MERCANTILE BANKSHARES CORP
Form 10-Q
August 09, 2002

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, 2002

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, 2002, registrant had outstanding 69,701,488 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)	J
ASSETS	
Cash and due from banks	$ 2
Interest-bearing deposits in other banks	
Federal funds sold	
Total cash and cash equivalents	2
Investment securities available-for-sale (Note 3)	2,3
Investment securities held-to-maturity (Note 3)	
Loans held-for-sale	
Loans:	
Commercial	4,1
Construction	7
Residential real estate	1,0
Consumer	1,0
Lease financing	1
Total loans	7,1
Less: allowance for loan losses	(1
Loans, net	6,9
Bank premises and equipment, less accumulated depreciation of $114,100 (2002), $113,806 (December 2001) and $109,053 (June 2001)	1
Other real estate owned, net	
Goodwill, net	1
Other intangible assets, net	
Other assets	2
Total assets	$10,1
LIABILITIES	
Deposits:	
Noninterest-bearing deposits	$ 1,9
Interest-bearing deposits	5,7
Total deposits	7,7
Short-term borrowings	8
Accrued expenses and other liabilities	
Long-term debt	2
Total liabilities	8,8

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 shares -- 69,763,663 (2002), 69,775,710 (December 2001) and 71,237,313 (June 2001); restricted shares -- 66,250 (2002) and None (December and June 2001)	1
Capital surplus	1
Retained earnings	9
Accumulated other comprehensive income (loss)	
Total shareholders' equity	1,2
Total liabilities and shareholders' equity	$10,1

(Dollars in thousands, except per share data)	Ju
ASSETS	
Cash and due from banks	$ 29
Interest-bearing deposits in other banks	
Federal funds sold	3
Total cash and cash equivalents	33
Investment securities available-for-sale (Note 3)	1,70
Investment securities held-to-maturity (Note 3)	5
Loans held-for-sale	4
Loans:	
Commercial	3,82
Construction	89
Residential real estate	1,04
Consumer	99
Lease financing	15
Total loans	6,92
Less: allowance for loan losses	(14
Loans, net	6,77
Bank premises and equipment, less accumulated depreciation of $114,100 (2002), $113,806 (December 2001) and $109,053 (June 2001)	10
Other real estate owned, net	
Goodwill, net	10
Other intangible assets, net	
Other assets	15
Total assets	$9,28
LIABILITIES	
Deposits:	
Noninterest-bearing deposits	$1,65
Interest-bearing deposits	5,47
Total deposits	7,12
Short-term borrowings	71
Accrued expenses and other liabilities	11

Long-term debt	8
Total liabilities	8,04
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 shares -- 69,763,663 (2002), 69,775,710 (December 2001) and 71,237,313 (June 2001); restricted shares -- 66,250 (2002) and None (December and June 2001)	14
Capital surplus	21
Retained earnings	85
Accumulated other comprehensive income (loss)	2
Total shareholders' equity	1,23
Total liabilities and shareholders' equity	$9,28

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, 2002	2001	For the Ended 2002
INTEREST INCOME			
Interest and fees on loans	$233,822	$284,163	$117,12
Interest and dividends on investment securities:			
Taxable interest income	49,207	45,904	24,86
Tax-exempt interest income	959	1,002	47
Dividends	542	680	25
Other investment income	5,888	1,690	2,89
	56,596	49,276	28,49
Other interest income	2,667	3,476	1,00
Total interest income	293,085	336,915	146,62
INTEREST EXPENSE			
Interest on deposits	63,609	108,938	30,47
Interest on short-term borrowings	6,240	16,054	2,92
Interest on long-term debt	5,623	3,045	2,79
Total interest expense	75,472	128,037	36,19
NET INTEREST INCOME	217,613	208,878	110,42
Provision for loan losses	8,199	6,129	5,11
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	209,414	202,749	105,30

NONINTEREST INCOME			
Investment and wealth management	34,355	34,659	17,82
Service charges on deposit accounts	15,189	13,300	7,72
Mortgage banking related fees	5,089	4,861	1,91
Investment securities gains and (losses)	1,049	1,539	1,05
Other income	15,962	15,114	8,28
Total noninterest income	71,644	69,473	36,80
NONINTEREST EXPENSES			
Salaries	65,005	60,290	33,35
Employee benefits	16,600	15,136	8,06
Stock-based compensation expense	820	(538)	41
Net occupancy expense of bank premises	7,969	6,771	4,06
Furniture and equipment expenses	12,059	11,748	5,62
Communications and supplies	6,663	6,573	3,40
Goodwill amortization	--	4,805	-
Other expenses	25,005	23,285	12,98
Total noninterest expenses	134,121	128,070	67,93
Income before income taxes	146,937	144,152	74,18
Applicable income taxes	53,817	53,170	27,23
NET INCOME	$ 93,120	$ 90,982	$ 46,94
NET INCOME PER SHARE OF COMMON STOCK (Note 2):			
Basic	$ 1.33	$ 1.28	$ .6
Diluted	$ 1.32	$ 1.27	$ .6

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 6 Month June 30, 2002	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 93,120	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	8,199	
Depreciation and amortization	6,399	
Amortization of goodwill	--	
Amortization of other intangible assets	1,050	
Investment securities (gains) and losses	(1,049)	
Write-downs of investments in private equity funds	1,060	
Write-downs of other real estate owned	2	
Gains on sales of other real estate owned	(43)	
Gains on sales of buildings	(350)	
Net (increase) decrease in assets:		

Interest receivable	(663)	
Other receivables	(42,050)	
Other assets	2,415	
Loans held-for-sale	91,484	(
Net increase (decrease) in liabilities:		
Interest payable	(8,698)	
Accrued expenses	(8,844)	
Taxes payable	(10,352)	
Net cash provided by operating activities	131,680	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of investment securities held-to-maturity	928	
Proceeds from maturities of investment securities available-for-sale	286,822	3
Proceeds from sales of investment securities available-for-sale	53,039	
Purchases of investment securities held-to-maturity	(2,672)	
Purchases of investment securities available-for-sale	(405,160)	(3
Net increase in customer loans	(242,935)	(2
Proceeds from sales of other real estate owned	179	
Capital expenditures	(6,221)	
Proceeds from sales of buildings	575	
Acquisition of commercial mortgage company	--	
Other investing activity	(8,766)	
Net cash used in investing activities	(324,211)	(2
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in noninterest-bearing deposits	53,392	
Net increase in checking plus interest and savings accounts	241,530	
Net increase (decrease) in certificates of deposit	(34,118)	1
Net decrease in short-term borrowings	(46,321)	(
Repayment of long-term debt	(8,300)	
Proceeds from issuance of shares	4,329	
Repurchase of common shares	(10,546)	
Dividends paid	(40,413)	(
Net cash provided by financing activities	159,553	2
Net increase (decrease) in cash and cash equivalents	(32,978)	
Cash and cash equivalents at beginning of period	314,347	2
Cash and cash equivalents at end of period	$ 281,369	$ 3

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, 2002 AND 2001

(Dollars in thousands, except per share data)	Total	Common Stock	Capital Surplus	Reta Earn
BALANCE, DECEMBER 31, 2000	$1,173,301	$142,198	$214,454	$800,
Net income	90,982			90,
Unrealized gains (losses) on securities available-for-sale, net of reclassification adjustment, net of taxes	7,305			
Comprehensive income	98,287			
Cash dividends paid:				
Common stock ($.54 per share)	(38,474)			(38,
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,
BALANCE, DECEMBER 31, 2001	$1,230,206	$139,551	$159,947	$904,
Net income	93,120			93,
Unrealized gains (losses) on securities available-for-sale, net of reclassification adjustment, net of taxes (Note 7)	4,603			
Comprehensive income	97,723			
Cash dividends paid:				
Common stock ($.58 per share)	(40,413)			(40,
Issuance of 53,466 shares for dividend reinvestment and stock purchase plan	1,892	107	1,785	
Issuance of 11,261 shares for employee stock purchase dividend reinvestment plan	469	22	447	
Issuance of 114,976 shares for employee stock option plan	1,968	230	1,738	
Issuance of 66,250 shares for restricted stock awards	2,981	133	2,848	
Deferred compensation -- restricted stock awards	(2,680)			(2,
Purchase of 258,000 shares under stock repurchase plan	(10,546)	(516)	(10,030)	
Vested stock options	487		487	
BALANCE, JUNE 30, 2002	$1,282,087	$139,527	$157,222	$954,

See notes to consolidated financial statements

MERCANTILE BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The consolidated financial statements, which include the accounts of Mercantile Bankshares Corporation (Bankshares) 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 and contingent assets and liabilities at the date of the financial statements, and the disclosure of 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. EARNINGS PER SHARE

Basic earnings per share (EPS) is computed by dividing income available to common shareholders by weighted average common shares outstanding. Diluted EPS is computed using the same components as in basic EPS with the denominator adjusted for the dilutive effect of stock options and restricted stock awards. The following tables provide a reconciliation between the computation of basic EPS and diluted EPS for the six months and quarters ended June 30, 2002 and 2001:

	For the 6 Months Ended June 30,				
	2002			2001	
(In thousands, except per share data)	Net Income	Weighted Average Common Shares	EPS	Net Income	Weighted A Common Sh
Basic EPS	$93,120	69,807	$1.33	$90,982	71,15
Dilutive effect of stock options and restricted stock awards		559			63
Diluted EPS	$93,120	70,366	$1.32	$90,982	71,78

	For the 3 Months Ended June 30,				
	2002			2001	
(In thousands, except per share data)	Net Income	Weighted Average Common Shares	EPS	Net Income	Weighted A Common Sh
Basic EPS	$46,945	69,793	$.67	$44,624	71,18
Dilutive effect of stock options and restricted stock awards		529			61
Diluted EPS	$46,945	70,322	$.67	$44,624	71,80

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3. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities at June 30, 2002, December 31, 2001 and June 30, 2001, are shown below:

	June 30, 2002		December 31, 2001		June 30, 2	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	
Securities available-for-sale						
U.S. Treasury and government agencies	$2,103,967	$2,146,158	$2,029,682	$2,066,990	$1,615,391	$1,
States and political subdivisions....	649	673	649	667	1,349	
Other investments..................	207,608	215,499	215,545	221,037	46,054	
Total............................	$2,312,224	$2,362,330	$2,245,876	$2,288,694	$1,662,794	$1,
Securities held-to-maturity						
States and political subdivisions....	$ 38,552	$ 40,916	$ 38,815	$ 40,172	$ 40,706	$
Other investments..................	15,461	15,461	13,454	13,454	13,454	
Total............................	$ 54,013	$ 56,377	$ 52,269	$ 53,626	$ 54,160	$

4. IMPAIRED LOANS

A loan is considered impaired, based on current information and events, if it is probable that Bankshares 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 on 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 Bankshares' 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) at June 30 and March 31, 2002 and at the end of December 2001, is shown below. See Form 10-K for more details.

(Dollars in thousands)	June 30, 2002	March 31 200
Impaired loans with a valuation allowance....................................	$ 20,000	$ 53,93
Impaired loans with no valuation allowance..................................	22,314	13,30

Total impaired loans..	$ 42,314	$ 67,23
Allowance for loan losses applicable to impaired loans........................	$ 5,209	$ 13,36
Allowance for loan losses applicable to other than impaired loans.............	130,185	130,14
Total allowance for loan losses...	$135,394	$143,50
Year-to-date interest income on impaired loans recorded on the cash basis......	$ 274	$ 3
Year-to-date average recorded investment in impaired loans during the period...	$ 61,008	$ 67,23
Quarter-to-date interest income on impaired loans recorded on the cash basis...	$ 239	$ 3
Quarter-to-date average recorded investment in impaired loans during the period	$ 54,777	$ 67,23

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.

5. COMMITMENTS

Various commitments to extend credit (lines of credit) are made in the normal course of banking business. Total unused lines of credit approximated $2,865,317,000, $3,055,291,000 and $2,667,430,000 at June 30, 2002, December 31, 2001 and

June 30, 2001, respectively. In addition, letters of credit are issued for the benefit of customers by affiliated banks. Outstanding letters of credit were $217,627,000 at June 30, 2002, $197,546,000 at December 31, 2001 and $188,980,000 at June 30, 2001.

6. INTANGIBLE ASSETS

The following table discloses the gross carrying amount and accumulated amortization of intangible assets subject to amortization at June 30, 2002 and December 31, 2001:

	At June 30, 2002			At December 31, 2001		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Deposit intangibles......	$13,846	$(5,795)	$8,051	$13,846	$(4,899)	$8,947
Mortgage servicing rights	1,610	(1,168)	442	1,749	(1,406)	343
Other..................	50	(33)	17	50	(21)	29
Total..................	$15,506	$(6,996)	$8,510	$15,645	$(6,326)	$9,319

The aggregate amortization expense was $1,050,000 for the six months ended June 30, 2002 and $2,082,000 for the year ended December 31, 2001. The estimated aggregate amortization expense for each of the next five years is: 2003 - $1,711,000; 2004 - $1,496,000; 2005 - $1,463,000; 2006 - $1,463,000; 2007 - $1,261,000.

7. COMPREHENSIVE INCOME

The following table summarizes the related tax effect of unrealized gains (losses) on securities available-for-sale for the six months ended June 30, 2002 and 2001. 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			
	2002			
(Dollars in thousands)	Pretax Amount	Tax (Expense) Benefit	Net Amount	Pretax Amount
Unrealized gains (losses) on securities available-for-sale:				
Unrealized holding gains (losses) arising during the period...	$ 8,337	$(3,100)	$5,237	$13,513
Reclassification adjustment for (gains) losses included in net income..	(1,049)	415	(634)	(1,539
Total..	$ 7,288	$(2,685)	$4,603	$11,974

8. CAPITAL ADEQUACY

Bankshares 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 I capital and Total risk-based capital as percents of net risk-weighted assets and Tier I capital as a percent of adjusted average total assets (leverage ratio). The minimum ratios for capital adequacy purposes are 4.00%, 8.00% and 4.00%, for the Tier I capital, Total capital and leverage ratios, respectively. To be categorized as well capitalized, a bank must maintain minimum ratios of 6.00%, 10.00% and 5.00%, for its Tier I capital, Total capital and leverage ratios, respectively. Management believes that, as of June 30, 2002, Bankshares and its bank affiliates exceeded all capital adequacy requirements to which they are subject.

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Capital ratios and the amounts used to calculate them are presented in the following table for Bankshares and Mercantile - Safe Deposit & Trust Company (MSD&T), the lead bank, as of June 30, 2002 and December 31, 2001.

	June 30, 2002	December 31, 2001

(Dollars in thousands)	Bankshares	MSD&T	Bankshares	MSD&T
Tier I capital..............	$1,140,438	$ 421,785	$1,092,262	$ 379,687
Total risk-based capital.....	1,235,763	463,873	1,185,518	418,309
Net risk-weighted assets.....	7,329,989	3,285,414	7,088,939	2,982,498
Adjusted average total assets	9,820,003	4,003,694	9,413,946	3,593,194
Tier I capital ratio.........	15.56%	12.84%	15.41%	12.73%
Total capital ratio..........	16.86%	14.12%	16.72%	14.03%
Leverage ratio...............	11.61%	10.53%	11.60%	10.57%

9. SEGMENT REPORTING

Operating segments are defined as components of an enterprise about which separate financial information is available that management relies on for decision making and performance assessment. Bankshares has two reportable segments - its nineteen 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, 2002 and 2001. 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. The amounts reported reflect the merger of The Sparks State Bank into MSD&T.

	For the 6 Months Ended June 30, 2002					
(Dollars in thousands)	MSD&T Banking	MSD&T Trust	Total MSD&T	Community Banks	Other	Total
Net interest income.............	$ 72,868	$ --	$ 72,868	$ 145,981	$ (1,236)	$ 217,6
Provision for loan losses........	(4,665)	--	(4,665)	(3,534)	--	(8,1
Noninterest income..............	21,006	34,154	55,160	24,146	(7,662)	71,6
Noninterest expenses............	(46,283)	(21,505)	(67,788)	(74,112)	7,779	(134,1
Adjustments.....................	8,713	(663)	8,050	(4,372)	(3,678)	
Income (loss) before income taxes	51,639	11,986	63,625	88,109	(4,797)	146,9
Income tax (expense) benefit.....	(18,664)	(4,795)	(23,459)	(30,879)	521	(53,8
Net income (loss)...............	$ 32,975	$ 7,191	$ 40,166	$ 57,230	$ (4,276)	$ 93,1
Average assets..................			$4,026,306	$6,040,205	$(213,191)	$9,853,3
Average equity..................			430,442	755,304	55,318	1,241,0

	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.............	$ 72,845	$ --	$ 72,845	$ 136,189	$ (156)	$ 208,8
Provision for loan losses........	(3,568)	--	(3,568)	(2,561)	--	(6,1
Noninterest income..............	17,733	34,523	52,256	22,126	(4,909)	69,4

Noninterest expenses............	(41,143)	(20,044)	(61,187)	(69,722)	2,839	(128,0
Adjustments.....................	5,789	(953)	4,836	(9,844)	5,008	
Income (loss) before income taxes	51,656	13,526	65,182	76,188	2,782	144,1
Income tax (expense) benefit.....	(18,734)	(5,430)	(24,164)	(28,285)	(721)	(53,1
Net income (loss)...............	$ 32,922	$ 8,096	$ 41,018	$ 47,903	$ 2,061	$ 90,9
Average assets..................			$3,690,464	$5,505,708	$(146,639)	$9,049,5
Average equity..................			405,176	663,740	126,550	1,195,4

10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Bankshares maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. Derivative instruments that are used as part of the interest rate risk management strategy have been restricted to interest rate swaps. Interest rate swaps generally involve the exchange of fixed-rate and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date. Bankshares has entered into interest rate swaps to convert fixed-rate loans made to borrowers to floating-rate loans and convert its nonprepayable fixed-rate debt to floating-rate debt.

The fair value of derivative instrument liabilities recorded in accrued expenses and other liabilities was $6,988,000 and $14,625,000 at June 30, 2002 and December 31, 2001, respectively. For the six months ended June 30, 2002, Bankshares recognized a net gain of $3,000, included in interest and fees on loans, which represented the ineffective portion of the fair-value hedge of fixed-rate loans made to borrowers. For the year ended December 31, 2001, Bankshares recognized a net loss of $28,000. The fair-value hedge of the nonrepayable fixed-rate debt was 100% effective for the reported periods.

11. ACCOUNTING CHANGES

In June 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 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Additionally, it further clarifies the criteria for the initial recognition and measurement of intangible assets separate from goodwill. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 and prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of SFAS No. 142 discontinue 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. SFAS No. 142 also requires that reporting units be identified for the purpose of assessing potential future impairments of goodwill.

Mercantile Bankshares Corporation adopted SFAS No. 142 on January 1, 2002. In preparing for its adoption of SFAS No. 142, Bankshares determined its reporting units and the amounts of goodwill and intangible assets to be allocated to those reporting units. Bankshares is not anticipating any reclassifications between goodwill and intangible assets or any changes in the useful lives of intangible assets. Application of the nonamortization provisions of the Statement is expected to result in additional net income of $8.4 million for the year ended December 31, 2002.

SFAS No. 142 requires that goodwill be tested annually for impairment using a two-step process. The first step, which Bankshares completed during the first half of 2002, is to identify a potential impairment. The second step, which Bankshares will complete by the end of 2002, measures the amount of the impairment loss, if any. Based on current information, Bankshares is not expecting impairment charges for goodwill to impact the 2002 financial statements.

The following table presents a reconciliation of reported net income and earnings per share to amounts adjusted to exclude goodwill amortization, net of tax:

(Dollars in thousands, except per share data)	For the 6 Months Ended June 30, 2002	2001	For the 3 Mont Ended June 30, 2002	2001
Net income				
Reported	$93,120	$90,982	$46,945	$44,6
Add: goodwill amortization	--	4,745	--	2,4
Adjusted	$93,120	$95,727	$46,945	$47,0
Basic earnings per share				
Reported	$ 1.33	$ 1.28	$ .67	$.
Add: goodwill amortization	--	.07	--	.
Adjusted	$ 1.33	$ 1.35	$ .67	$.
Diluted earnings per share				
Reported	$ 1.32	$ 1.27	$ .67	$.
Add: goodwill amortization	--	.06	--	.
Adjusted	$ 1.32	$ 1.33	$ .67	$.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MERCANTILE BANKSHARES CORPORATION

CONSOLIDATED FINANCIAL RESULTS

Net income for the quarter ended June 30, 2002 was $46,945,000, a 5.2% increase from net income of $44,624,000 for the same period in 2001. For the quarter ended June 30, 2002, diluted net income per share was $.67, an increase of 8.1% over the $.62 reported for the second quarter last year. As a result of newly-adopted rules under Generally Accepted Accounting Principles, amortization of goodwill has been discontinued in 2002. Had the same rules been in effect in 2001, net income would have been $.04 per share higher for the quarter ended June 30, 2001. The higher growth in earnings per share was attributable to a decline in weighted average shares outstanding from

71,802,000 for the quarter ended June 30, 2001, to 70,322,000 for the quarter ended June 30, 2002. The decline in shares primarily resulted from activity under the share repurchase program, which had remaining repurchase authorization for 2.6 million shares at June 30, 2002.

For the first six months of 2002, net income was $93,120,000, an increase of 2.3% over the $90,982,000 reported for the comparable period in 2001. Diluted net income per share for the first half of 2002 was $1.32, a 3.9% increase over the $1.27 reported for the same period last year. Excluding goodwill amortization, net income would have been $1.33 for the six months ending June 30, 2001.

The return on average assets for the second quarter of 2002 was 1.90%, as compared with 2.06% for the second quarter of 2001. The return on average tangible equity was 16.36% and the ratio of average tangible equity to average tangible assets was 11.71% for the second quarter of 2002. For the second quarter 2001, the return on average tangible equity was 17.13% and the ratio of average tangible equity to average tangible assets was 12.15%.

NET INTEREST INCOME AND NET INTEREST MARGIN

Net interest income for the quarter ended June 30, 2002 increased 6.3% to $110,425,000 from $103,908,000 for the second quarter last year. This represented the best quarterly performance over the prior year since the first quarter 2001, when the Federal Reserve began lowering short-term interest rates. The current quarter reflected a 3.0% growth over the $107,188,000 reported for the prior quarter this year. The growth in net interest income was attributable to the growth in average earning assets, particularly investment securities. Average earning assets grew to $9,478,299,000, an 8.4% increase over the previous year's $8,743,321,000 quarterly average. The net interest margin at 4.74% for the second quarter 2002, was 10 basis points lower than the same quarter last year. However, for the second consecutive quarter, the net interest margin improved. This improvement is attributable, in part, to growth in both lower costing and noninterest-bearing deposits.

Net interest income for the first six months of 2002 increased to $217,613,000 or 4.2% over the $208,878,000 for the same period last year. The growth in net interest income was attributable to a 9.1% growth in average earning assets, partially offset by a 23 basis point decline in the net interest margin from 4.96% to 4.73%. See the Analysis of Interest Rates and Interest Differentials on pages 17 and 18 and Rate/Volume Analysis on page 19 for further details.

	For the 6 Months Ended June 30, 2002 vs. 2001 Due to variances in			For the 3 Months Ended June 30, 2002 vs. 2001 Due to variances in		
(Dollars in thousands)	Rates	Volumes	Total	Rates	Volumes	Total
Total interest income.	$(69,715)	$25,640	$(44,075)	$(31,825)	$12,199	$(19,626)
Total interest expense	(60,703)	8,138	(52,565)	(29,206)	3,139	(26,067)
Net interest earned...	$ (9,012)	$17,502	$ 8,490	$ (2,619)	$ 9,060	$ 6,441

Interest income for the quarter decreased $19,550,000 or 11.8% to $146,623,000. For the first six months of 2002, interest income decreased $43,830,000 or 13.0% to $293,085,000. On a tax-equivalent basis, interest income for the first six months of 2002 decreased $44,075,000. This decline is attributable to the

Federal Reserve's 475 basis point reduction in short-term interest rates last year. Accordingly, the tax-equivalent yield on the loan portfolio declined 149 basis points from 8.24% last year to 6.75% in the current quarter and 171 basis points from 8.53% to 6.82% for the first half 2001 and 2002, respectively. Similarly, the tax-equivalent yield on the investment portfolio declined 96 basis points to 4.91% from 5.87% in the second quarter last year and 95 basis points from 5.93% to 4.98% for the first half 2001 and 2002, respectively. The increase in interest income related to changes in volume is primarily attributable to the investment portfolio, which grew over the prior

year by 37.5% and 36.3% for the quarter and six months, respectively. In contrast, average loans grew by 2.9% and 3.0% for the three and six months ended June 30, 2002 compared to the same periods last year.

Interest expense for the quarter ended June 30, 2002 decreased $26,067,000 or 41.9% to $36,198,000. For the first six months of 2002, interest expense decreased $52,565,000 or 41.1% to $75,472,000. Although interest rates have generally stabilized since the fourth quarter 2001, the repricing upon maturity of longer duration certificates of deposit has continued to reduce interest expense. The average rate paid on time deposits $100,000 and over during the second quarter 2002 was 3.19%, a decline of 269 basis points from the prior year. For the six month period, the average rate paid declined 255 basis points to 3.43%. Other time deposits, primarily consumer certificates of deposit, declined 201 basis points and 194 basis points to an average rate paid of 3.58% and 3.79% for the three and six months ended June 30, 2002, as compared to the same periods last year. Overall, the average rate paid on interest-bearing deposits declined 180 basis points for both the three and six months ended June 30, 2002 when compared to the prior year. As would be expected, the greatest decline in the average rate paid occurred in the cost of short-term borrowings, which declined 241 basis points for the three months ended and 297 basis points for the six months ended June 30, 2002, respectively. The increase in interest expense due to increased volume is attributable to the growth in long-term debt, short-term borrowings, savings and money market deposits.

NONINTEREST INCOME

Noninterest Income (Dollars in thousands)	For the 6 Months Ended June 30, 2002 vs. 2001 Increase/(Decrease) Amount	%	For the 3 Months Ended 2002 vs. 2001 Increase/(Decrease) Amount
Investment and wealth management.........	$ (304)	(.9)	$ 300
Service charges on deposit accounts......	1,889	14.2	846
Mortgage banking related fees............	228	4.7	(1,352)
Investments securities gains and (losses)	(490)	(31.8)	1,051
Other income.............................	848	5.6	202
Total noninterest income.............	$2,171	3.1	$ 1,047

Noninterest income increased 2.9% to $36,805,000 for the second quarter 2002 versus the comparable period in 2001. Excluding the $1,051,000 equity securities gain realized in the second quarter of 2002, the growth rate was flat year over year. Investment and wealth management revenues increased 1.7% to $17,828,000 for the quarter ended June 30, 2002 as a result of growth in new business and negotiated fee increases offset by the decline in equity values. We also exited the 401(k) business last year. Mortgage banking revenues decreased 41.4% to $1,915,000 due to lower volumes in commercial mortgage loan originations and outsourcing of the retail origination business. The other income component of noninterest income for the second quarter of 2002 reflects write-downs of investments in third-party private equity funds of $162,000, while the first quarter included gains on sales of bank owned buildings of $350,000, offset by write-downs of investments in third-party private equity funds of $898,000. For the first six months, excluding investment securities gains, noninterest income increased $2,661,000, or 3.9%. Increased commercial checking and account analysis fees, growth in commercial loan fees and mortgage banking related fees account for the balance of the increase.

NONINTEREST EXPENSES

	For the 6 Months Ended June 30, 2002 vs. 2001		For the 3 Months Ended Jun 2002 vs. 2001	
Noninterest Expenses (Dollars in thousands)	Increase/(Decrease) Amount	%	Increase/(Decrease) Amount	%
Salaries............................	$ 4,715	7.8	$ 2,447	7
Employee benefits...................	1,464	9.7	859	11
Stock-based compensation expense......	1,358	252.4	281	206
Net occupancy expense of bank premises	1,198	17.7	728	21
Furniture and equipment expenses......	311	2.6	(117)	(2
Communications and supplies...........	90	1.4	111	3
Other expenses.......................	1,720	7.4	708	5
Noninterest expenses before goodwill amortization......................	10,856	8.8	5,017	8
Goodwill amortization................	(4,805)	(100.0)	(2,493)	(100
Total noninterest expenses.........	$ 6,051	4.7	$ 2,524	3

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Noninterest expenses for the quarter ended June 30, 2002, increased 3.9% to $67,930,000 from $65,406,000 for the second quarter of 2001. Excluding goodwill amortization, noninterest expenses were $62,913,000 for the second quarter of 2001. Excluding goodwill amortization, noninterest expenses for the second quarter 2002 increased by 8.0% over the second quarter 2001 and increased by 2.6% from the first quarter 2002. The principal contributor to the year over year increase in expenses was a $2.4 million or 7.9% increase in salaries. Included in salaries were severance expenses of $1.7 million related to the reorganization of the investment and wealth management business. An $859,000 increase in employee benefits was primarily the result of increased pension and medical costs. Net occupancy expense increased $728,000 or 21.8% to $4,064,000 for the current quarter from the quarter ending June, 2001. Excluding severance expenses, noninterest expenses would have been flat compared to the first quarter of 2002. Noninterest expenses for the first six months of 2002 increased $10,856,000, or 8.8%, after excluding the amortization of goodwill in

2001. The increase in expenses was attributed to salaries and benefits related to severance expenses for the investment and wealth management reorganization, as discussed for the quarter. Also impacting this period was increased incentive compensation expenses, stock compensation related to stock options and restricted stock awards, and directors' deferred compensation, which fluctuates based on the market price of Mercantile's stock. Additionally, the increase in occupancy expense is a function of increases in rental payments and increases in repair and maintenance expenses associated with improvements at some branch locations. Mercantile continued to expand its internal use of its headquarters building causing a reduction in outside tenants in that building.

The efficiency ratio, a key measure of expense management, was 45.99% for the second quarter 2002 versus 44.69% for the comparable period. Exluding severance expenses, the efficiency ratio would have been 44.84% for the second quarter 2002.

ANALYSIS OF FINANCIAL CONDITION

At June 30, 2002, total assets increased 9.5% to $10,159,234,000 compared to $9,280,542,000 one year earlier. Compared to the year ended December 31, 2001 at $9,928,786,000, total assets increased 2.3%. Total loans increased 3.1% to $7,134,893,000 at June 30, 2002, compared to $6,923,139,000 at June 30, 2001. The mix of the loan portfolio is relatively consistent, except for the expected decline in leases in the portfolio from 2.3% of outstandings at June, 2001 through December at 2.2% to 1.8% currently.

Total deposits at June 30, 2002, were $7,708,176,000, an increase of 8.1% from $7,128,764,000 at the end of the second quarter 2001, and a 3.5% increase from the end of last year. Interest-bearing deposits were $5,770,906,000, an increase of 5.5% from June 30, 2001, and a 3.7% increase from the end of 2001. Interest-bearing deposits were 74.9% of total deposits at June 30, 2002, which represented a decrease from the 76.7% at June 30, 2001 and remained relatively unchanged from 74.7% at the end of last year. While total deposits increased, noninterest-bearing deposits also increased as a percentage of total deposits. Noninterest-bearing deposits were 23.3% of deposits at June, 2001, 25.3% at the end of 2001 and 25.1% for the current quarter. Noninterest-bearing deposits increased 16.9% to $1,937,270,000 as of June 30, 2002, compared to $1,657,547,000 at June 30, 2001, and increased 2.8% compared to $1,883,878,000 at December 31, 2001.

Shareholders' equity at June 30, 2002, was $1,282,087,000, an increase of 3.6% from $1,237,813,000 at June 30, 2001 and an increase of 4.2% from $1,230,206,000 at December 31, 2001. The Corporation, having repurchased 258,000 shares year to date, still has prior authorizations enabling it to repurchase up to 2.6 million shares. For more details see the Statement of Changes in Consolidated Shareholders' Equity on page 5. Effective at the June 2002 Board meeting, the dividend rate was increased 7.1% to $.30 from $.28 per share.

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, Bankshares' 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 June 30, 2002, nonperforming assets declined $6,218,000 to $45,341,000. Nonperforming loans, one of the components of nonperforming assets, decreased $6,102,000 while other real estate owned, the other

component decreased $116,000. Nonperforming assets as a percent of period-end loans and other real estate owned was .64% at June 30, 2002, .74% at March 31, 2002 and .55% at June 30, 2001, respectively. The current decline resulted from actions taken to address credit quality issues, particularly in the leasing business. The leasing company's portfolio accounted for $10,073,000 or 22.2% of nonperforming loans at June 30, 2002, but only 2.5% of the outstanding portfolio of loans and leases. At March 31, 2002, nonperforming assets in the leasing portfolio were $19,367,000 or 37.7% of nonperforming loans. As a result of credit quality concerns about the leasing portfolio, management previously announced it was narrowing the focus of the leasing business and discontinuing certain activities. These concerns are manifested in the increased allocation to leasing of the allowance for loan losses, reflected in the 2001 Form 10-K. Excluding the leasing portfolio, nonperforming loans are .47% of period-end loans.

The level of "monitored" loans, or loans with characteristics suggesting that they could be classified as nonperforming in the near future, also improved during the quarter. At June 30, 2002, monitored loans were $7,885,000 compared to $30,294,000 at March 31, 2002. One monitored loan of $11,347,000, to a business dependent on the telecommunications industry, was moved to nonaccrual status and subsequently partially charged-off. Another $14,000,000 was removed from the monitored category based on satisfactory operating results and the underlying value of the collateral.

The level of impaired loans improved during the quarter. At June 30, 2002, impaired loans were $42,314,000 compared to $67,239,000 at March 31, 2002. The $14,000,000 loan removed from monitored status was also removed from impaired status for the same reason. This loan was not a nonaccrual loan. Also impacting impaired loans was gross charge-offs this quarter of $14,216,000, offset by the addition to impaired/nonaccrual status of the $11,347,000 commercial loan previously mentioned. Impaired loans at June 30, 2002 reflected a net decrease of $12,028,000 to $42,314,000, from $54,342,000 at December 31, 2001. This is largely the result of gross charge-offs of $15,828,000 this year.

At December 31, 2001, 88.3% of the total impaired loans had a valuation allowance, while 80.2% did at March 31, 2002. At June 30, 2002 the percentage has declined to 47.3%. The decline in the portion of loans with a valuation allowance is a result of the charge-offs taken. Several loans that were previously shown as impaired with a valuation allowance have been written down to the fair value of their collateral. Therefore, while these loans are still nonaccrual and included in impaired, there is no valuation allowance assigned based on current information.

The table below presents a comparison of nonperforming assets at June 30 and March 31, 2002 and at the end of December 2001.

Nonperforming Assets (Dollars in thousands)	June 30, 2002	Marc

Nonaccrual loans (1)		
Commercial	$35,764	$3
Construction	2,450	
Residential real estate	2,648	
Consumer	317	
Lease financing	4,099	
Total nonaccrual loans	45,278	5
Renegotiated loans (1)	--	
Loans contractually past due 90 days or more and still accruing interest	--	
Total nonperforming loans	45,278	5
Other real estate owned	63	
Total nonperforming assets	$45,341	$5
Nonperforming assets as a percent of period-end loans and other real estate owned	.64%	

(1) Aggregate gross interest income of $2,285,000, $968,000 and $3,737,000 for the first half of 2002, the first quarter of 2002 and the year 2001, 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 $458,000, $263,000 and $1,593,000 for the first six months of 2002, the first three months of 2002 and the year 2001, respectively.

Note: The Corporation was monitoring loans estimated to aggregate $7,885,000 at June 30, 2002, $30,294,000 at March 31, 2002 and $15,940,000 at December 31, 2001, 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 Bankshares affiliate is required to maintain an allowance for loan losses adequate to absorb losses inherent in the loan portfolio. Management at each affiliate, along with Bankshares 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 second quarter of 2002 was $5,116,000, a 61.0% increase over $3,178,000 for the same period last year and 65.9% greater than last quarter. The provision for the first six months of 2002 was $8,199,000, an increase of 33.8% over last year's provision of $6,129,000. Loans deemed 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. Charge-offs increased this year and particularly this quarter. Credits related to the leasing business accounted for 57.1% of the gross charge-offs this quarter. Net charge-offs were $13,227,000 for the second quarter of 2002 compared to $370,000 for the same period in 2001. Net charge-offs for the first half of 2002 were $14,268,000 compared to $1,136,000 last year. The allowance for loans as a percent of period-end loans was 1.90% at June 30, 2002 and 2.07% at the end of the second quarter last year.

The following table presents a summary of the activity in the Allowance for Loan Losses for the six months and quarters ended June 30, 2002 and 2001:

Allowance for Loan Losses (Dollars in thousands)	For the 6 Months Ended June 30, 2002	2001	For the 3 Mont June 2002	
Allowance balance -- beginning	$ 141,463	$ 138,612	$ 143,505	$
Charge-offs:				
Commercial	(9,386)	(302)	(8,556)	
Construction	--	--	--	
Residential real estate	(110)	(70)	(76)	
Consumer	(1,532)	(1,525)	(784)	
Lease financing	(4,800)	(653)	(4,800)	
Total	(15,828)	(2,550)	(14,216)	
Recoveries:				
Commercial	517	552	384	
Construction	137	29	131	
Residential real estate	58	55	32	
Consumer	848	778	442	
Lease financing	--	--	--	
Total	1,560	1,414	989	
Net charge-offs	(14,268)	(1,136)	(13,227)	
Provision for loan losses	8,199	6,129	5,116	
Allowance balance -- ending	$ 135,394	$ 143,605	$ 135,394	$
Average loans	$6,980,040	$6,779,823	$7,029,501	$6
Net charge-offs (annualized) as a percent of average loans	.41%	.03%	.75%	
Period-end loans	$7,134,893	$6,923,139		
Allowance for loan losses as a percent of period-end loans	1.90%	2.07%		

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, credit quality, changes in leasing activities, impact of FASB pronouncements (including impairment testing of goodwill), 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 2002 and 2001.

	For the 6 Months Ended June 30, 2002			For the June
(Dollars in thousands)	Average Balance	Income*/ Expense	Yield*/ Rate	Average Balance
Earning assets				
Loans:				
Commercial	$4,229,246	$139,360	6.64%	$3,882,277
Construction	686,773	21,437	6.29	834,698
Residential real estate	1,073,307	39,721	7.46	1,067,692
Consumer	990,714	35,649	7.26	995,156
Total loans	6,980,040	236,167	6.82	6,779,823
Federal funds sold, et al	107,174	2,659	5.00	137,312
Securities**:				
Taxable securities				
U.S. Treasury securities	1,510,881	35,498	4.74	1,345,980
U.S. Agency securities	543,489	13,709	5.09	253,343
Other stocks and bonds	226,156	6,497	5.79	61,694
Tax-exempt securities				
States and political subdivisions	39,083	1,586	8.18	40,333
Total securities	2,319,609	57,290	4.98	1,701,350
Interest-bearing deposits in other banks	358	8	4.39	375
Total earning assets	9,407,181	296,124	6.35	8,618,860
Cash and due from banks	219,429			209,544
Bank premises and equipment, net	101,348			103,534
Other assets	269,514			258,873
Less: allowance for loan losses	(144,152)			(141,278)
Total assets	$9,853,320			$9,049,533
Interest-bearing liabilities				

Deposits:				
Savings	$ 935,762	4,402	.95	$ 845,302
Checking plus interest	846,349	1,480	1.35	756,388
Money market	1,026,650	7,178	1.41	790,391
Certificates of deposit $100,000 and over	1,016,025	17,266	3.43	1,152,557
Other time deposits	1,771,203	33,283	3.79	1,831,913
Total interest-bearing deposits	5,595,989	63,609	2.29	5,376,551
Short-term borrowings	861,272	6,240	1.46	731,376
Long-term debt	283,332	5,623	4.00	92,449
Total interest-bearing funds	6,740,593	75,472	2.26	6,200,376
Noninterest-bearing deposits	1,762,945			1,542,951
Other liabilities and accrued expenses	108,718			110,740
Total liabilities	8,612,256			7,854,067
Shareholders' equity	1,241,064			1,195,466
Total liabilities and shareholders' equity	$9,853,320			$9,049,533
Net interest income		$220,652		
Net interest rate spread			4.09%	
Effect of noninterest-bearing funds			.64	
Net interest margin on earning assets			4.73%	
Taxable-equivalent adjustment included in:				
Loan income		$ 2,345		
Investment securities income		694		
Total		$ 3,039		

* 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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MERCANTILE BANKSHARES CORPORATION

ANALYSIS OF INTEREST RATES & INTEREST DIFFERENTIALS

The following table presents the distribution of the average consolidated balance sheets, interest income/expense and annualized yields earned and rates paid for the second quarters of 2002 and 2001.

(Dollars in thousands)	For the 3 Months Ended June 30, 2002 Average Balance	Income*/ Expense	Yield*/ Rate	For the 3 June 3 Average Balance	I E
Earning assets					
Loans:					

Commercial	$4,253,691	$ 69,706	6.57%	$3,938,024	$
Construction	702,733	10,988	6.27	848,257	
Residential real estate	1,075,562	19,764	7.37	1,045,226	
Consumer	997,515	17,851	7.18	996,614	
Total loans	7,029,501	118,309	6.75	6,828,121	
Federal funds sold, et al	94,263	998	4.25	203,030	
Securities:**					
Taxable securities					
U.S. Treasury securities	1,505,980	17,559	4.68	1,294,228	
U.S. Agency securities	583,842	7,305	5.02	314,996	
Other stocks & bonds	225,230	3,187	5.68	60,846	
Tax-exempt securities					
States & political subdivisions	39,125	793	8.13	41,744	
Total securities	2,354,177	28,844	4.91	1,711,814	
Interest-bearing deposits in other banks	358	4	4.20	356	
Total earning assets	9,478,299	148,155	6.27	8,743,321	
Cash and due from banks	223,744			213,238	
Bank premises and equipment	101,179			104,030	
Other assets	272,707			259,087	
Less: allowance for loan losses	(145,109)			(142,322)	
Total assets	$9,930,820			$9,177,354	
Interest-bearing liabilities					
Deposits:					
Savings	$ 961,386	2,221	.93	$ 850,098	
Checking plus interest	857,669	749	.35	768,376	
Money market	1,049,529	3,595	1.37	814,554	
Certificates of deposit $100,000 and over	1,031,720	8,205	3.19	1,179,637	
Other time deposits	1,758,774	15,705	3.58	1,835,482	
Total interest-bearing deposits	5,659,078	30,475	2.16	5,448,147	
Short-term borrowings	813,881	2,928	1.44	723,725	
Long-term debt	283,331	2,795	3.96	92,351	
Total interest-bearing funds	6,756,290	36,198	2.15	6,264,223	
Noninterest-bearing deposits	1,818,004			1,587,918	
Other liabilities and accrued expenses	102,926			114,836	
Total liabilities	8,677,220			7,966,977	
Shareholders' equity	1,253,600			1,210,377	
Total liabilities & shareholders' equity	$9,930,820			$9,177,354	
Net interest income		$111,957			$
Net interest spread			4.12%		
Effect of noninterest-bearing funds			.62		
Net interest margin on earning assets			4.74%		
Taxable-equivalent adjustment included in:					
Loan income		$ 1,185			$
Investment securities income		347			

Total	$ 1,532	$

* 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.

MERCANTILE BANKSHARES CORPORATION

RATE/VOLUME ANALYSIS

A rate/volume analysis, which demonstrates changes in interest income and expense for significant assets and liabilities, appears below:

	For the 6 Months Ended June 30, 2002 vs. 2001 Due to variances in			For the 3 Months Ended June 30, 2002 vs. 2001 Due to variances i		
(Dollars in thousands)	Rates	Volumes	Total	Rates	Volumes	T
Interest earned on:						
Loans:						
Commercial (1)	$(40,608)	$14,765	$(25,843)	$(17,910)	$ 6,502	$(1
Construction (2)	(8,210)	(6,386)	(14,596)	(3,262)	(2,951)	(
Residential real estate	(3,382)	225	(3,157)	(1,822)	609	(
Consumer	(6,750)	(190)	(6,940)	(3,235)	19	(
Total loans	(58,950)	8,414	(50,536)	(26,229)	4,179	(2
Taxable securities (3)	(10,697)	18,038	7,341	(5,488)	9,344	
Tax-exempt securities (3)	(20)	(51)	(71)	(4)	(53)	
Federal funds sold, et al	(46)	(761)	(807)	(103)	(1,271)	(
Interest-bearing deposits in other banks	(2)	--	(2)	(1)	--	
Total interest income	(69,715)	25,640	(44,075)	(31,825)	12,199	(1
Interest paid on:						
Savings deposits	(3,799)	793	(3,006)	(1,693)	453	(
Checking plus interest deposits	(2,136)	384	(1,752)	(928)	175	
Money market accounts	(8,454)	3,597	(4,857)	(4,118)	1,727	(
Certificates of deposit $100,000 and over	(12,862)	(4,048)	(16,910)	(6,913)	(2,167)	(
Other time deposits	(17,078)	(1,726)	(18,804)	(8,786)	(1,068)	(
Short-term borrowings	(12,665)	2,851	(9,814)	(4,884)	865	(
Long-term debt	(3,709)	6,287	2,578	(1,884)	3,154	
Total interest expense	(60,703)	8,138	(52,565)	(29,206)	3,139	(2
Net interest earned	$ (9,012)	$17,502	$ 8,490	$ (2,619)	$ 9,060	$

(1) Year-to-date tax-equivalent adjustments of $1,821,000 for 2002 and $2,136,000 for 2001 are included in the commercial loan rate variances.

Quarter-to-date tax-equivalent adjustments of $916,000 for 2002 and $1,045,000 for 2001 are included in the commercial loan rate variances.

(2) Year-to-date tax-equivalent adjustments of $524,000 for 2002 and $404,000 for 2001 are included in the construction loan rate variances. Quarter-to-date tax-equivalent adjustments of $269,000 for 2002 and $187,000 for 2001 are included in the construction loan rate variances.

(3) Year-to-date tax-equivalent adjustments of $694,000 for 2002 and $744,000 for 2001 are included in the investment securities rate variances. Quarter-to-date tax-equivalent adjustments of $347,000 for 2002 and $376,000 for 2001 are included in the investment securities rate variances.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information responsive to this Item as of December 31, 2001 appears under the captions "Asset/Liability and Liquidity Management", "Interest Rate Sensitivity Analysis" and "Earnings Simulation Model Projections" on pages 21-23 of the registrant's 2001 Annual Report to Shareholders, filed as Exhibit 13 to registrant's Annual Report on Form 10-K for the year ended December 31, 2001. There was no material change in such information as of June 30, 2002.

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 24, 2002.

Results of voting for Election of Directors:

	FOR	WITHHELD
H. Furlong Baldwin	57,198,823	547,681
Freeman A. Hrabowski, III	56,957,606	788,898
Wallace Mathai-Davis	57,183,559	562,945
Clayton S. Rose	57,113,284	633,220
Donald J. Shepard	57,243,112	503,392

Names of other Directors continuing in office:

Cynthia A. Archer
Richard O. Berndt
William R. Brody
George L. Bunting, Jr.
Darrell D. Friedman
Edward J. Kelly, III
Robert A. Kinsley
Morton B. Plant
Christian H. Poindexter
James L. Shea

Results of voting on Amended and Restated Annual Incentive Compensation Plan:

FOR	AGAINST	ABSTAINED

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53,853,692	2,766,259	1,126,553

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

FOR	AGAINST	ABSTAINED
56,115,560	1,115,698	515,246

There were no broker nonvotes on these matters.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10 AA Mercantile Bankshares Corporation Option Agreement with Edward J. Kelly, III, dated May 7,

10 BB Mercantile Bankshares Corporation Option Agreement with J. Marshall Reid, dated May 7, 2002

10 CC Mercantile Bankshares Corporation Option Agreement with Jack E. Steil, dated May 7, 2002.

10 DD Mercantile Bankshares Corporation Option Agreement with John L. Unger, dated May 7, 2002.

10 EE Mercantile Bankshares Corporation Option Agreement with Terry L. Troupe, dated May 7, 2002.

10 FF Mercantile Bankshares Corporation Restricted Stock Agreement with Edward J. Kelly, III, dat

10 GG Mercantile Bankshares Corporation Restricted Stock Agreement with Wallace Mathai-Davis, dat 2002.

10 HH Mercantile Bankshares Corporation Restricted Stock Agreement with J. Marshall Reid, dated A

10 II Mercantile Bankshares Corporation Restricted Stock Agreement with Jack E. Steil, dated Apri

10 JJ Agreement among Mercantile Bankshares Corporation, Mercantile-Safe Deposit and Trust Compan Yarbro, dated June 18, 2002.

99.1 Certification of Chief Executive Officer

99.2 Certification of Chief Financial Officer

(b) Reports on Form 8-K
Form 8-K filed, dated April 3, 2002, Item 5.
Form 8-K filed, dated April 19, 2002, Item 5.

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, 2002	Principal Executive Officer
	/s/ Edward J. Kelly, III
	By: Edward J. Kelly, III President and Chief Executive Officer
August 8, 2002	Principal Financial Officer
	/s/ Terry L. Troupe
	By: Terry L. Troupe Chief Financial Officer
August 8, 2002	Chief Accounting Officer
	/s/ Diana E. Nelson
	By: Diana E. Nelson Controller and Chief Accounting Officer