MERCANTILE BANKSHARES CORP
Form 10-Q
August 09, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 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 [X] 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.

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

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)

MERCANTILE BANKSHARES CORPORATION
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)	June 30, 2001
ASSETS	
Cash and due from banks	$ 294,679
Interest-bearing deposits in other banks	356
Federal funds sold	36,364
Total cash and cash equivalents	331,399
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
Total investment securities	1,754,393
Loans held-for-sale	43,403
Loans	6,923,139
Less: allowance for loan losses	(143,605
Loans, net	6,779,534
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
Total assets	$9,280,542
LIABILITIES	
Deposits:	
Noninterest-bearing deposits	$1,657,547
Interest-bearing deposits	5,471,217
Total deposits	7,128,764
Short-term borrowings	717,328
Accrued expenses and other liabilities	112,437
Long-term debt	84,200

Total liabilities	8,042,729
SHAREHOLDERS' EQUITY	
Preferred stock, no par value; authorized 2,000,000 shares; issued and outstanding -- None	
Common stock, $2 par value; authorized 130,000,000 shares; 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

MERCANTILE BANKSHARES CORPORATION
STATEMENT OF CONSOLIDATED INCOME

(Dollars in thousands, except per share data)	For the 6 Months Ended June 30, 2001	For the 6 Months Ended June 30, 2000	For the 3 Months Ended June 30, 2001	For the 3 Months Ended June 30, 2000
INTEREST INCOME				
Interest and fees on loans	$ 285,066	$ 256,907	$ 139,639	$ 132,735
Interest and dividends on 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 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 PROVISION FOR LOAN LOSSES	202,749	188,685	100,730	95,057

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 (Dollars in thousands)	For the 6 Months Ended June 30, 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)

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

MERCANTILE BANKSHARES CORPORATION
STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000

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

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

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

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, 2001	December 31, 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 loans	$ 1,211	$ 1,375
Allowance for loan losses applicable to other than impaired loans	142,394	137,237
Total allowance for loan losses	$143,605	$138,612
Year-to-date interest income on impaired loans recorded on the cash basis	$ 138	$ 676
Year-to-date average recorded investment in impaired loans during the period	$ 31,115	$ 20,156
Quarter-to-date interest income on impaired loans recorded on the cash basis	$ 86	$ 482
Quarter-to-date average recorded investment in 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,

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.

	For the 6 Months Ended June 30,					
	2001			2000		
(Dollars in thousands)	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.

	For the 6 Months Ended June 30,					
2001 (Dollars in thousands)	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	--

	MSD&T Banking	MSD&T Trust	Total MSD&T	Community Banks	Other	Total
Income (loss) before income taxes...........	48,086	13,526	61,612	79,758	2,782	144,152
Income tax (expense) 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 thousands)	MSD&T Banking	MSD&T Trust	Total MSD&T	Community Banks	Other	Total
Net interest income.....	$ 68,010	$ --	$ 68,010	$ 129,362	$ (258)	$ 197,114
Provision for loan 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 income taxes...........	47,456	13,482	60,938	73,557	(2,929)	131,566
Income tax (expense) 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 capital................	1,193,434	409,302	1,047,864	386,853

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.

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

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 (Dollars in thousands)	June 30, 2001	December 31, 2000
Nonaccrual loans (1)	$38,338	$30,365
Renegotiated loans (1)	--	--
Loans contractually past due 90 days or more and still 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 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

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.

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

Allowance for Loan Losses (Dollars in thousands)	For the 6 Months Ended June 30, 2001	For the 6 Months Ended June 30, 2000	For the 3 Months Ended June 30, 2001	For the 3 Months Ended June 30, 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

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 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.

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.

	2001			2000		
(Dollars in thousands)	Average Balance	Income*/ Expense	Yield*/ Rate	Average Balance	Income*/ Expense	Yield*/ Rate
Earning assets						
Loans:						
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 under resale agreements............	4,420	75	3.42	--	--	--
Securities:**						
Taxable securities						
U.S. Treasury securities..........	1,345,980	37,449	5.61	1,605,162	44,762	5.61
U.S. Agency securities..........	253,343	8,455	6.73	52,580	1,708	6.53
Other stocks and bonds...............	61,694	2,459	8.04	20,049	841	8.44
Tax-exempt securities						
States and political 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 deposits in other banks.................	375	10	5.30	152	4	4.77
Total earning assets.............	8,618,860	340,199	7.96	7,613,293	307,522	8.12
Cash and due from banks..................	209,544			223,477		
Bank premises and equipment, net.........	103,534			95,868		
Other assets............	258,873			189,606		
Less: allowance for loan losses................	(141,278)			(120,837)		

Total assets........	$9,049,533			$8,001,407		
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			$8,001,407		
Net interest income.....		$212,162			$199,553	
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%			5.27%
Taxable-equivalent adjustment included in:						
Loan income...........		$ 2,540			$ 2,120	
Investment securities income..............		744			319	
Total..............		$ 3,284			$ 2,439	

*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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information responsive to this Item as of December 31, 2000 appears under the 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	WITHHELD
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	AGAINST	ABSTAINE
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.

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.

MERCANTILE BANKSHARES CORPORATION

August 8, 2001	Principal Executive Officer
	/s/ Edward J. Kelly, III
	By: Edward J. Kelly, III President and Chief Executive Officer
August 8, 2001	Principal Financial Officer
	/s/ Terry L. Troupe
	By: Terry L. Troupe Chief Financial Officer
August 8, 2001	Chief Accounting Officer
	/s/ Diana E. Nelson
	By: Diana E. Nelson Controller and Chief Accounting Officer