MERCANTILE BANKSHARES CORP
Form 10-Q
May 11, 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 March 31, 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 April 30, 2001, registrant had outstanding 71,174,878 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)	March 31, 2001
ASSETS	
Cash and due from banks	$ 264,929
Interest-bearing deposits in other banks	355
Federal funds sold	52,518
Total cash and cash equivalents	317,802
Investment securities:	
U.S. Treasury and government agencies	
Available-for-sale at fair value	1,599,585
States and political subdivisions	
Held-to-maturity -- fair value of $42,493 (2001) and $38,653 (2000)	40,916
Available-for-sale at fair value	1,371
Other investments	
Held-to-maturity -- fair value of $13,446 (2001) and $13,068 (2000)	13,446
Available-for-sale at fair value	62,386
Total investment securities	1,717,704
Loans held-for-sale	60,021
Loans	6,788,018
Less: allowance for loan losses	(140,797
Loans, net	6,647,221
Bank premises and equipment, less accumulated depreciation of $106,189 (2001) and $103,715 (2000)	103,284
Other real estate owned, net	656
Goodwill, net	109,465
Other assets	163,335
Total assets	$9,119,488
LIABILITIES	
Deposits:	
Noninterest-bearing deposits	$1,577,009
Interest-bearing deposits	5,422,389
Total deposits	6,999,398
Short-term borrowings	692,060
Accrued expenses and other liabilities	120,171
Long-term debt	92,547
Total liabilities	7,904,176

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 71,163,977 shares in 2001 and 71,098,750 shares in 2000	142,328
Capital surplus	217,053
Retained earnings	828,602
Accumulated other comprehensive income (loss)	27,329
Total shareholders' equity	1,215,312
Total liabilities and shareholders' equity	$9,119,488

See notes to consolidated financial statements

MERCANTILE BANKSHARES CORPORATION
STATEMENT OF CONSOLIDATED INCOME

(Dollars in thousands, except per share data)	For the 3 Months Ended March 31, 2001	2000
INTEREST INCOME		
Interest and fees on loans	$ 145,427	$ 124,172
Interest and dividends on investment securities:		
Taxable interest income	22,902	23,842
Tax-exempt interest income	488	147
Dividends	367	398
Other investment income	850	33
	24,607	24,420
Other interest income	708	228
Total interest income	170,742	148,820
INTEREST EXPENSE		
Interest on deposits	55,145	40,005
Interest on short-term borrowings	9,107	10,768
Interest on long-term debt	1,520	1,404
Total interest expense	65,772	52,177
NET INTEREST INCOME	104,970	96,643
Provision for loan losses	2,951	3,015
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	102,019	93,628
NONINTEREST INCOME		
Trust Division services	17,131	16,890
Service charges on deposit accounts	6,420	5,759
Mortgage banking related fees	1,594	729
Investment securities gains and (losses)	1,539	69
Other income	7,031	6,233

Total noninterest income	33,715	29,680
NONINTEREST EXPENSES		
Salaries	29,580	27,945
Employee benefits	7,926	7,158
Net occupancy expense of bank premises	3,435	2,686
Furniture and equipment expenses	6,004	5,768
Communications and supplies	3,277	3,112
Amortization of goodwill	2,312	958
Other expenses	10,130	10,943
Total noninterest expenses	62,664	58,570
Income before income taxes	73,070	64,738
Applicable income taxes	26,712	23,153
NET INCOME	$ 46,358	$ 41,585
NET INCOME PER SHARE OF COMMON STOCK (Note 2):		
Basic	$ .65	$ .61
Diluted	$ .65	$ .60

See notes to consolidated financial statements

MERCANTILE BANKSHARES CORPORATION
STATEMENT OF CONSOLIDATED CASH FLOWS

Increase (decrease) in cash and cash equivalents (Dollars in thousands)	For the 3 Months Ended March 31, 2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 46,358	$ 41,585
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,951	3,015
Depreciation and amortization	3,030	2,343
Amortization of goodwill	2,312	958
Investment securities (gains) and losses	(1,539)	(69)
Write-downs of other real estate owned	22	6
Gains on sales of other real estate owned	(70)	(89)
Net (increase) decrease in assets:		
Interest receivable	1,375	(2,145)
Other receivables	(2,244)	(361)
Other assets	(3,152)	462
Loans held-for-sale	(53,426)	2,287
Net increase (decrease) in liabilities:		
Interest payable	3,510	3,147
Accrued expenses	(1,971)	(862)
Taxes payable	25,738	22,060
Net cash provided by operating activities	22,894	72,337
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of investment securities held-		

to-maturity	669	6,277
Proceeds from maturities of investment securities available-for-sale	153,821	163,252
Proceeds from sales of investment securities available-for-sale	1,539	476
Purchases of investment securities held-to-maturity	(4,278)	(4,695)
Purchases of investment securities available-for-sale	(121,969)	(48,150)
Net increase in customer loans	(95,888)	(190,545)
Proceeds from sales of other real estate owned	795	626
Capital expenditures	(4,145)	(3,117)
Acquisition of commercial mortgage company	(7,000)	--
Net cash used in investing activities	(76,456)	(75,876)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in noninterest-bearing deposits	(16,494)	46,718
Net increase in checking plus interest and savings accounts	34,365	18,702
Net increase in certificates of deposit	184,986	120,111
Net increase (decrease) in short-term borrowings	(89,408)	(51,283)
Repayment of long-term debt	--	(1)
Proceeds from issuance of shares	1,707	2,064
Repurchase of common shares	--	(16,993)
Dividends paid	(18,537)	(16,289)
Net cash provided by financing activities	96,619	103,029
Net increase (decrease) in cash and cash equivalents	43,057	99,490
Cash and cash equivalents at beginning of period	274,745	227,356
Cash and cash equivalents at end of period	$ 317,802	$ 326,846

See notes to consolidated financial statements

MERCANTILE BANKSHARES CORPORATION

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 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	41,585			41,585	
Unrealized gains (losses) on securities available-for-sale, net of reclassification adjustment, net of taxes	669				669

Comprehensive income....	42,254				
Cash dividends paid:					
Common stock ($.24 per share)................	(16,289)			(16,289)	
Issuance of 34,353 shares for dividend reinvestment and stock purchase plan..........	938	68	870		
Issuance of 8,864 shares for employee stock purchase dividend reinvestment plan......	253	18	235		
Issuance of 55,805 shares for employee stock option plan......	873	111	762		
Purchase of 626,500 shares under stock repurchase plan........	(16,993)	(1,253)	(15,740)		
Vested stock options....	333		333		
Transfer to capital surplus................	--		100,000	(100,000)	
BALANCE, MARCH 31, 2000..................	$ 985,409	$136,236	$134,258	$ 721,488	$(6,573)
BALANCE, DECEMBER 31, 2000..................	$1,173,301	$142,198	$214,454	$ 800,781	$15,868
Net income..............	46,358			46,358	
Unrealized gains (losses) on securities available-for-sale, net of reclassification adjustment, net of taxes (Note 5).........	11,461				11,461
Comprehensive income....	57,819				
Cash dividends paid:					
Common stock ($.26 per share)................	(18,537)			(18,537)	
Issuance of 28,487 shares for dividend reinvestment and stock purchase plan..........	1,004	57	947		
Issuance of 5,522 shares for employee stock purchase dividend reinvestment plan......	217	11	206		
Issuance of 31,218 shares for employee stock option plan......	486	62	424		
Vested stock options....	1,022		1,022		
BALANCE, MARCH 31, 2001..................	$1,215,312	$142,328	$217,053	$ 828,602	$27,329

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 71,119,635 and 68,491,371 for the first quarter 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 71,770,573 and 68,912,338 for the three months ended March 31, 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 March 31, 2001 and December 31, 2000 is shown below.

(Dollars in thousands)	March 31, 2001	December 31, 2000
Impaired loans with a valuation allowance...........	$ 2,726	$ 3,828
Impaired loans with no valuation allowance..........	26,878	23,165

Total impaired loans	$ 29,604	$ 26,993
Allowance for loan losses applicable to impaired loans	$ 1,175	$ 1,375
Allowance for loan losses applicable to other than impaired loans	139,622	137,237
Total allowance for loan losses	$140,797	$138,612
Year-to-date interest income on impaired loans recorded on the cash basis	$ 52	$ 676
Year-to-date average recorded investment in impaired loans during the period	$ 29,604	$ 20,156
Quarter-to-date interest income on impaired loans recorded on the cash basis	$ 52	$ 482
Quarter-to-date average recorded investment in impaired loans during the period	$ 29,604	$ 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 March 31, 2001, total unused lines of credit approximated $2,790,650,000. In addition, letters of credit are issued for the benefit of customers by affiliated banks. Outstanding letters of credit were $185,540,000 at March 31, 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 three months ended March 31, 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 3 Months Ended March 31, 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	$20,178	$(7,787)	$12,391	$897	$(186)	$711
Reclassification adjustment for (gains)						

losses included in net income..................	(1,539)	609	(930)	(69)	27	(42)
Total....................	$18,639	$(7,178)	$11,461	$828	$(159)	$669

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 three months ended March 31, 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)	MSD&T Banking	MSD&T Trust	Total MSD&T	Community Banks	Other	Total
Net interest income.....	$ 34,851	$ --	$ 34,851	$ 70,163	$ (44)	$ 104,970
Provision for loan losses................	(2,283)	--	(2,283)	(668)	--	(2,951)
Noninterest income......	7,637	17,107	24,744	10,898	(1,927)	33,715
Noninterest expenses....	(18,749)	(10,024)	(28,773)	(36,131)	2,240	(62,664)
Adjustments.............	3,081	(442)	2,639	(5,331)	2,692	--
Income (loss) before income taxes...........	24,537	6,641	31,178	38,931	2,961	73,070
Income tax (expense) benefit...............	(8,868)	(2,657)	(11,525)	(14,474)	(713)	(26,712)
Net income (loss).......	$ 15,669	$ 3,984	$ 19,653	$ 24,457	$ 2,248	$ 46,358
Average assets..........			$3,357,914	$5,684,078	$(121,700)	$8,920,292
Average equity..........			372,839	688,013	119,537	1,180,389

2000 (Dollars in thousands)	MSD&T Banking	MSD&T Trust	Total MSD&T	Community Banks	Other	Total
Net interest income.....	$ 33,648	$ --	$ 33,648	$ 63,621	$ (626)	$ 96,643
Provision for loan losses................	(1,636)	--	(1,636)	(1,379)	--	(3,015)
Noninterest income......	5,798	17,048	22,846	9,508	(2,674)	29,680
Noninterest expenses....	(18,155)	(9,710)	(27,865)	(32,359)	1,654	(58,570)
Adjustments.............	2,761	(586)	2,175	(3,295)	1,120	--
Income (loss) before income taxes...........	22,416	6,752	29,168	36,096	(526)	64,738
Income tax (expense) benefit...............	(8,052)	(2,690)	(10,742)	(13,078)	667	(23,153)
Net income (loss).......	$ 14,364	$ 4,062	$ 18,426	$ 23,018	$ 141	$ 41,585
Average assets..........			$3,020,000	$5,026,724	$(130,190)	$7,916,534
Average equity..........			351,380	616,034	29,950	997,364

7) The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, on January 1, 2001. The Corporation has not found it necessary to extensively use

derivative instruments and only one swap agreement, with a notional amount of approximately $3,300,000, was outstanding at March 31, 2001. The swap is considered a fair value hedge under SFAS No. 133. The transition adjustment and the adjustment to record the change in fair value of the derivative associated with the swap, as required by SFAS No. 133, did not have a material effect on the Corporation's financial statements.

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

MERCANTILE BANKSHARES CORPORATION

Consolidated Financial Results

Mercantile Bankshares Corporation reported net income of $46,358,000 for the quarter ended March 31, 2001, an increase of 11.5% over net income of $41,585,000 for the same period in 2000. Diluted net income per share was $.65 for the quarter ended March 31, 2001, an increase of 8.3% from the $.60 reported for the first quarter last year. Cash net income, which excludes amortization of goodwill, was $48,670,000 for the quarter ended March 31, 2001, an increase of 14.4% over $42,543,000 for the same period last year. Diluted cash net income per share was $.68 for the first quarter 2001 as compared to $.62 for the same period last year, an increase of 9.7%. The results for this year's first quarter include Union National Bank and The Bank of Fruitland which were merged during the prior year's third and fourth quarters, respectively.

Return on average assets for the quarter was 2.11%, return on average tangible equity was 18.34% and average tangible equity to average assets was 12.21%. These key performance measures reflect Mercantile's continuing profitability and financial strength, and were equal to or improved from the results for the same period last year at 2.11% for the return on average assets, and 17.99% and 12.09%, for return on average tangible equity and average tangible equity to average assets, respectively.

Net Interest Income and Net Interest Margin

Net interest income for the quarter ended March 31, 2001 increased 8.6% to $104,970,000 from $96,643,000 the prior year. The growth in net interest income is attributable to the continuing strong growth in average earning assets, which increased 12.7%, compared to March 31, 2000. Average loans increased 16.8% over the same period in the prior year, to $6,753,493,000 for the quarter ended March 31, 2001. The previously mentioned bank acquisitions accounted for approximately 30% of this growth. Funding for the increase in earning assets came from a 14.9% growth in average total deposits, with the recent acquisitions accounting for approximately 40% of this growth. Offsetting the positive growth was a decline in the net interest margin to 5.09% from the 5.24% reported in the fourth quarter 2000 and from 5.22% in the first quarter 2000. This decline was attributed to the 150 basis point reduction in the discount rate by the Federal Reserve during the first quarter 2001. The company is asset sensitive, with assets repricing more quickly with changes in interest rates than liabilities. This means that the net interest margin generally expands when interest rates rise, as they did during the course of last year, and contracts when rates fall. See the Analysis of Interest Rates and Interest Differentials on page 11.

Noninterest Income

Noninterest income increased 13.6% to $33,715,000 for the first quarter 2001. Included in this increase was a gain of $1,541,000 from the sale of some equity securities held in the available-for-sale portfolio. Excluding the investment securities gain, the growth rate was 8.7% for the same period. Trust Division revenues grew 1.4% to $17,131,000 for the quarter ended March 31, 2001. Since trust revenues are primarily based on the market value of assets administered, the decline in the stock market values over the past year contributed to slower revenue growth. Mortgage banking revenues more than doubled to $1,594,000. Revenues benefited from increased volume in residential loan originations as a result of declining interest rates. On March 1, 2001, additional commercial mortgage origination and servicing capacity was provided by an affiliation between Mercantile Mortgage Corporation and the former commercial financing subsidiary of Columbia National Incorporated. This affiliation added a commercial real estate loan servicing portfolio of nearly $5 billion, of which $1 billion is servicing owned.

Noninterest Expenses

Noninterest expenses for the quarter ended March 31, 2001, increased 7.0% to $62,664,000 from $58,570,000 for the first quarter of 2000. The key measure of expense management is the efficiency ratio, which improved to 45.1% this year from 46.0% in the prior year. The increase in salaries and employee benefits is a result of increased staff from acquisitions and a general increase in costs for the health and welfare benefit plans. The increase in net occupancy expenses is also attributable to the acquisitions. Other expenses decreased 7.4% 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 of goodwill, which

increased by 141.3%, includes accelerated amortization of $250,000 as a result of the prepayment of investment securities acquired in the Union National Bank acquisition. Noninterest expense, excluding goodwill, was $60,352,000 for the first quarter 2001, an increase of 4.8% from $57,612,000 for the prior year.

Analysis of Financial Condition

At March 31, 2001, total assets increased 2.0% to $9,119,488,000 compared to $8,938,030,000 at December 31, 2000. Comparing March 31, 2001 to the same period in the prior year reflects an increase of 13.0%. The recent acquisitions accounted for approximately 40% of this growth. Total earning assets increased 1.9% to $8,618,616,000 at March 31, 2001 from $8,457,029,000 at December 31, 2000. Loans at March 31, 2001 were $6,788,018,000, an increase of 1.4% from the $6,693,294,000 level at December 31, 2000.

Total deposits increased 3.0% to $6,999,398,000 as of March 31, 2001 from $6,796,541,000 at December 31, 2000. Interest-bearing deposits were $5,422,389,000, an increase of 4.2% from December 31, 2000. Interest-bearing deposits were 77.5% of total deposits at March 31, 2001, which represented an increase from the 76.6% at December 31, 2000. Noninterest-bearing deposits declined 1.0% to $1,577,009,000 as of March 31, 2001, compared to $1,593,503,000 at December 31, 2000.

Total shareholders' equity increased 3.6% to $1,215,312,000 at March 31, 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. 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 three months ended March 31, 2001, nonperforming assets increased $2,053,000 to $33,423,000. Nonperforming loans, one of the components of nonperforming assets, increased $2,402,000 while other real estate owned, the other component, decreased $349,000. Nonperforming assets as a percent of period-end loans and other real estate owned was .49% at March 31, 2001 and .47% at the end of last year.

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

Nonperforming Assets (Dollars in thousands)	March 31, 2001	December 31, 2000
Nonaccrual loans (1)	$32,767	$30,365
Renegotiated loans (1)	--	--
Loans contractually past due 90 days or more and still accruing interest	--	--
Total nonperforming loans	32,767	30,365
Other real estate owned	656	1,005
Total nonperforming assets	$33,423	$31,370
Nonperforming assets as a percent of period-end loans and other real estate owned	.49%	.47%

(1) Aggregate gross interest income of $768,000 and $3,276,000 for the first quarter 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 $55,000 and $1,126,000 for the first three months of 2001 and the year 2000, respectively.

Note: The Corporation was monitoring loans estimated to aggregate $4,122,000 at March 31, 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 quarter of 2001 was $2,951,000 and $3,015,000 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 $766,000 for the first three months of 2001 compared to net recoveries of $177,000 for the same period in 2000. The allowance for loan losses to period-end loans was 2.07% at March 31, 2001 and 2.05% at the end of the first quarter last year.

The following table presents a summary of the activity in the Allowance for Loan Losses for the three months ended March 31, 2001 and 2000:

Allowance for Loan Losses (Dollars in thousands)	For the 3 Months Ended March 31, 2001	2000
Allowance balance -- beginning	$ 138,612	$ 117,997
Charge-offs:		
Commercial	(879)	(56)
Real estate -- construction	--	(11)
Real estate -- mortgage	(18)	(254)
Consumer	(690)	(773)
Total	(1,587)	(1,094)
Recoveries:		
Commercial	354	516
Real estate -- construction	--	174
Real estate -- mortgage	138	94
Consumer	329	487
Total	821	1,271
Net (charge-offs)/recoveries	(766)	177
Provision for loan losses	2,951	3,015
Allowance balance -- ending	$ 140,797	$ 121,189
Average loans	$ 6,753,493	$ 5,783,962
Net (charge-offs)/recoveries -- annualized as a percent of average loans	(.05)%	.01%
Period-end loans	$ 6,788,018	$ 5,902,512
Allowance for loan losses as a percent of period-end loans	2.07%	2.05%

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.

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 three 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...........	$2,376,990	$ 52,973	9.04%	$2,094,958	$ 46,796	8.98%
Real estate..........	3,550,430	75,848	8.66	2,992,315	63,636	8.55
Consumer.............	826,073	17,914	8.79	696,689	14,798	8.54
Total loans.........	6,753,493	146,735	8.81	5,783,962	125,230	8.71
Federal funds sold......	48,359	703	5.90	16,497	226	5.51
Securities**:						
Taxable securities						
U.S. Treasury securities..........	1,398,306	19,467	5.65	1,656,290	23,104	5.61
U.S. Agency securities..........	191,005	3,435	7.29	46,678	738	6.36
Other stocks and bonds..............	62,552	1,266	8.21	22,834	477	8.40
Tax-exempt securities						
States and political subdivisions........	38,907	807	8.41	12,046	243	8.11
Total securities....	1,690,770	24,975	5.99	1,737,848	24,562	5.68
Interest-bearing deposits in other banks................	394	5	5.26	152	2	4.49

Total earning assets	8,493,016	172,418	8.23	7,538,459	150,020	8.00
Cash and due from banks	205,809			214,136		
Bank premises and equipment, net	103,033			95,506		
Other assets	258,655			187,374		
Less: allowance for loan losses	(140,221)			(118,941)		
Total assets	$8,920,292			$7,916,534		
Interest-bearing liabilities						
Deposits:						
Savings deposits	$2,350,680	11,726	2.02	$2,352,664	11,821	2.02
Certificates of deposit $100,000 and over	1,099,294	16,891	6.23	767,959	10,459	5.48
Other time deposits	1,854,208	26,528	5.80	1,440,931	17,725	4.95
Total interest-bearing deposits	5,304,182	55,145	4.22	4,561,554	40,005	3.53
Short-term borrowings	739,113	9,107	5.00	828,419	10,768	5.23
Long-term debt	92,547	1,520	6.66	82,682	1,404	6.83
Total interest-bearing funds	6,135,842	65,772	4.35	5,472,655	52,177	3.83
Noninterest-bearing deposits	1,497,464			1,356,820		
Other liabilities and accrued expenses	106,597			89,695		
Total liabilities	7,739,903			6,919,170		
Shareholders' equity	1,180,389			997,364		
Total liabilities and shareholders' equity	$8,920,292			$7,916,534		
Net interest income		$106,646			$ 97,843	
Net interest rate spread			3.88%			4.17%
Effect of noninterest-bearing funds			1.21			1.05
Net interest margin on earning assets			5.09%			5.22%
Taxable-equivalent adjustment included in:						
Loan income		$ 1,308			$ 1,058	
Investment securities income		368			142	
Total		$ 1,676			$ 1,200	

*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 March 31, 2001.

PART II. OTHER INFORMATION
Item 6. Exhibits and Reports on Form 8-K

(a) Form 8-K filed, dated February 13, 2001, Item 5. Other Events.

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

May 9, 2001 — Principal Executive Officer

/s/ Edward J. Kelly, III

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

May 9, 2001 — Principal Financial Officer

/s/ Terry L. Troupe

By: Terry L. Troupe
Chief Financial Officer

May 9, 2001 — Chief Accounting Officer

/s/ Diana E. Nelson

By: Diana E. Nelson
Controller and Chief Accounting Officer