,139                                   |
| Less: allowance for loan losses.....  | (143,605)                                   |
|   | <hr style="border-top: 1px dashed black;"/> |
| Loans, net.....   | 6,779,534                                   |
|   | <hr style="border-top: 1px dashed black;"/> |
| Bank premises and equipment, less accumulated depreciation of \$109,053 (2001) and \$103,715 (2000).....  | 103,386                                     |
| Other real estate owned, net.....   | 66  |
| Goodwill, net.....  | 106,971                                     |
| Other assets.....   | 161,390                                     |
|   | <hr style="border-top: 1px dashed black;"/> |
| Total assets.....   | \$9,280,542                                 |
|   | <hr style="border-top: 1px dashed black;"/> |
| <b>LIABILITIES</b>  |   |
| Deposits:   |   |
| Noninterest-bearing deposits.....   | \$1,657,547                                 |
| Interest-bearing deposits.....  | 5,471,217                                   |
|   | <hr style="border-top: 1px dashed black;"/> |
| Total deposits.....   | 7,128,764                                   |
| Short-term borrowings.....  | 717,328                                     |
| Accrued expenses and other liabilities.....   | 112,437                                     |
| Long-term debt.....   | 84,200                                      |

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|  |             |
|--|-------------|
| Total liabilities.....   | 8,042,729   |
| -----  |             |
| SHAREHOLDERS' EQUITY   |             |
| Preferred stock, no par value; authorized 2,000,000 shares; issued and outstanding --<br>None                                      |             |
| Common stock, \$2 par value; authorized 130,000,000 shares;<br>issued 71,237,313 shares in 2001 and 71,098,750 shares in 2000..... | 142,475     |
| Capital surplus.....   | 218,876     |
| Retained earnings.....   | 853,289     |
| Accumulated other comprehensive income (loss).....   | 23,173      |
| -----  |             |
| Total shareholders' equity.....  | 1,237,813   |
| -----  |             |
| Total liabilities and shareholders' equity.....  | \$9,280,542 |
| =====  |             |

See notes to consolidated financial statements

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MERCANTILE BANKSHARES CORPORATION  
STATEMENT OF CONSOLIDATED INCOME

| (Dollars in thousands, except per share data)               | For the 6 Months Ended |            | For the 3 Months Ended |            |
|---|------------------------|------------|------------------------|------------|
|   | June 30,               |            | June 30,               |            |
|   | 2001                   | 2000       | 2001                   | 2000       |
| -----   |                        |            |                        |            |
| INTEREST INCOME   |                        |            |                        |            |
| Interest and fees on loans.....                             | \$ 285,066             | \$ 256,907 | \$ 139,639             | \$ 132,735 |
| -----   |                        |            |                        |            |
| Interest and dividends on<br>investment securities:         |                        |            |                        |            |
| Taxable interest income.....                                | 45,904                 | 46,470     | 23,002                 | 22,628     |
| Tax-exempt interest income.....                             | 1,002                  | 349        | 514                    | 202        |
| Dividends.....  | 680                    | 682        | 313                    | 284        |
| Other investment income.....                                | 1,690                  | 68         | 840                    | 35         |
| -----   |                        |            |                        |            |
|   | 49,276                 | 47,569     | 24,669                 | 23,149     |
| -----   |                        |            |                        |            |
| Other interest income.....                                  | 2,573                  | 607        | 1,865                  | 379        |
| -----   |                        |            |                        |            |
| Total interest income.....                                  | 336,915                | 305,083    | 166,173                | 156,263    |
| -----   |                        |            |                        |            |
| INTEREST EXPENSE  |                        |            |                        |            |
| Interest on deposits.....                                   | 108,938                | 82,331     | 53,793                 | 42,326     |
| Interest on short-term<br>borrowings.....                   | 16,054                 | 22,831     | 6,947                  | 12,063     |
| Interest on long-term debt.....                             | 3,045                  | 2,807      | 1,525                  | 1,403      |
| -----   |                        |            |                        |            |
| Total interest expense.....                                 | 128,037                | 107,969    | 62,265                 | 55,792     |
| -----   |                        |            |                        |            |
| NET INTEREST INCOME.....                                    | 208,878                | 197,114    | 103,908                | 100,471    |
| Provision for loan losses.....                              | 6,129                  | 8,429      | 3,178                  | 5,414      |
| -----   |                        |            |                        |            |
| NET INTEREST INCOME AFTER<br>PROVISION FOR LOAN LOSSES..... | 202,749                | 188,685    | 100,730                | 95,057     |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| NONINTEREST INCOME                             |           |           |           |           |
| Trust Division services.....                   | 34,659    | 34,254    | 17,528    | 17,364    |
| Service charges on deposit accounts.....       | 13,300    | 11,696    | 6,880     | 5,937     |
| Mortgage banking related fees.....             | 4,861     | 1,494     | 3,267     | 765       |
| Investment securities gains and (losses).....  | 1,539     | 69        | --        | --        |
| Other income.....                              | 15,114    | 13,645    | 8,083     | 7,412     |
| Total noninterest income.....                  | 69,473    | 61,158    | 35,758    | 31,478    |
| NONINTEREST EXPENSES                           |           |           |           |           |
| Salaries.....                                  | 60,565    | 56,663    | 30,985    | 28,718    |
| Employee benefits.....                         | 15,136    | 13,483    | 7,210     | 6,325     |
| Net occupancy expense of bank premises.....    | 6,771     | 5,459     | 3,336     | 2,773     |
| Furniture and equipment expenses..             | 11,748    | 11,219    | 5,744     | 5,451     |
| Communications and supplies.....               | 6,573     | 6,073     | 3,296     | 2,961     |
| Amortization of goodwill.....                  | 4,805     | 1,916     | 2,493     | 958       |
| Other expenses.....                            | 22,472    | 23,464    | 12,342    | 12,521    |
| Total noninterest expenses.....                | 128,070   | 118,277   | 65,406    | 59,707    |
| Income before income taxes.....                | 144,152   | 131,566   | 71,082    | 66,828    |
| Applicable income taxes.....                   | 53,170    | 47,444    | 26,458    | 24,291    |
| NET INCOME.....                                | \$ 90,982 | \$ 84,122 | \$ 44,624 | \$ 42,537 |
| NET INCOME PER SHARE OF COMMON STOCK (Note 2): |           |           |           |           |
| Basic.....                                     | \$ 1.28   | \$ 1.23   | \$ .63    | \$ .63    |
| Diluted.....                                   | \$ 1.27   | \$ 1.22   | \$ .62    | \$ .62    |

See notes to consolidated financial statements

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MERCANTILE BANKSHARES CORPORATION  
STATEMENT OF CONSOLIDATED CASH FLOWS

| Increase (decrease) in cash and cash equivalents<br>(Dollars in thousands)        | For the 6 Months Ended |           |
|---|------------------------|-----------|
|   | June 30,<br>2001       | 2000      |
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                        |           |
| Net income.....   | \$ 90,982              | \$ 84,122 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                        |           |
| Provision for loan losses.....  | 6,129                  | 8,429     |
| Depreciation and amortization.....  | 6,151                  | 5,169     |
| Amortization of goodwill.....   | 4,805                  | 1,916     |
| Investment securities (gains) and losses.....                                     | (1,539)                | (69)      |
| Write-downs of other real estate owned.....                                       | 36                     | 9         |
| Gains on sales of other real estate owned.....                                    | (267)                  | (162)     |

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|   |            |            |
|---|------------|------------|
| Gains on sales of buildings.....  | (510)      | --         |
| Net (increase) decrease in assets:  |            |            |
| Interest receivable.....  | 2,804      | (656)      |
| Other receivables.....  | (2,019)    | (180)      |
| Other assets.....   | (356)      | 649        |
| Loans held-for-sale.....  | (36,808)   | 171        |
| Net increase (decrease) in liabilities:                                     |            |            |
| Interest payable.....   | 2,824      | 4,151      |
| Accrued expenses.....   | (3,274)    | (2,866)    |
| Taxes payable.....  | 19,998     | 6,123      |
|   | -----      | -----      |
| Net cash provided by operating activities.....                              | 88,956     | 106,806    |
|   | -----      | -----      |
| CASH FLOWS FROM INVESTING ACTIVITIES:                                       |            |            |
| Proceeds from maturities of investment securities held-to-maturity.....     | 1,579      | 6,530      |
| Proceeds from maturities of investment securities available-for-sale.....   | 353,303    | 284,169    |
| Proceeds from sales of investment securities available-for-sale.....        | 1,539      | 700        |
| Purchases of investment securities held-to-maturity....                     | (4,986)    | (9,486)    |
| Purchases of investment securities available-for-sale..                     | (365,007)  | (106,545)  |
| Net increase in customer loans.....   | (231,379)  | (402,122)  |
| Proceeds from sales of other real estate owned.....                         | 1,568      | 1,359      |
| Capital expenditures.....   | (7,774)    | (6,711)    |
| Proceeds from sales of buildings.....                                       | 916        | --         |
| Acquisition of commercial mortgage company.....                             | (7,000)    | --         |
|   | -----      | -----      |
| Net cash used in investing activities.....                                  | (257,241)  | (232,106)  |
|   | -----      | -----      |
| CASH FLOWS FROM FINANCING ACTIVITIES:                                       |            |            |
| Net increase (decrease) in noninterest-bearing deposits.....                | 64,044     | 99,571     |
| Net increase (decrease) in checking plus interest and savings accounts..... | 91,427     | (58,789)   |
| Net increase in certificates of deposit.....                                | 176,752    | 158,574    |
| Net increase (decrease) in short-term borrowings.....                       | (64,140)   | 90,491     |
| Repayment of long-term debt.....  | (8,347)    | (136)      |
| Proceeds from issuance of shares.....                                       | 3,677      | 3,387      |
| Repurchase of common shares.....  | --         | (20,395)   |
| Dividends paid.....   | (38,474)   | (33,973)   |
|   | -----      | -----      |
| Net cash provided by financing activities.....                              | 224,939    | 238,730    |
|   | -----      | -----      |
| Net increase (decrease) in cash and cash equivalents...                     | 56,654     | 113,430    |
| Cash and cash equivalents at beginning of period.....                       | 274,745    | 227,356    |
|   | -----      | -----      |
| Cash and cash equivalents at end of period.....                             | \$ 331,399 | \$ 340,786 |
|   | =====      | =====      |

See notes to consolidated financial statements

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MERCANTILE BANKSHARES CORPORATION  
STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000

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| (Dollars in thousands,<br>except per share data)  | Total       | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---|-------------|-----------------|--------------------|----------------------|--|
| -----   |             |                 |                    |                      |  |
| BALANCE, DECEMBER 31,<br>1999.....  | \$ 974,040  | \$137,292       | \$ 47,798          | \$ 796,192           | \$ (7,242)   |
| Net income.....   | 84,122      |                 |                    | 84,122               |  |
| Unrealized gains<br>(losses) on securities<br>available-for-sale,<br>net of reclassification<br>adjustment, net of<br>taxes .....           | 2,840       |                 |                    |                      | 2,840  |
|   | -----       |                 |                    |                      |  |
| Comprehensive income....  | 86,962      |                 |                    |                      |  |
|   | -----       |                 |                    |                      |  |
| Cash dividends paid:<br>Common stock (\$.50 per<br>share).....  | (33,973)    |                 |                    | (33,973)             |  |
| Issuance of 68,454<br>shares for dividend<br>reinvestment and stock<br>purchase plan.....   | 1,906       | 137             | 1,769              |                      |  |
| Issuance of 17,240<br>shares for employee<br>stock purchase dividend<br>reinvestment plan.....  | 508         | 34              | 474                |                      |  |
| Issuance of 62,640<br>shares for employee<br>stock option plan.....   | 973         | 125             | 848                |                      |  |
| Purchase of 741,000<br>shares under stock<br>repurchase plan.....   | (20,395)    | (1,482)         | (18,913)           |                      |  |
| Vested stock options....  | 333         |                 | 333                |                      |  |
| Transfer to capital<br>surplus.....   | --          |                 | 100,000            | (100,000)            |  |
|   | -----       | -----           | -----              | -----                | -----  |
| BALANCE, JUNE 30, 2000..  | \$1,010,354 | \$136,106       | \$132,309          | \$ 746,341           | \$ (4,402)   |
|   | =====       | =====           | =====              | =====                | =====  |
| BALANCE, DECEMBER 31,<br>2000.....  | \$1,173,301 | \$142,198       | \$214,454          | \$ 800,781           | \$15,868   |
| Net income.....   | 90,982      |                 |                    | 90,982               |  |
| Unrealized gains (loss-<br>es) on securities<br>available-for-sale,<br>net of reclassification<br>adjustment, net of<br>taxes (Note 5)..... | 7,305       |                 |                    |                      | 7,305  |
|   | -----       |                 |                    |                      |  |
| Comprehensive income....  | 98,287      |                 |                    |                      |  |
|   | -----       |                 |                    |                      |  |
| Cash dividends paid:<br>Common stock (\$.54 per<br>share).....  | (38,474)    |                 |                    | (38,474)             |  |
| Issuance of 56,316<br>shares for dividend   |             |                 |                    |                      |  |

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|   |             |           |           |           |          |
|---|-------------|-----------|-----------|-----------|----------|
| reinvestment and stock purchase plan.....   | 2,041       | 113       | 1,928     |           |          |
| Issuance of 12,108 shares for employee stock purchase dividend reinvestment plan..... | 465         | 24        | 441       |           |          |
| Issuance of 70,139 shares for employee stock option plan.....                         | 1,171       | 140       | 1,031     |           |          |
| Vested stock options....  | 1,022       |           | 1,022     |           |          |
|   | -----       | -----     | -----     | -----     | -----    |
| BALANCE, JUNE 30, 2001..  | \$1,237,813 | \$142,475 | \$218,876 | \$853,289 | \$23,173 |
|   | =====       | =====     | =====     | =====     | =====    |

See notes to consolidated financial statements

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MERCANTILE BANKSHARES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- 1) The consolidated financial statements, which include the accounts of the Corporation and all of its affiliates, are prepared in conformity with accounting principles generally accepted in the United States of America and follow general practice within the banking industry. In the opinion of management, the consolidated financial statements include all adjustments necessary for a fair presentation of the results for the interim period. These adjustments are of a normal recurring nature and include adjustments to eliminate all significant intercompany transactions. In view of the changing conditions in the national economy, the effect of actions taken by regulatory authorities and normal seasonal factors, the results for the interim period are not necessarily indicative of annual performance. For comparability, certain prior period amounts have been reclassified to conform with current period presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. These estimates and assumptions are based on information available as of the date of the financial statements and could differ from actual results.

- 2) Basic and diluted earnings per share (EPS) amounts are computed in accordance with the provisions of Statement of Financial Accounting Standard No. 128, Earnings per Share. Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares which were 71,152,871 and 68,263,855 for the first half of 2001 and 2000, respectively. Diluted EPS is computed using the same components as in basic EPS with the denominator adjusted for the dilutive effect of stock options. The adjusted weighted average shares were 71,786,484 and 68,732,600 for the six months ended June 30, 2001 and 2000, respectively.
- 3) Under the provisions of Statements of Financial Accounting Standards No. 114 and 118, Accounting by Creditors for Impairment of a Loan, a loan is considered impaired, based upon current information and events, if it is probable that the Corporation will not collect all principal and interest payments according to the contractual terms of the loan agreement. Generally, a loan is considered impaired once either principal or interest

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payments become 90 days past due at the end of a calendar quarter. A loan may be considered impaired sooner if, in management's judgement, such action is warranted. The impairment of a loan is measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the repayment is expected to be provided predominantly by the underlying collateral. A majority of the Corporation's impaired loans are measured by reference to the fair value of the collateral. Interest income on impaired loans is recognized on the cash basis. Information with respect to impaired loans and the related valuation allowance (if the measure of the impaired loan is less than the recorded investment) as of June 30, 2001 and December 31, 2000 is shown below.

| (Dollars in thousands)  | June 30,<br>2001 | December 31,<br>2000 |
|---|------------------|----------------------|
| Impaired loans with a valuation allowance.....  | \$ 2,472         | \$ 3,828             |
| Impaired loans with no valuation allowance.....   | 33,173           | 23,165               |
|   | -----            | -----                |
| Total impaired loans.....   | \$ 35,645        | \$ 26,993            |
|   | =====            | =====                |
| Allowance for loan losses applicable to impaired<br>loans.....                          | \$ 1,211         | \$ 1,375             |
| Allowance for loan losses applicable to other than<br>impaired loans.....               | 142,394          | 137,237              |
|   | -----            | -----                |
| Total allowance for loan losses.....  | \$143,605        | \$138,612            |
|   | =====            | =====                |
| Year-to-date interest income on impaired loans<br>recorded on the cash basis.....       | \$ 138           | \$ 676               |
|   | =====            | =====                |
| Year-to-date average recorded investment in impaired<br>loans during the period.....    | \$ 31,115        | \$ 20,156            |
|   | =====            | =====                |
| Quarter-to-date interest income on impaired loans<br>recorded on the cash basis.....    | \$ 86            | \$ 482               |
|   | =====            | =====                |
| Quarter-to-date average recorded investment in<br>impaired loans during the period..... | \$ 32,625        | \$ 22,013            |
|   | =====            | =====                |

Note: Impaired loans do not include large groups of smaller balance homogeneous loans that are evaluated collectively for impairment (e.g. residential mortgages and consumer installment loans). The allowance for loan losses related to these loans is included in the allowance for loan losses applicable to other than impaired loans.

4) Various commitments to extend credit (lines of credit) are made in the normal course of banking business. At June 30, 2001, total unused lines of credit approximated \$2,667,430,000. In addition, letters of credit are issued for the benefit of customers by affiliated banks. Outstanding letters of credit were \$188,980,000 at June 30, 2001.

5) The provisions of Statement of Financial Accounting Standards No. 130,



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Reporting Comprehensive Income, established standards for disclosing comprehensive income in financial statements. The following table summarizes the related tax effect of unrealized gains (losses) on securities available-for-sale for the six months ended June 30, 2001 and 2000. The net amount is included in accumulated other comprehensive income (loss) in the Statement of Changes in Consolidated Shareholders' Equity on Page 5.

| (Dollars in thousands)   | For the 6 Months Ended June 30, |                       |            |               |                       |            |
|--|---------------------------------|-----------------------|------------|---------------|-----------------------|------------|
|  | 2001                            |                       |            | 2000          |                       |            |
|  | Pretax Amount                   | Tax (Expense) Benefit | Net Amount | Pretax Amount | Tax (Expense) Benefit | Net Amount |
| Unrealized gains (losses) on securities available-for-sale:                |                                 |                       |            |               |                       |            |
| Unrealized holding gains (losses) arising during the period.....           | \$13,513                        | \$ (5,278)            | \$8,235    | \$4,520       | \$ (1,638)            | \$2,882    |
| Reclassification adjustment for (gains) losses included in net income..... | (1,539)                         | 609                   | (930)      | (69)          | 27                    | (42)       |
| Total.....   | \$11,974                        | \$ (4,669)            | \$7,305    | \$4,451       | \$ (1,611)            | \$2,840    |

6) Under the provisions of Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, Mercantile Bankshares Corporation has two reportable segments -- its twenty Community Banks and Mercantile - Safe Deposit & Trust Company (MSD&T) which consists of the Banking Division and the Trust Division.

The following tables present selected segment information for the six months ended June 30, 2001 and 2000. The components in the "Other" column consist of amounts for the nonbank affiliates and intercompany eliminations. Certain expense amounts such as operations overhead have been reclassified from internal financial reporting in order to provide for full cost absorption. These reclassifications are shown in the "Adjustments" line.

| 2001 (Dollars in thousands)    | For the 6 Months Ended June 30, |             |             |                 |          |            |
|--------------------------------|---------------------------------|-------------|-------------|-----------------|----------|------------|
|                                | MSD&T Banking                   | MSD&T Trust | Total MSD&T | Community Banks | Other    | Total      |
| Net interest income.....       | \$ 67,081                       | \$ --       | \$ 67,081   | \$ 141,953      | \$ (156) | \$ 208,878 |
| Provision for loan losses..... | (3,513)                         | --          | (3,513)     | (2,616)         | --       | (6,129)    |
| Noninterest income.....        | 17,112                          | 34,523      | 51,635      | 22,747          | (4,909)  | 69,473     |
| Noninterest expenses....       | (38,913)                        | (20,044)    | (58,957)    | (71,952)        | 2,839    | (128,070)  |
| Adjustments.....               | 6,319                           | (953)       | 5,366       | (10,374)        | 5,008    | --         |

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|   |           |          |             |             |              |             |
|---|-----------|----------|-------------|-------------|--------------|-------------|
| Income (loss) before<br>income taxes..... | 48,086    | 13,526   | 61,612      | 79,758      | 2,782        | 144,152     |
| Income tax (expense)<br>benefit.....      | (17,367)  | (5,430)  | (22,797)    | (29,652)    | (721)        | (53,170)    |
| Net income (loss).....                    | \$ 30,719 | \$ 8,096 | \$ 38,815   | \$ 50,106   | \$ 2,061     | \$ 90,982   |
| Average assets.....                       |           |          | \$3,446,123 | \$5,750,049 | \$ (146,639) | \$9,049,533 |
| Average equity.....                       |           |          | 375,207     | 693,709     | 126,550      | 1,195,466   |

For the 6 Months Ended June 30,

| 2000 (Dollars in<br>thousands)            | MSD&T<br>Banking | MSD&T<br>Trust | Total<br>MSD&T | Community<br>Banks | Other        | Total       |
|---|------------------|----------------|----------------|--------------------|--------------|-------------|
| Net interest income.....                  | \$ 68,010        | \$ --          | \$ 68,010      | \$ 129,362         | \$ (258)     | \$ 197,114  |
| Provision for loan<br>losses.....         | (3,873)          | --             | (3,873)        | (4,556)            | --           | (8,429)     |
| Noninterest income.....                   | 12,288           | 34,248         | 46,536         | 20,044             | (5,422)      | 61,158      |
| Noninterest expenses....                  | (35,910)         | (19,567)       | (55,477)       | (65,491)           | 2,691        | (118,277)   |
| Adjustments.....                          | 6,941            | (1,199)        | 5,742          | (5,802)            | 60           | --          |
| Income (loss) before<br>income taxes..... | 47,456           | 13,482         | 60,938         | 73,557             | (2,929)      | 131,566     |
| Income tax (expense)<br>benefit.....      | (17,115)         | (5,393)        | (22,508)       | (26,659)           | 1,723        | (47,444)    |
| Net income (loss).....                    | \$ 30,341        | \$ 8,089       | \$ 38,430      | \$ 46,898          | \$ (1,206)   | \$ 84,122   |
| Average assets.....                       |                  |                | \$3,063,937    | \$5,067,882        | \$ (130,412) | \$8,001,407 |
| Average equity.....                       |                  |                | 353,262        | 620,492            | 29,995       | 1,003,749   |

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7) The Corporation and its bank affiliates are subject to various regulatory capital requirements administered by the federal and state banking agencies. These requirements include maintaining certain capital ratios above minimum levels. These capital ratios include Tier 1 capital and Total risk-based capital as percents of net risk-weighted assets and Tier 1 capital as a percent of adjusted average total assets (leverage ratio). Management believes that, as of June 30, 2001, the Corporation and its bank affiliates exceeded all capital adequacy requirements to which they are subject.

Capital ratios and the amounts used to calculate them are presented in the following table for Mercantile Bankshares Corporation (MBC) and Mercantile - Safe Deposit & Trust Company (MSD&T), as of June 30, 2001 and 2000.

|                                  | June 30, 2001 |            | June 30, 2000 |            |
|----------------------------------|---------------|------------|---------------|------------|
| (Dollars in thousands)           | MBC           | MSD&T      | MBC           | MSD&T      |
| Tier 1 capital.....              | \$1,100,313   | \$ 370,167 | \$ 965,982    | \$ 353,255 |
| Total risk-based<br>capital..... | 1,193,434     | 409,302    | 1,047,864     | 386,853    |

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|                                    |           |           |           |           |
|------------------------------------|-----------|-----------|-----------|-----------|
| Net risk-weighted assets.....      | 6,963,215 | 2,976,720 | 6,093,751 | 2,680,198 |
| Adjusted average total assets..... | 9,063,027 | 3,524,604 | 8,037,508 | 3,082,625 |
| Tier 1 capital ratio....           | 15.80%    | 12.44%    | 15.85%    | 13.18%    |
| Total capital ratio.....           | 17.14%    | 13.75%    | 17.20%    | 14.43%    |
| Leverage ratio.....                | 12.14%    | 10.50%    | 12.02%    | 11.46%    |

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

#### MERCANTILE BANKSHARES CORPORATION

##### Consolidated Financial Results

Mercantile Bankshares Corporation reported that, for the quarter ended June 30, 2001, net income was \$44,624,000, a 4.9% increase over net income of \$42,537,000 for the same period in 2000. Diluted net income per share was \$.62 for the second quarter 2001, unchanged from the second quarter last year. Weighted average shares used in the calculation were 71,802,000 for this quarter, an increase of 4.7% over the 68,556,000 reported for the same quarter last year. The number of shares for 2001 included 3,361,000 shares issued for the two bank acquisitions completed in the second half of 2000. Diluted cash net income per share, which excludes amortization of goodwill in the calculation, was \$.66 for the second quarter 2001 as compared to \$.63 for the same period in 2000.

For the first six months of 2001, net income was \$90,982,000, an increase of 8.2% over the \$84,122,000 reported for the comparable period in 2000. Diluted net income per share for the first half of 2001 was \$1.27, a 4.1% increase over the \$1.22 for the same period last year. Diluted cash net income per share was \$1.33 for the first half of 2001, an increase of 6.4% over the \$1.25 reported for the same period last year.

##### Net Interest Income and Net Interest Margin

Net interest income for the quarter ended June 30, 2001, increased 3.4% to \$103,908,000 from \$100,471,000 the prior year. The growth in net interest income was attributable to the continuing strong growth in average earning assets. Average loans increased 13.9% from prior year to \$6,855,353,000. The banks acquired in 2000 accounted for approximately 30% of this growth. Funding for the increase in earning assets came from a 16.5% growth in average total deposits, with the recent acquisitions accounting for approximately 35% of this growth. Offsetting the positive growth in earning assets was a decline in the net interest margin to 4.84% from 5.32% in the second quarter of 2000. This decline was attributable to the 275 basis point reduction in short-term interest rates by the Federal Reserve during the first half of 2001, with a reduction of 125 basis points occurring in the second quarter. The company is asset sensitive, with assets repricing more quickly than liabilities in response to changes in interest rates. As a result, Mercantile's net interest margin tends to compress and growth in net interest income tends to slow in a falling interest rate environment.

Net interest income for the first six months of 2001 increased to \$208,878,000 or 6.0% over the \$197,114,000 for last year. The growth in net interest income was attributable to strong average loan growth of 15.3% which was funded by average deposit growth of 15.7%. Net interest margin declined to 4.96%, from 5.27% for the first half of last year, which partially offset the positive impact from loan growth. See the Analysis of Interest Rates and Interest Differentials on page 12 for further detail.

#### Noninterest Income

For the second quarter 2001, noninterest income increased 13.6% from last year. Trust Division revenues improved slightly compared to the second quarter of 2000. Mortgage banking revenues more than tripled from that reported for the second quarter last year. Revenues benefited from increased volume in residential and multifamily loan originations and this was the first full quarter to include results of the commercial real estate financing subsidiary acquired in March 2001. Included in other income were gains of \$510,000 from sales of bank-owned buildings.

Noninterest income for the first half of 2001 was \$69,473,000, a 13.6% increase over the \$61,158,000 for the comparable period in 2000. Included in this increase was a \$1,541,000 gain from the sale of equity securities held in the available-for-sale portfolio. Excluding the investment securities gain, the growth rate was 11.2% for the same period. The largest increase in noninterest income came from mortgage banking revenues which more than doubled to \$4,861,000.

#### Noninterest Expenses

Noninterest expenses for the quarter ended June 30, 2001, increased 9.5% to \$65,406,000 from \$59,707,000 for the second quarter of 2000. The key measure of expense management is the efficiency ratio which was 46.5%. The increase in salaries was a result of increased staff from acquisitions. Employee benefits increased from the prior year due to a general increase in costs for health and welfare benefit plans. Net occupancy expense increased compared to last year's second quarter, which was also attributable to acquisitions. Other expenses declined 1.4% from prior year. Amortization of goodwill, which increased by 160.2% over prior year, included accelerated amortization of \$361,000 as a result of the prepayment of investment securities owned by a recently acquired bank.

Noninterest expenses for the first six months of 2001 increased 8.3% to \$128,070,000 from \$118,277,000 for the same period last year. Contributing to the increase in year-to-date noninterest expenses were increases in salaries, employee benefits and net occupancy expense. Other expenses decreased 4.2% primarily as a result of reduced expense for the deferred compensation plan for directors. The cost of this plan fluctuates with the market value of Mercantile's stock. Amortization expense for the first half of 2001 increased 150.8% and included accelerated amortization of \$612,000 from prepayment of investment securities.

#### Analysis of Financial Condition

At June 30, 2001, total assets increased 3.8% to \$9,280,542,000 compared to \$8,938,030,000 at December 31, 2000. Comparing June 30, 2001 to the same period in the prior year reflected an increase of 12.6%. The recent acquisitions accounted for approximately 40% of this growth. Loans at June 30, 2001 were \$6,923,139,000, an increase of 3.4% from the \$6,693,294,000 level at December 31, 2000.

Total deposits increased 4.9% to \$7,128,764,000 as of June 30, 2001 from \$6,796,541,000 at year-end 2000. Interest-bearing deposits were \$5,471,217,000, an increase of 5.2% from December 31, 2000. Interest-bearing deposits at June 30, 2001 were 76.7% of total deposits, relatively unchanged from December 31, 2000. Noninterest-bearing deposits increased 4.0% to \$1,657,547,000 as of June 30, 2001, compared to \$1,593,503,000 at the end of 2000.

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Total shareholders' equity increased 5.5% to \$1,237,813,000 at June 30, 2001, from \$1,173,301,000 at December 31, 2000. The Corporation, having purchased no shares this quarter, still has authorization to repurchase up to 2.5 million shares under prior authorizations. Effective with the June 2001 Board meeting, the quarterly per share dividend rate was increased 7.7% to \$.28 from \$.26. For more details see the Statement of Changes in Consolidated Shareholders' Equity on page 5.

### Asset Quality

#### Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, renegotiated loans and other real estate owned (i.e., real estate acquired in foreclosure or in lieu of foreclosure). With respect to nonaccrual loans, the Corporation's policy is that, regardless of the value of the underlying collateral and/or guarantees, no interest is accrued on the entire balance once either principal or interest payments on any loan become 90 days past due at the end of a calendar quarter. All accrued and uncollected interest on such loans is eliminated from the income statement and is recognized only as collected. A loan may be put on nonaccrual status sooner than this standard if, in management's judgement, such action is warranted. During the six months ended June 30, 2001, nonperforming assets increased \$7,034,000 to \$38,404,000. Nonperforming loans, one of the components of

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nonperforming assets, increased \$7,973,000 while other real estate owned, the other component, decreased \$939,000. A substantial portion of the increase in nonperforming loans related to the lease financing subsidiary of Mercantile - Safe Deposit & Trust Company. Nonperforming assets as a percent of period-end loans and other real estate owned was .55% at June 30, 2001 and .47% at the end of last year.

The table below presents a comparison of nonperforming assets at June 30, 2001 and December 31, 2000.

| Nonperforming Assets<br>(Dollars in thousands)  | June 30,<br>2001 | December 31,<br>2000 |
|---|------------------|----------------------|
| -----   |                  |                      |
| Nonaccrual loans (1).....   | \$38,338         | \$30,365             |
| Renegotiated loans (1).....   | --               | --                   |
| Loans contractually past due 90 days or more and still<br>accruing interest.....          | --               | --                   |
|   | -----            | -----                |
| Total nonperforming loans.....  | 38,338           | 30,365               |
| Other real estate owned.....  | 66               | 1,005                |
|   | -----            | -----                |
| Total nonperforming assets.....   | \$38,404         | \$31,370             |
|   | =====            | =====                |
| Nonperforming assets as a percent of period-end loans and<br>other real estate owned..... | .55%             | .47%                 |
|   | =====            | =====                |

(1) Aggregate gross interest income of \$1,882,000 and \$3,276,000 for the first half of 2001 and the year 2000, respectively, on nonaccrual and renegotiated loans, would have been recorded if these loans had been

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accruing on their original terms throughout the period or since origination if held for part of the period. The amount of interest income on the nonaccrual and renegotiated loans that was recorded totalled \$424,000 and \$1,126,000 for the first six months of 2001 and the year 2000, respectively.

Note: The Corporation was monitoring loans estimated to aggregate \$4,288,000 at June 30, 2001 and \$3,778,000 at December 31, 2000, not classified as nonaccrual or renegotiated loans. These loans had characteristics which indicated they might result in such classification in the future.

### Allowance and Provision for Loan Losses

Each Mercantile Bankshares Corporation (MBC) affiliate is required to maintain an allowance for loan losses adequate to absorb inherent losses in the loan portfolio. Management at each affiliate, along with MBC management, maintains a regular overview to assure that adequacy. On a periodic basis, significant credit exposures, nonperforming loans, impaired loans, historical losses by loan type and various statistical measurements of asset quality are examined to assure the adequacy of the allowance for loan losses.

The allowance for loan losses has been established through provisions for loan losses charged against income. The provision for loan losses for the first half of 2001 was \$6,129,000 and \$8,429,000 for the same period last year. Loans deemed to be uncollectible are charged against the allowance for loan losses and any subsequent recoveries are credited to the allowance. Intensive collection efforts continue after charge-off in order to maximize recovery amounts. Net charge-offs were \$1,136,000 for the first six months of 2001 compared to net recoveries of \$82,000 for the same period in 2000. The allowance for loan losses to period-end loans at June 30, 2001 was 2.07%, the same as at the end of the first half of last year.

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The following table presents a summary of the activity in the Allowance for Loan Losses:

| Allowance for Loan Losses<br>(Dollars in thousands) | For the 6 Months Ended<br>June 30, |            | For the 3 Months Ended<br>June 30, |            |
|---|------------------------------------|------------|------------------------------------|------------|
|   | 2001                               | 2000       | 2001                               | 2000       |
| Allowance balance --                                |                                    |            |                                    |            |
| beginning.....                                      | \$ 138,612                         | \$ 117,997 | \$ 140,797                         | \$ 121,189 |
| Charge-offs:  |                                    |            |                                    |            |
| Commercial.....                                     | (293)                              | (137)      | (67)                               | (81)       |
| Real estate --                                      |                                    |            |                                    |            |
| construction.....                                   | --                                 | (11)       | --                                 | --         |
| Real estate -- mortgage..                           | (79)                               | (465)      | (61)                               | (211)      |
| Consumer.....                                       | (1,525)                            | (1,273)    | (835)                              | (500)      |
| Lease financing.....                                | (653)                              | --         | --                                 | --         |
| Total.....  | (2,550)                            | (1,886)    | (963)                              | (792)      |
| Recoveries:   |                                    |            |                                    |            |
| Commercial.....                                     | 435                                | 684        | 81                                 | 168        |
| Real estate --                                      |                                    |            |                                    |            |
| construction.....                                   | 29                                 | 175        | 29                                 | 1          |
| Real estate -- mortgage..                           | 172                                | 306        | 34                                 | 212        |

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|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Consumer.....   | 778          | 803          | 449          | 316          |
| Lease financing.....  | --           | --           | --           | --           |
|   | -----        | -----        | -----        | -----        |
| Total.....  | 1,414        | 1,968        | 593          | 697          |
|   | -----        | -----        | -----        | -----        |
| Net (charge-offs)/recoveries.....   | (1,136)      | 82           | (370)        | (95)         |
| Provision for loan losses.....  | 6,129        | 8,429        | 3,178        | 5,414        |
|   | -----        | -----        | -----        | -----        |
| Allowance balance -- ending.....  | \$ 143,605   | \$ 126,508   | \$ 143,605   | \$ 126,508   |
|   | =====        | =====        | =====        | =====        |
| Average loans.....  | \$ 6,804,704 | \$ 5,901,988 | \$ 6,855,353 | \$ 6,020,014 |
|   | =====        | =====        | =====        | =====        |
| Net (charge-offs)/recoveries -- annualized as a percent of average loans..... | (.03)%       | --%          | (.02)%       | (.01)%       |
|   | =====        | =====        | =====        | =====        |
| Period-end loans.....   | \$ 6,923,139 | \$ 6,113,470 |              |              |
|   | =====        | =====        |              |              |
| Allowance for loan losses as a percent of period-end loans.....               | 2.07%        | 2.07%        |              |              |
|   | =====        | =====        |              |              |

Recent FASB Pronouncements

On July 20, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations, with limited exceptions for combinations initiated prior to July 1, 2001. Additionally, it further clarifies the criteria for recognition of intangible assets separately from goodwill. This Statement is effective for business combinations completed after June 30, 2001.

SFAS No. 142 discontinues the amortization of goodwill and intangible assets with indefinite lives. Instead these assets will be subject to at least an annual impairment review, and more frequently if certain impairment indicators are in evidence.

Mercantile Bankshares will adopt SFAS No. 142 on January 1, 2002. Based on current amortization schedules, application of the nonamortization provisions of the Statement is expected to result in additional net income of \$7.8 million for the year ended December 31, 2002. The first of the required impairment tests of goodwill will be performed during 2002. The impact, if any, of these impairment tests on the 2002 financial statements has not yet been assessed.

Cautionary Statement

This report contains 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 contained in this report, and the underlying management assumptions. Such statements in this report include identification of trends, loan growth, comments on adequacy of the allowance for loan losses, effects of asset sensitivity and interest rate changes, and information concerning market risk referenced in Item 3. Forward-looking

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statements are based on current expectations and assessments of potential developments affecting market conditions, interest rates and other economic conditions, and results may ultimately vary from the statements made in this report.

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### MERCANTILE BANKSHARES CORPORATION

#### ANALYSIS OF INTEREST RATES AND INTEREST DIFFERENTIALS

The following table presents the distribution of the average consolidated balance sheets, interest income/expense and annualized yields earned and rates paid through the first six months of 2001 and 2000.

| (Dollars in thousands)                                  | 2001               |                     |                 | 2000               |                     |                 |
|---|--------------------|---------------------|-----------------|--------------------|---------------------|-----------------|
|   | Average<br>Balance | Income*/<br>Expense | Yield*/<br>Rate | Average<br>Balance | Income*/<br>Expense | Yield*/<br>Rate |
| <b>Earning assets</b>                                   |                    |                     |                 |                    |                     |                 |
| <b>Loans:</b>   |                    |                     |                 |                    |                     |                 |
| Commercial.....   | \$2,374,650        | \$101,330           | 8.61%           | \$2,144,884        | \$ 98,110           | 9.20%           |
| Real estate.....  | 3,609,728          | 151,120             | 8.44            | 3,041,383          | 130,334             | 8.62            |
| Consumer.....   | 820,326            | 35,156              | 8.64            | 715,721            | 30,583              | 8.59            |
| Total loans.....  | 6,804,704          | 287,606             | 8.52            | 5,901,988          | 259,027             | 8.83            |
| Federal funds sold.....                                 | 108,011            | 2,488               | 4.65            | 19,251             | 603                 | 6.30            |
| Securities purchased<br>under resale<br>agreements..... | 4,420              | 75                  | 3.42            | --                 | --                  | --              |
| <b>Securities:**</b>                                    |                    |                     |                 |                    |                     |                 |
| <b>Taxable securities</b>                               |                    |                     |                 |                    |                     |                 |
| U.S. Treasury<br>securities.....                        | 1,345,980          | 37,449              | 5.61            | 1,605,162          | 44,762              | 5.61            |
| U.S. Agency<br>securities.....                          | 253,343            | 8,455               | 6.73            | 52,580             | 1,708               | 6.53            |
| Other stocks and<br>bonds.....                          | 61,694             | 2,459               | 8.04            | 20,049             | 841                 | 8.44            |
| <b>Tax-exempt securities</b>                            |                    |                     |                 |                    |                     |                 |
| States and political<br>subdivisions.....               | 40,333             | 1,657               | 8.28            | 14,111             | 577                 | 8.22            |
| Total securities....                                    | 1,701,350          | 50,020              | 5.93            | 1,691,902          | 47,888              | 5.69            |
| Interest-bearing<br>deposits in other<br>banks.....     | 375                | 10                  | 5.30            | 152                | 4                   | 4.77            |
| Total earning<br>assets.....                            | 8,618,860          | 340,199             | 7.96            | 7,613,293          | 307,522             | 8.12            |
| Cash and due from<br>banks.....                         | 209,544            |                     |                 | 223,477            |                     |                 |
| Bank premises and<br>equipment, net.....                | 103,534            |                     |                 | 95,868             |                     |                 |
| Other assets.....                                       | 258,873            |                     |                 | 189,606            |                     |                 |
| Less: allowance for loan<br>losses.....                 | (141,278)          |                     |                 | (120,837)          |                     |                 |



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|   |                               |                    |                |                               |                    |                |
|---|-------------------------------|--------------------|----------------|-------------------------------|--------------------|----------------|
| Total assets.....                               | -----<br>\$9,049,533<br>===== |                    |                | -----<br>\$8,001,407<br>===== |                    |                |
| Interest-bearing liabilities                    |                               |                    |                |                               |                    |                |
| Deposits:                                       |                               |                    |                |                               |                    |                |
| Savings deposits.....                           | \$2,392,081                   | 22,675             | 1.91           | \$2,346,077                   | 23,694             | 2.03           |
| Time deposits \$100,000 and over.....           | 1,152,557                     | 34,176             | 5.98           | 790,228                       | 22,762             | 5.79           |
| Other time deposits...                          | 1,831,913                     | 52,087             | 5.73           | 1,451,397                     | 35,875             | 4.97           |
|   | -----                         | -----              |                | -----                         | -----              |                |
| Total interest-bearing deposits...              | 5,376,551                     | 108,938            | 4.09           | 4,587,702                     | 82,331             | 3.61           |
| Short-term borrowings.....                      | 731,376                       | 16,054             | 4.43           | 840,761                       | 22,831             | 5.46           |
| Long-term debt.....                             | 92,449                        | 3,045              | 6.64           | 82,648                        | 2,807              | 6.83           |
|   | -----                         | -----              |                | -----                         | -----              |                |
| Total interest-bearing funds.....               | 6,200,376                     | 128,037            | 4.16           | 5,511,111                     | 107,969            | 3.94           |
|   |                               | -----              |                |                               | -----              |                |
| Noninterest-bearing deposits.....               | 1,542,951                     |                    |                | 1,390,946                     |                    |                |
| Other liabilities and accrued expenses.....     | 110,740                       |                    |                | 95,601                        |                    |                |
|   | -----                         |                    |                | -----                         |                    |                |
| Total liabilities...                            | 7,854,067                     |                    |                | 6,997,658                     |                    |                |
| Shareholders' equity....                        | 1,195,466                     |                    |                | 1,003,749                     |                    |                |
|   | -----                         |                    |                | -----                         |                    |                |
| Total liabilities and shareholders' equity..... | \$9,049,533<br>=====          |                    |                | \$8,001,407<br>=====          |                    |                |
| Net interest income.....                        |                               | \$212,162<br>===== |                |                               | \$199,553<br>===== |                |
| Net interest rate spread.....                   |                               |                    | 3.80%          |                               |                    | 4.18%          |
| Effect of noninterest-bearing funds.....        |                               |                    | 1.16           |                               |                    | 1.09           |
|   |                               |                    | ----           |                               |                    | ----           |
| Net interest margin on earning assets.....      |                               |                    | 4.96%<br>===== |                               |                    | 5.27%<br>===== |
| Taxable-equivalent adjustment included in:      |                               |                    |                |                               |                    |                |
| Loan income.....                                |                               | \$ 2,540           |                |                               | \$ 2,120           |                |
| Investment securities income.....               |                               | 744                |                |                               | 319                |                |
|   |                               | -----              |                |                               | -----              |                |
| Total.....                                      |                               | \$ 3,284<br>=====  |                |                               | \$ 2,439<br>=====  |                |

\*Presented on a tax-equivalent basis using the statutory federal corporate income tax rate of 35%.

\*\*Balances reported at amortized cost; excludes pretax unrealized gains (losses) on securities available-for-sale.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information responsive to this Item as of December 31, 2000 appears under the

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captions "Asset/Liability and Liquidity Management", "Interest Rate Sensitivity Analysis" and "Earnings Simulation Model Projections" on pages 20-22 of the registrant's 2000 Annual Report to Shareholders, filed as Exhibit 13 to registrant's Annual Report on Form 10-K for the year ended December 31, 2000. There was no material change in such information as of June 30, 2001.

### PART II. OTHER INFORMATION

#### Item 4. Submission of Matters to a Vote of Security Holders

Matters voted upon and voted at the Annual Meeting of Shareholders held April 25, 2001.

Results of voting for Election of Directors:

|                      | FOR<br>--- | WITHHELD<br>----- |
|----------------------|------------|-------------------|
| Cynthia A. Archer    | 58,476,325 | 856,165           |
| Richard O. Berndt    | 57,896,389 | 1,436,101         |
| William R. Brody     | 58,658,999 | 673,491           |
| Edward J. Kelly, III | 57,956,598 | 1,375,892         |
| Morton B. Plant      | 58,666,589 | 665,901           |
| James L. Shea        | 57,858,373 | 1,474,117         |

Names of other Directors continuing in office:

H. Furlong Baldwin  
 George L. Bunting, Jr.  
 Darrell D. Friedman  
 Freeman A. Hrabowski, III  
 Mary Junck  
 Robert A. Kinsley  
 Christian H. Poindexter  
 Donald J. Shepard

Results of voting on Ratification of Appointment of Auditors (PricewaterhouseCoopers LLP):

| FOR<br>--- | AGAINST<br>----- | ABSTAINED<br>----- |
|------------|------------------|--------------------|
| 58,949,403 | 192,979          | 190,108            |

There were no broker nonvotes on these matters.

#### Item 6. Exhibits and Reports on Form 8-K

- (a) Form 8-K filed, dated June 20, 2001, Item 5. Other Events and Regulation FD Disclosure.

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### 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.

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MERCANTILE BANKSHARES CORPORATION

August 8, 2001

Principal Executive Officer

/s/ Edward J. Kelly, III

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By: Edward J. Kelly, III  
President and  
Chief Executive Officer

August 8, 2001

Principal Financial Officer

/s/ Terry L. Troupe

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By: Terry L. Troupe  
Chief Financial Officer

August 8, 2001

Chief Accounting Officer

/s/ Diana E. Nelson

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By: Diana E. Nelson  
Controller and Chief Accounting Officer