RADWARE LTD
Form 6-K
October 06, 2010

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 Under
The Securities Exchange Act of 1934

For the month of October, 2010

Commission File Number: 0-30324

Radware Ltd.
(Translation of Registrant's Name into English)

22 Raoul Wallenberg Street, Tel Aviv 69710, Israel
(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F:

Form 20-F x Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): N/A

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): N/A

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes o No x

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- N/A

CONTENTS

This report on Form 6-K of Radware Ltd. consists of the following documents, which are attached hereto and incorporated by reference herein:

1. Press Release: Radware Reports Results of Annual General Meeting and Changes in its Board of Directors, dated October 6, 2010.

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.

	RADWARE LTD.	
Date: October 6th, 2010	By:	/s/ Meir Moshe Meir Moshe Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
1.1	Press Release: Radware Reports Results of Annual General Meeting and Changes in Radware's Board of Directors, dated October 6th, 2010

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(145,044

)

(10,785

)

(5,701

)

(161,530

)

Net income (loss)

$

271,359

$

16,178

$

(11,218

)

$

276,319

Average loans

$

10,876,592

$

152,572

$

387

$

11,029,551

Average earning assets

13,917,161

152,572

(1,596

)

14,068,137

Average assets

15,235,634

152,941

132,444

15,521,019

Average deposits

11,444,361

199,159

(229,765

)

11,413,755

Average equity

1,891,834

34,354

170,229

2,096,417

100

2004 (Dollars in thousands)	Banking	IWM	Other	Total
Net interest income	$ 534,468	$ 10,172	$ 1,141	$ 545,781
Provision for credit losses	(7,221)			(7,221)
Noninterest income	114,477	90,516	8,936	213,929
Noninterest expenses	(318,706)	(69,575)	(3,677)	(391,958)
Adjustments	18,098	(3,603)	(14,495)	
Income (loss) before income taxes	341,116	27,510	(8,095)	360,531
Income tax (expense) benefit	(120,253)	(11,004)	133	(131,124)
Net income (loss)	$ 220,863	$ 16,506	$ (7,962)	$ 229,407
Average loans	$ 9,591,510	$ 127,739	$ 160	$ 9,719,409
Average earning assets	12,576,465	127,739	28,800	12,733,004
Average assets	13,413,992	127,949	451,030	13,992,971
Average deposits	10,323,349	175,096	(84,753)	10,413,692
Average equity	1,449,355	31,219	391,096	1,871,670

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, Disclosures about the Fair Value of Financial Instruments, requires that we disclose estimated fair values for our financial instruments. This disclosure should be read in conjunction with the financial statements and Notes to Financial Statements in this Annual Report.

We base fair values on estimates or calculations using present value techniques when quoted market prices are not available. Because broadly traded markets do not exist for many of our financial instruments, we try to incorporate the current market conditions in the fair value calculation. These valuations are our estimates and are often based on current pricing policy, the characteristics of the financial instrument and other such factors. These calculations are subjective, involve uncertainties and rely on management judgment. There may be inherent weaknesses in any calculation technique and changes in underlying assumptions used, including discount rates and estimates of future cash flow, which could significantly affect the results.

We have not included certain material items in our disclosure, such as the value of the long-term relationships with our deposit and wealth management customers, since these intangibles are not financial instruments. For all of these reasons, the total of the fair value calculations do not represent the underlying value of Bankshares.

The estimated fair values of Bankshares financial instruments at December 31, 2006 and 2005 were as follows:

(Dollars in thousands)	2006 Book Value	Fair Value	2005 Book Value	Fair Value
Financial Assets				
Loans held-for-sale	**$**	**$**	$ 26,263	$ 26,263
Loans	**12,792,733**	**12,657,882**	11,607,845	11,941,754
Nonmarketable investments	**311,427**	**311,427**	284,836	284,836
Financial Liabilities				
Deposits	**$ 12,773,891**	**$ 11,936,456**	$ 12,077,350	$ 11,169,923
Short-term borrowings	**1,652,196**	**1,634,879**	1,237,714	1,237,714
Long-term debt	**659,020**	**643,423**	742,163	736,858

The following methods and assumptions were used to estimate the fair value disclosures for financial instruments as of December 31, 2006 and 2005:

101

Cash and Short-Term Investments

The amounts reported in the balance sheet approximate the fair values of these assets. Short-term investments include interest-bearing deposits in other banks and federal funds sold.

Investment Securitie

Fair values of investment securities are based on quoted market prices and are reported in Note No. 3 - Investment Securities.

Loans Held-for-Sale

Loans held-for-sale are based on what secondary markets are currently offering for portfolios with similar characteristics.

Loans

The fair value calculation of loans differentiates loans based on their financial characteristics, such as product classification, loan category, pricing features and remaining maturity. Prepayment estimates are evaluated by product and loan rate.

The fair value of commercial loans, commercial real estate loans and real estate construction loans is calculated by discounting contractual cash flows using discount rates that are believed to reflect current credit quality and other related factors.

For real estate 1-4 family first and junior lien mortgages, fair value is calculated by discounting contractual cash flows, adjusted for prepayment estimates, using discount rates based on current industry pricing for loans of similar size, type, remaining maturity and re-pricing characteristics.

For consumer loans, the fair value is calculated by discounting the contractual cash flows, adjusted for prepayments, based on the current rates we offer for loans with similar characteristics.

Loan commitments and letters of credit not included in the preceding table had contractual values of $5.0 billion and $596.9 million, respectively, at December 31, 2006, and $4.8 billion and $540.6 million, respectively, at December 31, 2005. These instruments generate ongoing fees at our current pricing levels. Since many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. Unamortized fees on letters of credit totaled $2.6 million and $1.9 million at December 31, 2006 and 2005, respectively. Carrying cost estimates the fair value for these fees.

Nonmarketable Investments

There are generally restrictions on the sale and/or liquidation of nonmarketable securities. The carrying value of Federal Reserve Bank stock and Federal Home Loan Bank stock are carried at par, which approximates fair value. Private equity investments, hedge funds and the cash surrender value of BOLI are carried at fair value based on current market valuations.

Deposits

The fair value of demand deposits, savings accounts and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates and remaining maturities for currently offered certificates of deposit.

Short-Term Borrowings

The amounts reported in the balance sheet approximate the fair values because of the short duration of those instruments.

Long-Term Debt

The fair value of long-term debt associated with interest rate swaps is based on quoted market prices. For all other long-term debt, fair value is estimated by discounting the future cash flows using estimates of rates currently available to Bankshares and its affiliates for debt with similar terms and remaining maturities.

Derivatives

Fair value for derivatives is determined based on the following:

- Position valuation - estimated by using pricing models that incorporate quoted market prices for swap rates and futures contracts, as well as market volatility, and assumes all counterparties have the same credit rating;

- Option valuation - estimated by using standard market models (such as modified Black-Scholes model on interest rate options), incorporating quoted market prices and volatilities.

The fair value of derivatives at December 31, 2006 and 2005 are reported in Note No. 18 - Derivative Instruments and Hedging Activities.

Limitations

The valuation techniques employed above involve uncertainties and are affected by assumptions used and by judgments regarding prepayments, credit risk, future loss experience, discount rates, cash flows and other factors. Therefore, derived fair values cannot be substantiated by comparison with independent markets or with other financial institutions. The reported fair values do not necessarily represent what Bankshares would realize in immediate sales or other dispositions. Changes in assumptions could significantly affect the reported fair values. The information presented is based on fair value calculations and market quotes as of December 31, 2006 and 2005. These amounts have not been updated since year-end; therefore, the valuation may have changed significantly since that time.

As discussed above, some of our asset and liability financial instruments are short-term, and therefore, the carrying amounts on the consolidated balance sheet approximate fair value. Other significant assets and liabilities, which are not considered financial assets or liabilities and for which fair values have not been determined, include premises and equipment, goodwill and other intangibles, deferred and other liabilities.

18. 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. Currently, 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. At December 31, 2006, Bankshares had interest rate swaps to convert a portion of its nonprepayable fixed-rate debt to floating-rate debt.

Bankshares also arranges interest rate swaps, caps and swaptions for commercial loan customers through its Capital Markets Group. Derivative transactions executed with loan customers are hedged by means of an offsetting derivative trade with a third party. In this way, Bankshares manages the market risk arising from capital markets-related derivative activity.

The fair value of derivative instruments is based on position and option valuations. The swap value is estimated by using pricing models that incorporate quoted market prices for swap rates and futures contracts and assumes all counterparties have the same credit rating. The option valuation is estimated by using standard market models (such as the modified Black-Sholes model on interest rate options), incorporating quoted market prices and volatilities. The fair value of derivative instruments related to customer accommodations recorded in other assets was $9.3 million (notional $596.1 million) and $5.3 million (notional $345.5 million) at December 31, 2006 and 2005, respectively. The fair value of derivative instruments related to hedges and customer accommodations recorded in other liabilities was $16.2 million (notional $643.9 million) and $12.3 million (notional $609.1 million) at December 31, 2006 and 2005, respectively.

Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk are recorded as other noninterest income in the results of operations. For all hedge relationships, ineffectiveness resulting from differences between the changes in fair values or cash flows of the hedged item and changes in fair value of the derivative are recognized as other noninterest income in the results of operations. The net interest settlement on derivatives designated as fair value or cash flow hedges is treated as an adjustment of the interest income or interest expense of the hedged assets or liabilities. The fair-value hedges of nonprepayable fixed-rate debt were effective for the reported periods and qualified for short-cut hedge accounting treatment. The impact of the hedges increased interest expense $2.6 million in 2006 and decreased interest expense $3.7 million in 2005.

The following table summarizes the gross position of derivatives relating to hedging activities at December 31, 2006 and 2005.

(Dollars in thousands)	December 31, 2006 Notional or Contractual Amount	Credit Risk Amount (1)	Estimated Net Fair Value	December 31, 2005 Notional or Contractual Amount	Credit Risk Amount (1)	Estimated Net Fair Value
Asset/Liability Management Hedges						
Interest Rate Contracts:						
Swaps	**$ 350,000**	**$**	**$ (12,638)**	$ 350,000	$	$ (10,349)
Customer Accommodations						
Interest Rate Contracts:						
Swaps	**$ 878,596**	**$ 9,342**	**$ 5,707**	$ 592,934	$ 5,327	$ 3,462
Swaptions/Caps Purchased	**5,723**	**30**	**30**	5,850	57	57
Swaptions/Caps Sold	**5,723**		**(30)**	5,850		(57)

(1) Credit risk amounts reflect the replacement cost for those contracts in a gain position in the event of nonperformance by all counterparties.

Mortgage loans held-for-sale have inherent forward contract (agreements to sell or purchase loans at a specific rate or yield) characteristics. Risk may arise from the corresponding parties inability to meet the terms of their contracts and from movement in interest rates. Bankshares has forward commitments to sell individual fixed-rate and variable-rate mortgage loans that are on its balance sheet at fair value or are approved, but not yet funded. There were no forward commitments at December 31, 2006. The fair value of the forward contracts was $0.2 million at December 31, 2005.

19. GOODWILL AND INTANGIBLE ASSETS

Goodwill totaled $768.7 million at December 31, 2006 and $670.0 million at December 31, 2005. Bankshares recorded goodwill totaling $95.4 million in connection with the James Monroe acquisition increasing the Banking segment s goodwill to $720.1 million. See Note No. 2 - Business Combinations. The IWM segment goodwill was $48.6 million, an increase of $8.8 million over 2005. This increase was related to a contingent payment made, in the first quarter of 2006, to Boyd Watterson Asset Management for meeting the performance conditions outlined in their merger agreement.

The following table discloses the gross carrying amount and accumulated amortization of intangible assets subject to amortization at December 31, 2006 and December 31, 2005.

(Dollars in thousands)	December 31, 2006 Gross carrying amount	Accumulated amortization	Net amount	December 31, 2005 Gross carrying amount	Accumulated amortization	Net amount
Core deposits	**$ 62,336**	**$ (27,638)**	**$ 34,698**	$ 54,509	$ (20,790)	$ 33,719
Mortgage servicing	**3,823**	**(1,242)**	**2,581**	2,902	(1,145)	1,757
Customer lists and other	**17,795**	**(9,338)**	**8,457**	17,845	(6,668)	11,177
Total	**$ 83,954**	**$ (38,218)**	**$ 45,736**	$ 75,256	$ (28,603)	$ 46,653

Accumulated amortization for total intangible assets was $38.2 million and $28.6 million at year-end 2006 and 2005, respectively. The projections of amortization expense shown for mortgage servicing rights are based on asset balances and the interest rate environment as of December 31, 2006. Future amortization expense may be significantly different depending on changes in the mortgage-servicing portfolio, mortgage interest rates and market conditions.

104

In connection with the James Monroe acquisition, Bankshares recorded core deposit intangibles of $7.8 million. Core deposit intangibles capitalized prior to 2006 are amortized based on estimated lives of nine years and those capitalized in 2006 are amortized on an accelerated basis; mortgage-servicing intangibles are amortized based on estimated lives ranging from three to ten years; and customer lists and other intangibles are amortized based on estimated lives ranging from four to fifteen years.

The following table shows the current period and estimated future amortization expense for amortized intangible assets.

(Dollars in thousands)		**Core Deposits**	**Mortgage Servicing**	**Customer Lists and Other**	**Total**
Year ended December 31, 2006		**$ 6,849**	**$ 313**	**$ 2,739**	**$ 9,901**
Estimate for years ended December 31,					
	2007	7,709	386	2,527	10,621
	2008	6,615	369	1,531	8,514
	2009	6,464	369	641	7,474
	2010	5,545	369	505	6,419
	2011	4,502	343	387	5,231

20. MERCANTILE BANKSHARES CORPORATION (PARENT CORPORATION ONLY) FINANCIAL INFORMATION

BALANCE SHEET

DECEMBER 31, **(Dollars in thousands, except per share data)**	**2006**	**2005**
ASSETS		
Cash	**$ 2,692**	$ 4,618
Interest-bearing deposits with bank affiliates	**195,500**	237,000
Securities purchased under resale agreements with bank affiliates	**37,444**	93,054
Cash and cash equivalents	**235,636**	334,672
Investment in bank affiliates	**2,143,603**	1,975,302
Investment in bank-related affiliates	**16,065**	11,052
Loans and advances to affiliates	**313,432**	328,074
Investment securities available-for-sale	**14,283**	18,874
Building premises and equipment, net	**11,805**	12,717
Goodwill, net	**93,368**	
Other assets	**121,789**	121,709
Total	**$ 2,949,981**	$ 2,802,400
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Commercial paper	**$ 122,444**	$ 193,054
Accounts payable and other liabilities	**41,161**	25,412
Long-term debt	**369,210**	389,212
Total Liabilities	**532,815**	607,678
Shareholders Equity:		
Preferred stock, no par value; authorized 2,000,000 shares; issued and outstanding - None		
Common stock, $2 par value; authorized 200,000,000 shares;		
issued 125,581,400 shares in 2006 and 82,165,414 shares in 2005	**251,163**	164,331
Capital surplus	**672,698**	676,830
Retained earnings	**1,540,836**	1,386,405
Accumulated other comprehensive loss	**(47,531)**	(32,844)
Total shareholders equity	**2,417,166**	2,194,722
Total	**$ 2,949,981**	$ 2,802,400

105

STATEMENT OF INCOME

For the Years Ended December 31,	(Dollars in thousands) 2006	2005	2004
INCOME			
Dividends from bank affiliates	**$ 165,735**	$ 172,885	$ 145,841
Dividends from bank-related affiliates		150	767
Interest on interest-bearing deposits with bank affiliates	**4,062**	3,681	710
Interest on securities purchased under resale agreements with bank affiliates	**2,018**	1,393	362
Interest on loans to affiliates	**17,065**	15,660	13,685
Other income	**15,141**	13,951	9,467
Total income	**204,021**	207,720	170,832
EXPENSES			
Interest on short-term borrowings	**4,099**	3,181	893
Interest on long-term debt	**20,132**	18,563	13,846
Other expenses	**7,854**	4,028	4,984
Total expenses	**32,085**	25,772	19,723
Income before income tax expense and equity in			
undistributed net income of affiliates	**171,936**	181,948	151,109
Income tax expense	**2,621**	2,427	1,807
	169,315	179,521	149,302
Equity in undistributed net income of:			
Bank affiliates	**114,959**	95,779	79,637
Bank-related affiliates	**4,012**	1,019	468
NET INCOME	**$ 288,286**	$ 276,319	$ 229,407

106

STATEMENT OF CASH FLOWS

For the Years Ended December 31,	(Dollars in thousands) 2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	**$ 288,286**	$ 276,319	$ 229,407
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of affiliates	**(118,971)**	(96,798)	(80,105)
Depreciation and amortization	**3,018**	2,810	102
Investment securities gains	**(217)**		(1,295)
Net (increase) decrease in other assets	**(4,072)**	834	(8,574)
Net increase (decrease) in liabilities:			
Interest payable	**51**	618	478
Other liabilities	**1,292**	(10,899)	4,545
Net cash provided by operating activities	**169,387**	172,884	144,558
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net decrease in loans to affiliates	**14,642**	30,002	1,444
Proceeds from maturities of investment securities available-for-sale	**10,000**		
Proceeds from sales of investment securities available-for-sale	**8,362**		27,224
Purchases of investment securities available-for-sale	**(13,447)**	(247)	(25,933)
Capital expenditures			(13,629)
Investment in affiliates	**(53,858)**	(561)	63,074
Net cash provided by (used in) investing activities	**(34,301)**	29,194	52,180
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in commercial paper	**(70,610)**	(23,576)	25,750
Proceeds from issuance of long-term debt			51,250
Repayment of long-term debt	**(35,000)**		
Proceeds from issuance of shares	**9,957**	11,205	14,322
Repurchase of common shares	**(1,755)**		(44,110)
Dividends paid	**(136,714)**	(120,167)	(109,295)
Net cash used in financing activities	**(234,122)**	(132,538)	(62,083)
Net increase (decrease) in cash and cash equivalents	**(99,036)**	69,540	134,655
Cash and cash equivalents at beginning of year	**334,672**	265,132	130,477
Cash and cash equivalents at end of year	**$ 235,636**	$ 334,672	$ 265,132

21. SUBSEQUENT EVENT

On October 8, 2006, Bankshares entered into an Agreement and Plan of Merger with The PNC Financial Services Group, Inc. (PNC) pursuant to which Bankshares will merge with and into PNC, with PNC as the surviving corporation in the merger. When the merger is completed, Bankshares stockholders will receive a combination of PNC common stock and cash in exchange for their Bankshares common stock. Each share of Bankshares common stock will be converted into the right to receive 0.4184 of a share of PNC common stock (including the related preferred stock purchase rights under PNC s May 2000 Rights Agreement) and $16.45 in cash, without interest. Under the formula set forth in the merger agreement, an aggregate of up to approximately 54.2 million shares of PNC common stock (and an equal number of related rights) may be issued and $2.13 billion paid in the merger. This merger was approved by Bankshares stockholders on February 27, 2007 and received substantially all of the required regulatory approvals. The merger is currently expected to close in March of 2007. Pending the merger, Bankshares must comply with the covenants contained in the merger agreement, but is generally continuing to operate in the ordinary course of business.

107

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There was no matter which is required to be disclosed in this Item 9 pursuant to the instructions contained in the form for this Report.

ITEM 9A. CONTROLS AND PROCEDURES.

We have carried out an evaluation, under the supervision and with the participation of our management including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as that term is defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended. Based on that evaluation, our principal executive officer and principal financial officer concluded that as of December 31, 2006, which is the end of the period covered by this Annual Report on Form 10-K, our disclosure controls and procedures were effective.

There have been no changes in our internal controls over financial reporting in the fiscal quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. Management has issued its report on internal control over financial reporting as of December 31, 2006, which appears in Item 8 of this Report. The report of the Independent Registered Public Accounting firm on Management s Report on Internal Control over Financial Reporting also appears in Item 8.

ITEM 9B. OTHER INFORMATION.

There was no information required to be disclosed in a report on Form 8-K during the fourth quarter of 2006, but not reported.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Directors Serving until the 2007 Annual Meeting of Stockholders

CYNTHIA A. ARCHER (age 53) is Vice President of Marketing and Development of Sunoco, Inc., a major oil refiner. Ms. Archer has occupied this position since January 2001. Ms. Archer is a director of Sunoco Logistics Partners, LP. She was elected a director of Bankshares in 1997. She also serves as Chair of the Board s Audit Committee and as a member of the Board s Nominating and Corporate Governance Committee.

RICHARD O. BERNDT (age 64) is the Managing Partner of Gallagher Evelius & Jones LLP, a law firm engaged in the general practice of law. Mr. Berndt has been a partner in that firm since 1972. He is a director of Municipal Mortgage and Equity, LLC. Mr. Berndt was elected a director of MSD&T in 1976 and elected a director of Bankshares in 1978. He is Chair of the Board s Employee Benefit Committee and is a member of the Board s Executive Committee.

HOWARD B. BOWEN (age 56) is the President and Chief Executive Officer of Ewing Oil Company, Inc., a gasoline distributor. He has held this position since 1988. Mr. Bowen was elected a director of Bankshares in 2003.

WILLIAM R. BRODY, M.D. (age 63) is the President of Johns Hopkins University. Dr. Brody has occupied that position since 1996. Dr. Brody is a director of Medtronic, Inc. He was elected a director of Bankshares in 1996. He is a member of the Board s Nominating and Corporate Governance Committee.

108

EDWARD J. KELLY, III (age 53) has been the Chairman of the Board of Directors of Bankshares since March 2003, and President and Chief Executive Officer of Bankshares, and Chairman of the Board and Chief Executive Officer of MSD&T, since March 2001. Mr. Kelly is a director of CSX Corporation and Hartford Financial Services Group. He was elected a director of MSD&T in 2001 and elected a director of Bankshares in 2001. Mr. Kelly is the Chair of the Board s Executive Committee.

Directors Serving until the 2008 Annual Meeting of Stockholders

EDDIE C. BROWN (age 66) has been the President of Brown Capital Management, an investment management firm, since 1983. He is a director of Municipal Mortgage and Equity, LLC and of the following Brown Capital Management Mutual Funds: Equity, Balanced, Mid-Cap, Small Company and International. Mr. Brown was elected a director of Bankshares in 2003. He is a member of the Board s Executive Committee and Nominating and Corporate Governance Committee.

ANTHONY W. DEERING (age 62) is Chairman of the Board of Exeter Capital, a private equity firm, Chairman of the Board of The Charlesmead Foundation, and served as the Chairman and Chief Executive Officer of The Rouse Company, a corporation focusing on regional shopping centers and community development, from 1997 until 2004. He is also the lead director of the T. Rowe Price Mutual Funds and a director of Vornado Realty Trust. Mr. Deering was elected a director of Bankshares in 2003. He is a member of the Board s Executive Committee, and is Chair of its Compensation Committee.

FREEMAN A. HRABOWSKI, III (age 56) is the President of the University of Maryland, Baltimore County. Dr. Hrabowski has served in this capacity since 1993. He is a director of Constellation Energy Group, Inc. and McCormick & Company, Inc. Dr. Hrabowski was elected a director of MSD&T in 1996 and a director of Bankshares in 1996. He is Chair of the Board s Nominating and Corporate Governance Committee and a member of the Employee Benefit Committee.

JENNY G. MORGAN (age 47) has been a Principal with Sterling Partners since September 2006. In addition, she has served as an Executive Vice President of Emdeon Corporation (successor to WebMD Corporation) since August 2004. From 1997 until 2004, she was President and Chief Executive Officer of ViPS, Inc., a healthcare information solutions company which became a part of the WebMD Corporation. She was elected a director of Bankshares in March 2004. She is a member of the Board s Audit Committee.

CLAYTON S. ROSE (age 48) has been an adjunct professor at Columbia University s Graduate School of Business since 2002. He has also taught at New York University s Stern School of Business. From 1981 through 2000, Mr. Rose worked at J.P. Morgan & Co., Inc. He held a series of senior management positions at J.P. Morgan & Co., Inc., including heading each of the firm s Global Investment Banking and Global Equities divisions and serving as a member of the firm s executive committee. He also served as Vice Chairman and Chief Operating Officer of the investment bank of JPMorgan Chase & Co. following the merger of the two firms in 2001. Mr. Rose serves as a director of Lexicon Genetics, Public/Private Ventures and The Reinvestment Fund. He was elected a director of Bankshares in 2001. He is a member of the Board s Audit Committee and Compensation Committee.

DONALD J. SHEPARD (age 61) has been Chairman of the Executive Board and Chief Executive Officer of AEGON N.V., a holding company of insurance and insurance-related companies since April 2002. Mr. Shepard has been a member of the Executive Board of AEGON N.V. since 1992. He also serves as a director, and since June 2005, Chairman of the Board, of AEGON U.S. Corporation, a holding company of AEGON s U.S. operations. From 1989 until April 2002, Mr. Shepard served as President and Chief Executive Officer of AEGON USA, Inc., a subsidiary of AEGON N.V. In addition, Mr. Shepard served on the Board of Directors of AEGON USA, Inc. from February 1989 through April 2002, and as Chairman of that Board from May 1992 to July 1999 and from May 2000 to April 2002.

He is a director of CSX Corporation. Mr. Shepard was elected a director of MSD&T in 1992 and a director of Bankshares in 1992. He is a member of the Board s Compensation Committee.

109

JAY M. WILSON (age 59) has been a Vice Chairman of Bankshares and Chief Executive Officer of the Investment and Wealth Management Division of MSD&T since January 2005. From September 1998 until December 2004, he was General Partner of Spring Capital Partners, L.P., a private equity fund providing expansion and acquisition capital to emerging growth companies. He was elected a director of MSD&T in 2005 and a director of Bankshares in 2005.

Directors Serving until the 2009 Annual Meeting of Stockholders

R. CARL BENNA (age 59) has been the President of North American Housing Corp., a manufacturer of modular structures sold to builders for resale, since 1978. He was elected a director of Bankshares in 2003.

GEORGE L. BUNTING, JR. (age 66) is the President and Chief Executive Officer of Bunting Management Group, a private financial management company. Mr. Bunting has occupied this position since 1991. Mr. Bunting was elected a director of MSD&T in 1992 and a director of Bankshares in 1992. He is a member of the Board s Audit Committee, Compensation Committee, and Executive Committee.

DARRELL D. FRIEDMAN (age 64) has been a consultant to the American Jewish Joint Distribution Committee since fall 2003. From 1986 until fall 2003, he was the President and Chief Executive Officer of THE ASSOCIATED: Jewish Community Federation of Baltimore. Mr. Friedman was elected a director of Bankshares in 1999.

ROBERT A. KINSLEY (age 66) is the Chairman and Chief Executive Officer of Kinsley Construction, Inc., a general and heavy construction firm. Mr. Kinsley has served in this capacity since 1996. Mr. Kinsley was elected a director of Bankshares in 1996.

ALEXANDER T. MASON (age 56) has served as Vice Chairman of Bankshares since joining Bankshares in November 2003. In January 2005, he was named Chief Operating Officer of Bankshares. He held the following positions at Deutsche Bank: Vice Chairman, Deutsche Bank Americas, from 2002 to 2003; Chief Operating Officer, Global Corporate Finance, from 2001 to 2002; Co-Head, Global Industry Group, from 1999 to 2001; and Managing Director, Deutsche Bank Securities, from 1999 to 2003. He was elected a director of MSD&T in 2005 and a director of Bankshares in 2005.

CHRISTIAN H. POINDEXTER (age 68) was Chairman of the Executive Committee of the Board of Directors of Constellation Energy Group, Inc., a public utility holding company, from July 2002 until he retired in March 2003. From November 2001 until July 2002, he was Chairman of the Board of Constellation, and, from April 1999 until November 2001, he was also Constellation s Chief Executive Officer. Mr. Poindexter was Chairman of the Board of Baltimore Gas and Electric Company from 1993 until July 2002. From 1993 until July 2000, he was also its Chief Executive Officer. He is a director of DNP Select Income Fund. Mr. Poindexter was elected a director of MSD&T in 1987 and a director of Bankshares in 1987. He is a member of the Board s Audit Committee, Compensation Committee and Executive Committee.

JAMES L. SHEA (age 54) is the Chairman of Venable LLP, a law firm engaged in the general practice of law. Mr. Shea was Managing Partner of that firm from 1995 to 2006 and has been Chairman since June 2006. Mr. Shea was elected a director of MSD&T in 2001 and a director of Bankshares in 2001. He is a member of the Board s Executive Committee.

Audit Committee

Bankshares has a standing Audit Committee established in accordance with the Exchange Act, which consists of the following five members: Cynthia A. Archer, George L. Bunting, Jr., Jenny G. Morgan, Christian H. Poindexter, and Clayton S. Rose. The Board of Directors has determined that Messrs. Rose and Poindexter are audit committee financial experts as defined in the regulations of the Securities and Exchange Commission and that each of them is an independent director, as independence for audit committee members is defined in the listing standards of the Nasdaq Global Select Market.

110

Executive Officers

The Bankshares officers who file reports under Section 16 of the Securities Exchange Act of 1934, as amended, are:

Name	Position
Edward J. Kelly, III	Chairman of the Board, President and Chief Executive Officer
Alexander T. Mason	Vice Chairman and Chief Operating Officer
Jay M. Wilson	Vice Chairman and Chairman and Chief Executive Officer, Investment & Wealth Management
J. Marshall Reid	Executive Vice President, Banking
Peter W. Floeckher, Jr.	Executive Vice President, Affiliate Management
Terry L. Troupe	Executive Vice President and Chief Financial Officer
John L. Unger	Executive Vice President, General Counsel and Secretary
Michael M. Paese	Executive Vice President, Chief Administrative Officer, Chief Risk Officer and Deputy General Counsel
Deborah A. Kakaris	Executive Vice President, Operations and Technology Services
Kaye A. Simmons	Senior Vice President and Treasurer
William T. Skinner, Jr.	Senior Vice President and Controller

Messrs. Kelly s, Mason s and Wilson s business experience is set forth above.

J. Marshall Reid (age 61) was elected President and Chief Operating Officer of MSD&T in September 1997. He joined MSD&T as a Senior Vice President in 1993 and served as an Executive Vice President from 1994 until September 1997.

Peter W. Floeckher, Jr. (age 57) was appointed Executive Vice President and Head of the Affiliates for Bankshares in November 2003. He served as President and Chief Executive Officer of Citizens National Bank from 1995 until November 2003. Mr. Floeckher is responsible for oversight of the Banks, which includes risk management, compliance and enhanced performance through coordinated sharing of best practices.

Terry L. Troupe (age 59) has been Chief Financial Officer of Bankshares and MSD&T since he joined Bankshares in September 1996.

John L. Unger (age 53) became General Counsel on March 23, 2002 and was elected Secretary of Bankshares and MSD&T on July 1, 2002. Prior to joining Bankshares, Mr. Unger was General Counsel to IMI Resort Holdings, Inc., a privately held real estate company in Greenville, South Carolina.

Michael M. Paese (age 39) was named Chief Administrative Officer of Bankshares in November 2004 and became Chief Risk Officer on January 2, 2005. He joined MSD&T as a Senior Vice President and Deputy General Counsel in January 2003. Before joining Bankshares, Mr. Paese was Senior Counsel to the Financial Services Committee of the U.S. House of Representatives (minority). Mr. Paese advised the Committee on legal and policy issues relating to U.S. capital markets and corporate governance. Prior thereto, Mr. Paese was a Vice President in equity capital markets, at J .P. Morgan & Co. Incorporated. Prior thereto, Mr. Paese was an associate at Davis Polk & Wardwell.

Deborah A. Kakaris (age 43) has been an Executive Vice President of Bankshares and MSD&T since 2002. She is responsible for Operations and Technology Services. Mrs. Kakaris joined the bank in 1988 and served as a Senior Vice President from 1997 until March 2002.

Kaye A. Simmons (age 51) joined Bankshares as Senior Vice President and Treasurer in 2003, after the merger with F&M Bancorp. She had been Treasurer of F&M Bancorp since 2000 and Executive Vice President and Chief Financial Officer of Farmers & Mechanics Bank since 2000. Prior to that time, Ms. Simmons served as Senior Vice President of Finance and Treasurer of Citizens Bancorp from 1989 to 1997.

111

William T. Skinner, Jr. (age 59) has been Senior Vice President and Controller of Bankshares since 1998. He has served as Controller of MSD&T since 1996. Mr. Skinner joined MSD&T in 1979.

No family relationships, as defined by the rules and regulations of the Securities and Exchange Commission, exist among any of the Executive Officers. All officers are elected annually by the Board of Directors and hold office at the pleasure of the Board.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the directors and officers covered by that section to file reports with the Securities and Exchange Commission and Nasdaq relating to their common stock ownership and any changes in that ownership. We have reviewed the copies of the reports that have been filed, and written representations from the individuals required to file the reports. Based on this review, we believe that during 2006 each of our directors and executive officers has complied with applicable reporting requirements for transactions in our equity securities.

Code of Ethics

Bankshares has adopted a code of ethics that applies to its chief executive officer, chief financial officer and controller. The code of ethics is an exhibit to this Annual Report on Form 10-K. The text of the code is posted on Bankshares website at www.mercantile.com. Bankshares will provide to any person, without charge, upon request a copy of the code of ethics. Requests for a copy of the code of ethics can be made in writing to: Mercantile Bankshares Corporation, P.O. Box 1477, Baltimore, MD 21203, Attn: Investor Relations. Any future amendments to, or waivers from, the provisions of the code of ethics that require disclosure under applicable rules of the Securities and Exchange Commission will be disclosed in a current report on Form 8-K.

Stockholder recommended nominees for director

The Board of Directors has a policy that stockholders may propose nominees for consideration by the Nominating and Corporate Governance Committee for election at an annual meeting of stockholders by submitting the names and qualifications of such persons to the Nominating and Corporate Governance Committee in accordance with the timeframes required in our Bylaws. Submissions must be made to the Nominating and Corporate Governance Committee, c/o Mercantile Bankshares Corporation, Secretary, Two Hopkins Plaza, Baltimore, Maryland 21201. The Nominating and Corporate Governance Committee considers the qualifications for directors set forth in the Corporate Governance Guidelines and does not impose additional qualifications on stockholder-recommended potential nominees.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction and Overview

Bankshares believes that the quality of its senior management team is a critical factor in determining its ability to achieve its short-term and long-term goals with respect to profitability, growth and shareholder return. We also believe that the most important factor in ensuring that we meet or exceed the highest standards in corporate behavior (including ethics, compliance and governance) is the tone at the top provided by our senior executives. For these reasons, as well as the difficulty and expense of attracting, and the disruption that often results from the departure of, senior executives, we believe that it is critical to be able to attract, develop and retain talented, experienced and highly-motivated executives who exhibit exceptional leadership abilities and possess the highest ethical standards. The primary objective of our executive compensation program is to enable us to meet that challenge in a highly competitive market.

We believe that in order to achieve our objective, our executive compensation program must be competitive, reward good results and provide incentives for future performance that sustains and enhances long-term stockholder value.

Executive compensation is a complex subject that is affected by a variety of ever-changing factors. These factors include developments that are often beyond our control, such as changes in tax and pension laws, changing accounting standards and policies, national and international market developments and trends within a particular market sector. In addition, since the competition for the best management talent is intense, the actions of other companies can have an impact on executive compensation policies and decisions. Moreover, Bankshares must take into account factors specific to itself, such as morale, team chemistry, changing strategic imperatives and the tension between potentially competing short-term and long-term objectives. The overall design of our executive compensation program and the elements constituting that program, therefore, must evolve over time as the marketplace and the needs of Bankshares continue to change. The result is that the program at any one time represents a combination of old and new elements, practices and polices.

Based on the foregoing, we believe that executive compensation is not a one-size-fits-all exercise, and that our interests are best served when those making the decisions have the flexibility to make those decisions based on the specific circumstances before them, subject to the standard of conduct required of all directors under Maryland law that they act in good faith, in a manner reasonably believed to be in the best interests of Bankshares, and with the care that an ordinarily prudent person in a like position would use under similar circumstances.

On October 8, 2006, Bankshares entered into an Agreement and Plan of Merger with The PNC Financial Services Group, Inc. (PNC) pursuant to which Bankshares will merge with and into PNC, with PNC as the surviving corporation in the merger. When the merger is completed, Bankshares stockholders will receive a combination of PNC common stock and cash in exchange for their Bankshares common stock. Each share of Bankshares common stock will be converted into the right to receive 0.4184 of a share of PNC common stock (including the related preferred stock purchase rights under PNC s May 2000 Rights Agreement) and $16.45 in cash, without interest. Under the formula set forth in the merger agreement, an aggregate of up to approximately 54.2 million shares of PNC common stock (and an equal number of related rights) may be issued and $2.13 billion paid in the merger. This merger was approved by Bankshares stockholders on February 27, 2007, after receiving most of the required regulatory approvals (such as approval by the Board of Governors of the Federal Reserve System and financial regulators in Maryland and Virginia). The merger is currently expected to close in March of 2007. Pending the merger, Bankshares must comply with the covenants contained in the merger agreement, but is generally continuing to operate in the ordinary course of business.

Corporate Governance

Bankshares Board has delegated most decision-making authority on compensation matters to the Compensation Committee of the Board, which is referred to herein as the Committee. The Committee s primary function is to approve the compensation of our most senior executive officers, and in 2006, the Committee determined the compensation for the 14 members of Bankshares senior management team, which included Mr. Kelly and the four other senior executives named in the Summary Compensation Table below (the Named Executives). These 14 individuals serve on Bankshares Management Committee and have the most direct impact on our overall performance. With respect to CEO compensation, the Committee makes recommendations to the Board, and CEO compensation is approved by the independent directors of the Board. The Committee also reviews and approves other employment related matters, including all employment agreements providing for annual salaries in excess of $200,000, all severance agreements with members of senior management, and all change in control agreements. The Committee also approves all equity-based awards, including awards granted under our stockholder-approved 1999 Omnibus Stock Plan, and reviews and approves the aggregate of all bonuses paid by Bankshares and its affiliates.

Historically, with the exception of new hires, it has been the practice of the Committee to award or set the primary elements of executive compensation (salary and cash and equity incentives) in the first calendar quarter of each year. Typically, the Committee meets in January or February to review the process for making compensation decisions, including determining the information and advice it will use in making such decisions. The Committee then meets one or more times generally in March (typically on or around the time of the regularly scheduled quarterly Board meeting; to (i) certify the deductibility of cash incentives; (ii) confirm that specified performance goals have been met with respect to the payment of cash bonuses or granting of equity awards relating to the past year or any other prior period; (iii) authorize and approve the payment or issuance of such prior year bonuses or awards; and (iv) set executive compensation for the current year, including salary, cash bonus opportunity and the grant of any equity-based compensation. This timing was selected because it enables the Committee to consider prior-year performance by Bankshares and the potential recipients and our expectations for the current year. The Compensation Committee s schedule is determined in advance, and the proximity of any awards to earnings announcements or other market events is coincidental. For the 2006 fiscal year, these grants were made on March 29, 2006. In light of the scheduled closing of the PNC Merger, it is not anticipated that any grants will be made in 2007 by Bankshares. Pursuant to the PNC Merger Agreement, however, if any such grants are made, they will be terminated without consideration at the Effective Time. Except as noted in the following paragraph, equity awards, including options, are always dated the date of the Committee meeting at which such awards are approved and the exercise price of such options is determined by the closing price of Bankshares stock on that date.

Secondary elements of executive compensation, such as employment agreements, severance arrangements (including change-in-control agreements), retirement arrangements, other employee benefits and perquisites are typically set at the time of an executive s initial employment and are reviewed periodically from time to time as the need arises. On occasion, new hires are awarded options or other equity-based awards as an inducement to joining the company. If these awards are approved prior to the commencement of employment, the exercise price is set as the closing price of Bankshares stock on the executive s first date of employment. If the awards are approved after the commencement of employment, the exercise price of such options is determined by the closing price of Bankshares stock on the date the Committee approves the award.

Periodically over the past several years, as more fully described below, the Committee has reviewed Bankshares executive compensation philosophy, plans, policies and practices. This process was formalized under the amended charter of the Committee adopted in March 2006, and such reviews now take place on an annual basis in accordance with a fixed annual agenda.

Compensation Consultants

In 2003, 2005 and 2006, the Committee retained independent compensation consultants to advise it on executive compensation matters. Such consultants were retained by, and reported to, the Committee, which has the sole power to hire and fire such consultants. All work was commissioned by the Committee, although the consultants interacted with management to obtain necessary factual information regarding Bankshares performance and historical practices. The resulting reports were provided to both the Committee and management, and bills were presented directly to, and authorized for payment by, the Committee s Chairman.

In 2003, the Committee retained Mellon Human Resources & Investor Solutions (Mellon) to provide an independent audit of Bankshares executive compensation program, which included an evaluation of the competitiveness of such program as compared to a peer group of 14 comparable companies in the commercial banking industry with assets, revenues and market capitalization similar to those of Bankshares. Mellon s report, delivered to the Committee in December 2003 (the Mellon Report), also recommended priorities for governing and refining the executive compensation program in the future. In 2005, the Committee retained Frederic W. Cook & Co., Inc. (Cook) to assess the competitiveness of Bankshares executive compensation program and, if appropriate, to make recommendations for possible changes. Cook was selected by the Committee to replace Mellon as a result of the acquisition of Mellon by a third party and upon the recommendations of Committee members who had worked with Cook previously. Cook s report, delivered in March 2005, compared Bankshares executive compensation program to those of 14 comparable companies in the commercial banking industry with assets, revenues and market capitalization similar to those of Bankshares. In 2006, the Committee asked Cook to prepare a competitive assessment of Mr. Kelly s total compensation and equity holdings, and to prepare total compensation tally sheets for the nine most highly compensated members of senior management (including Mr. Kelly). These tally sheets showed for each individual (i) the value of total compensation for the previous year, (ii) the value of all stock-denominated compensation currently held, (iii) the projected value of all stock-denominated compensation held (based on various projected stock prices) and (iv) a summary of estimated benefits payable upon various termination of employment scenarios (including a change-in-control).

For a discussion of the impact of these reports on Bankshares executive compensation philosophy, policies and practices, see Compensation Programs Design and Key Policies , and 2006 Compensation , below.

In addition, since 2005 Bankshares has retained Mark Bieler as a consultant to advise management on possible revisions of the executive compensation programs and on executive compensation matters generally. Mr. Bieler is President of Mark Bieler Associates, Inc., a consulting firm advising management of public and private sector organizations on strategic human resource and organizational development issues. Prior to founding the firm, Mr. Bieler was Director of Human Resources for Bankers Trust Company and Executive Vice President of its parent, Bankers Trust Corporation. Management determines the nature and scope of his assignments, which to date have included advice on the redesign of Bankshares annual cash incentive and long-term equity incentive programs.

114

Role of Management

Our CEO, Mr. Kelly, provides input to the Committee with respect to the objectives, design and implementation of executive compensation policies, programs and practices generally. This includes the general design of programs in which Mr. Kelly participates along with others as a member of senior management, but does not include the amount of specific awards for Mr. Kelly, whether or not under such programs. Mr. Mason, Vice Chairman of Bankshares, also works with Mr. Kelly and management s compensation consultant, Mr. Bieler, in providing such input to the Committee. In addition, Mr. Kelly provides recommendations to the Committee with respect to the compensation of his direct reports and other members of senior management. Mr. Unger, Bankshares General Counsel, works closely with the Committee in an administrative capacity, assisting in the preparation of agendas, the delivery of materials in advance of meetings, and the documentation of Committee actions. Generally, Messrs. Kelly, Mason and Unger attend all Committee meetings. The Committee will ask some or all management members to excuse themselves from meetings as appropriate, and most meetings (including all meetings at which CEO compensation is determined) end with the Committee meeting in executive session with no members of management present.

Compensation Program Objectives

In March 2006, the Committee formalized its compensation philosophy by adopting the following, which was subsequently approved by Bankshares Board:

The goal of our compensation program for senior executive officers is to enable us to attract and retain highly motivated executive personnel of outstanding ability and initiative, and to align closely the interests of those executives throughout their careers with those of our stockholders. In order to achieve our goal, we must reward good results and incent future performance which sustains and enhances long-term stockholder value. Compensation decisions are made within the context of three guiding principles: (i) total compensation for executives should be competitive with comparable companies, (ii) a substantial portion of the total compensation should be at risk and consist of performance-based cash and equity incentives that are linked to Company financial and non-financial results and, (iii) a significant portion of the total compensation opportunity should be equity-based, long-term incentives that are linked directly to achieving results that create stockholder value.

In March 2006, the Committee also adopted, and the Board later approved, the following guidelines for assessing the CEOs performance for future compensation decisions:

Significant accomplishments

- Overall performance and leadership
  - In context of any specific challenges
- Design and execution of strategic initiatives
- Acquisition execution/integration
- Building management team
- Leadership in creating a culture of ethics, compliance and diversity
- Leadership in transparency and corporate governance

Operating performance (on an absolute and relative basis)

- increases in net income

- increases in earnings per share (basic)
- increases in loans, deposits and noninterest income
- credit quality metrics
- returns on assets and equity
- maintenance of strong capital levels

Stock price performance

- Stockholder return
- P/E ratio

115

Compensation Program Design and Key Policies

Historically, the objectives of Bankshares executive compensation program have been to enable Bankshares to attract and retain highly-motivated executive personnel of outstanding ability and initiative in a competitive market, and to further the overall goals and objectives of Bankshares (which include short-term and long-term profitability, stability, growth and shareholder return) by including incentive components that link compensation to appropriate measures of individual and corporate performance. Shortly after his arrival as CEO in 2001, however, Mr. Kelly advised the Committee that he believed that changing market dynamics (particularly a sustained period of declining interest rates unprecedented in recent history and a decrease in opportunities to grow through acquisition) had rendered the design of the executive compensation program then in place inefficient, as it was no longer as effective as it could be in furthering Bankshares objectives. While the primary elements of the program at that time consisted of salary, annual cash incentives and long-term equity-based incentives in the form of stock options granted once each four years, the program relied more on fixed compensation (salary) and benefits (including perquisites), and less on incentives. As a result, executive salaries tended to exceed the median as compared to a peer group, and annual short-term cash and long-term equity-based incentive compensation lagged the median. Bankshares annual cash bonuses, expressed as a percentage of salary, were typically in the bottom quartile of peer results, and long-term equity-based incentive compensation significantly lagged peers. While most peers awarded long-term equity-based incentive compensation annually, Bankshares made such awards to executive management in only two of the eight years prior to Mr. Kelly s arrival (both times in the form of performance-based options). Furthermore, two performance metrics were used in such performance-based option grants, as well as in the annual cash bonus plan, with the result that incentives often were not realized despite strong performance by Bankshares across a host of other measures. This made these incentives less effective in achieving the objectives for which they were designed. Finally, the design of Bankshares shareholder-approved annual cash bonus plan did not properly align management and shareholder interests, as it provided a disincentive for management to take actions that would favor long-term prospects over short-term results.

These conclusions were confirmed by the Mellon Report issued in December 2003, which recommended that incentive opportunities be enhanced and, in particular, that Bankshares develop a more competitive approach to long-term incentives.

Over the past several years, the Committee has attempted to address these issues by redesigning various elements of Bankshares executive compensation program. In 2002, it recommended that the cash bonus plan be amended to (i) increase the maximum percentage award from 65% (for class I participants), 50% (for class II participants) and 33% (for class III participants) of base salary to 100%, 60% and 40%, respectively, to put more cash compensation at risk and create a more appropriate allocation between salary and bonuses, and (ii) eliminate the compounded and annual growth rate earnings-per-share performance test in stock options going forward. In 2006, the Committee recommended that an entirely new annual cash bonus plan be adopted to replace the prior plan, with the primary difference being that under the new plan the Committee would have a much broader range of options for setting financial performance criteria, would have the added ability to establish non-financial qualitative performance or other goals for executives whose compensation was not subject to Section 162(m) of the Internal Revenue Code (Non-162(m) Participants), and would create the possibility that class I and class II participants could earn annual bonuses of up to 150% and 100%, respectively, for exceeding targeted performance goals in a truly outstanding manner (as opposed to the prior plan, which provided no incentive for exceeding targeted performance goals). In addition, in 2004 the Committee recommended that the 1999 Omnibus Stock Plan be amended to add two additional performance criteria (total stockholder return and share price) on which the grant, vesting or exercisability of an equity-based award under such plan could be made, and approved Bankshares first long-term incentive plan that provided for restricted stock awards to senior management based on meeting targeted objectives with respect to total stockholder return as measured over a two-year period. All of the foregoing recommendations were approved by the Board and implemented upon approval by the stockholders of Bankshares.

As a result of these changes, the current design of the executive compensation programs now more accurately reflects the three guiding principles underlying our compensation philosophy.

Elements of Compensation

The primary elements of the executive compensation program are base salary, the opportunity for annual incentive cash (bonus) compensation and longer-term equity-based incentive compensation.

Base Salary

Base salary is designed to provide competitive levels of compensation to executives based upon their experience, duties, scope of responsibility and proficiencies. We want to provide our senior management with a level of assured cash compensation in the form of base salary that reflects their professional status and accomplishments. In setting executive salaries, the Committee reviews competitive information provided by its consultants. However, salary amounts are not objectively determined, but instead reflect levels that the Committee concludes are appropriate based upon its general experience. As noted above, in recent years the Committee made a decision to put more cash compensation at risk and create a more appropriate allocation between salary and bonuses. As a result, in 2005 and 2006, annual salary increases among senior management generally have become less important.

Bonus

Annual incentive cash compensation for senior executives is currently determined under the Annual Cash Incentive Plan (ACIP), approved by our stockholders in 2006. Such compensation is based on meeting specified annual corporate (and, in certain cases, individual) performance goals related to specified performance criteria. Under the ACIP, the maximum potential annual cash incentive compensation award for those executives designated as Class I participants in any year is limited to a percentage (not to exceed 100% for meeting targeted performance goals; not to exceed 150% in the event performance goals are exceeded in a truly outstanding and unusual manner) of the individual s applicable base salary. For all other participants (Class II participants) such limits are 60% and 90%, respectively, of the individual s applicable base salary. The maximum award payable to a Section 162(m) participant is $5 million, and in the event of a change of control of Bankshares, the performance goals for the year in which such change of control occurs shall be deemed to have been met at 100% level of base salary for Class I participants and 60% level of base salary for Class II participants. Other than our CFO, Mr. Troupe (who is a Class II participant), all of the Named Executives are Class I participants in the ACIP. Awards earned under the ACIP (and its predecessor plan) with respect to any plan year are paid in February or March of the following year.

Under the ACIP, the Committee has the authority to determine participants from among key employees of Bankshares and its affiliates, and to establish, at its discretion, the basis and terms of participation for Non-Section 162(m) Participants. For those participants a portion of whose compensation is subject to Section 162(m) (Section 162(m) Participants), the Committee is authorized to designate the financial criteria that will apply to awards to such individuals, the performance goals that Bankshares must meet with respect to the financial criteria designated and a payout matrix or formula for determining bonuses earned based on the level of performance achieved. The financial criteria for use in determining awards for Section 162(m) Participants must consist of one or more of the following financial measures: operating income, growth in operating income or net income, earnings per share, growth in earnings per share, cash flow measures, credit quality measures, efficiency measures, net interest margin measures, expenses, return on equity, return on assets, stockholder returns, stock price and achievement of balance sheet or income statement objectives. Such financial criteria may be company-wide or on a departmental, divisional or regional basis and may be measured in absolute terms, by reference to internal performance targets, or as compared to another company or companies, and may be measured by the change in that performance target compared to a previous period.

In 2006, the Committee designated 13 participants in the ACIP, including all of the Named Executives. All Named Executives (other than Mr. Troupe) were designated as Section 162(m) participants. As both Mr. Kelly and Mr. Mason held responsibilities across the entire corporation, it was determined that the metrics for each should be based on overall corporate performance. The Committee concluded that 50% of their target cash bonus award should remain tied to the traditional measure of earnings per share (EPS) growth. In addition, it elected to use Return on Average Assets (ROAA) as a reflection of the relative quality of earnings of Bankshares and the ratio of Non-Performing Assets to Total Loans & Other Real Estate Owned as a measure of credit quality. Both the Return on Average Assets and credit quality measures were given equal 25% weightings in the target bonus computation for Mr. Kelly and Mr. Mason. The goals and payouts with respect to these measures were set in the context of both Bankshares historical performance and its standing in relation to its peer group. The Committee also felt Mr. Wilson should have a 50% weighting on the corporate EPS growth measure. The remainder of his target cash bonus award was tied to metrics of performance for the business unit for which

117

he had direct responsibility. The Committee selected measures of Investment & Wealth Management Division Pre-Tax Income Growth and Revenue Growth with equal 25% weightings, (but set a hurdle rate for Pre-Tax Income Growth before the Revenue Growth metric would apply). Goals and payouts for the IWM-related metrics were set in the context of historical and budgeted 2006 performance for the division. For all other members of the management team, the Committee chose to weight the corporate EPS metric at 40% of the target bonus award. Individual business unit performance metrics for Mr. Reid were set against Net Profit Contribution (pre-tax income before management fee) for MSD&T and separately for its MB&T division, each weighted at 20% of target cash bonus. Goals and payouts against these business unit metrics were set against historical and budgeted 2006 performance for those business units. The remaining 20% of Mr. Reid s bonus was to be awarded based on a qualitative evaluation focused on management and leadership of his business unit as well as on the maintenance of credit quality standards, regulatory and audit compliance results, and assignments and contributions resulting in unusual benefit to Bankshares. In addition to awarding 40% of his target cash bonus against the corporate EPS metric, the committee felt Mr. Troupe should be measured against the same corporate ROAA measurement of earnings quality applied to Messrs. Kelly and Mason. It weighted 20% of his target award against this metric and the remaining 40% on a qualitative evaluation of his business unit management and leadership, overall expense control, regulatory and audit compliance, project management, and assignments and contributions resulting in unusual benefit to Bankshares.

The remaining eight members of senior management who participated in the ACIP for 2006 have more diverse performance goals and include a subjective, qualitative component that accounts for between 20% and 50% of the executive s total bonus opportunity. Where an employee has responsibility for a particular business unit or division, the performance goals include goals based on the operational performance of those units. Where an employee has broader corporate responsibility, such as our general counsel, the goals are tailored to his or her particular objectives for the year. However, Bankshares EPS growth is at least a 40% factor in all performance goals.

EPS growth performance goals for all ACIP participants start at 3% (which corresponds to a 10% payout of the applicable percentage of the total bonus opportunity based on the criterion), and each additional 1% of EPS growth corresponds to an additional 10% payout, with a 100% payout being earned when EPS growth equals 12% and the maximum payout of 150% being earned when EPS growth equals or exceeds 17%.

ROAA performance goals for Mr. Kelly and Mr. Mason start at greater than 1.50% but less than 1.60% (which corresponds to a 25% payout of the applicable percentage of the total bonus opportunity based on that criterion), with a 100% payout being earned when ROAA is greater than 1.75% but less than 1.80% and the maximum 150% payout when ROAA is greater than 1.85%. Credit quality performance goals for Mr. Kelly and Mr. Mason start with a ratio of Non-Performing Assets to Total Loans and Other Real Estate Owned of less than or equal to 60 basis points (bps) but greater than 55bps (which corresponds to a 25% payout of the applicable percentage of the total bonus opportunity based on that criterion), with a 100% payout thus being earned when that ratio is less than or equal to 45bps but greater than 30bps and the maximum 150% payout when that ratio is less than or equal to 25bps.

Mr. Wilson s IWM pre-tax income (PTI) goals and payout calculation methodology mirror those for the EPS goals described above, with a slight adjustment in the various thresholds. Thus, payout for IWM PTI growth performance starts at 6% (which corresponds to a 10% payout of the applicable percentage of the total bonus opportunity based on that criterion), with each additional 1% of IWM PTI growth corresponding to an additional 10% payout, with a 100% payout being earned when IWM PTI growth equals 15% and the maximum payout of 150% being earned when IWM PTI growth equals or exceeds 20%. Mr. Wilson s IWM revenue growth goals and payout matrix are identical to those relating to PTI growth.

Mr. Reid s MSD&T and MB&T PTI goals and payout calculation methodology are the same as Mr. Wilson s noted above, but again with slight adjustments to the various thresholds. Thus, payout for MSD&T PTI growth performance starts at 11% (which corresponds to a 10% payout of the applicable percentage of the total bonus opportunity based on that criterion), with each additional 1% of MSD&T PTI growth corresponding to an additional 10% payout, with a 100% payout being earned when MSD&T PTI growth equals 20% and the maximum payout of 150% being earned when PTI

118

growth equals or exceeds 25%. Mr. Reid s payout for MB&T PTI growth performance starts at 1% (which corresponds to a 10% payout of the applicable percentage of the total bonus opportunity based on that criterion), with each additional 1% of MB&T PTI growth corresponding to an additional 10% payout, with a 100% payout being earned when MB&T PTI growth equals 10% and the maximum payout of 150% being earned when PTI growth equals or exceeds 15%.

Mr. Troupe s ROAA performance goals and payout calculation methodology are the same as those for Mr. Kelly and Mr. Mason with respect to ROAA described above.

In setting performance goals and payout methodology for 2006 awards under the ACIP with respect to EPS and other corporate-wide financial performance metrics, the Committee reviewed Bankshares historical performance with respect to the applicable criteria, as well as Bankshares performance in these areas relative to its peers. The Committee s objective in setting these goals was to set goals that reflected superior performance but that were not unachievable and thus would eliminate the incentive factor.

Prior to 2006, bonuses for senior executives were determined under the Annual Incentive Compensation Plan (Old Bonus Plan) approved by stockholders. Under this plan, the CEO, COO and the heads of selected key operating subsidiaries or units had the opportunity to earn cash bonuses equal to 100% of base salary, while the maximum bonus opportunity for other plan participants was limited to either 60% or 40% of base salary. For the years 2002 to 2005, bonuses were based solely on annual growth in EPS of Bankshares, with no bonuses earned if EPS growth was less than 3%, maximum bonuses earned if EPS growth equaled or exceeded 12% and bonuses pro-rated based on growth between 3% and 12%.

Equity-Based Incentives

Longer-term equity-based incentive compensation is awarded pursuant to the 1999 Omnibus Stock Plan (the 1999 Plan), initially approved by our stockholders in 1999 and amended and re-approved in 2004. The 1999 Plan is designed to align the interests of key employees and stockholders, encouraging participants to maintain and increase their ownership of our common stock with the opportunity to benefit along with our stockholders in both market-based and performance-based share appreciation. The 1999 Plan authorizes the issuance of up to 4,500,000 shares of common stock in the form of stock options, stock appreciation rights (SARs) or restricted stock. The 1999 Plan also authorizes the issuance of phantom stock units (PSUs), including restricted stock units (RSUs). The 1999 Plan is administered by the Committee.

Historically, the primary form of equity compensation awarded under the 1999 Plan consisted of stock options, with as many of such options as permitted by law designated as incentive stock options. Prior to 2002, such option grants were primarily performance-based, with vesting subject to meeting performance objectives with respect to growth in EPS and net after-tax operating income on both a compounded basis from the applicable base year and on a year-to-year basis. Primarily because of market conditions such as a sustained period of declining interest rates, and a decrease in opportunities to grow through acquisition, most of the growth targets were not achieved, and as a result a substantial portion of the performance-based options were forfeited, basically eliminating their longer-term incentive value to employees. Options granted since 2002, therefore, have not been performance-based and instead have provided for vesting over time (generally pro rata over three years) assuming continued employment. In addition, beginning in 2006, Bankshares changed its practice of granting incentive stock options and, instead, choose to grant solely non-qualified options in order to take advantage of the more favorable tax treatment to Bankshares.

Bankshares has expensed options since the adoption of Statement of Financial Accounting Standards No. 123 in 1995, thus the 2006 change in the accounting treatment for stock options as a result of the adoption of Statement of Financial Accounting Standards No. 123(R), had minimal impact on our option granting practices. However, partially because of our decision to expense options at a time when our competitors were not, our option grants significantly lagged our peers. As a result, in 2002 we began granting shares of restricted stock to members of senior management in addition to or in lieu of option grants, and concluded that restricted stock would provide an equally motivating form of incentive compensation while permitting us to issue fewer shares, thereby reducing potential dilution. Restricted stock awards granted since that time have been both performance-based and time-based. In order for the performance-based

119

restricted stock to be earned, Bankshares must achieve certain performance goals within the applicable performance period covered by the awards. The recipient also must remain employed by Bankshares for one additional year following the award of such shares, if earned, in order for the restricted stock to vest. The financial criteria for these performance goals were approved by our stockholders in connection with their re-approval of the 1999 Plan in 2004.

In establishing award levels for both options and restricted stock, we generally do not consider current equity ownership levels of the recipients or prior awards that are fully vested. It is our belief that competitors who might try to hire away our employees would not consider vested equity ownership in Bankshares and, accordingly, to remain competitive we cannot afford to consider that factor either. We also want to be certain that our employees have ongoing incentives.

In 2002, Bankshares made its first restricted stock grants to provide additional long-term equity-based incentives, awarding an aggregate of 24,375 shares to our CEO and our next two highest-paid executives at the time, Mr. Reid and the head of our affiliate bank network. In addition, we awarded an aggregate of 105,000 restricted shares as part of our recruitment efforts for a new head of Investment and Wealth Management and a new Chief Investment Officer.

In April 2003, the Committee awarded 90,000 shares of restricted stock to Mr. Kelly. This award was time-based as opposed to performance-based, vesting in its entirety on the third anniversary of the award date, provided only that Mr. Kelly remained employed by Bankshares on that date. The Committee made this award for retention purposes and to provide additional incentive to Mr. Kelly by more closely aligning his interests with those of our stockholders. At that time, Mr. Kelly s equity interest in Bankshares was significantly below that of other CEOs at peer companies. In addition, based on its assessment of his performance during the first two years of his employment, the Committee determined that it was desirable to ensure Mr. Kelly s retention for an additional period.

In March 2004, based in part on the recommendation of its compensation consultant at that time (see Compensation Consultants , above), the Committee approved Bankshares first performance-based long term incentive restricted stock program under the 1999 Plan. Under this program (the 2004 LTIP), seven senior executive officers of Bankshares (including each of the Named Executives, other than Mr. Wilson, who was not employed by Bankshares at the time) had the potential to receive restricted stock based on Bankshares achieving specified performance goals over a two-year period ending December 31, 2005. The target award for each participant was 100% of such participant s then-current annual salary, payable in shares of restricted stock (valued at the closing price of Bankshares stock as of the last day of the performance period). The Committee could grant awards if the compound annual growth rate of total stockholder return for the two-year performance period equalled or exceded 12% annually. The Committee chose this performance criteria and goal because of its clear alignment with stockholder interests. The awards were all or nothing , with no awards earned if the 12% threshold was not met. The performance goals for the 2004 LTIP were achieved. Award recipients also were required to remain employed by Bankshares for an additional one year following the date on which the awards were approved by the Committee in order for the restricted stock to vest.

In 2006, the Committee approved a performance-based long-term incentive program under the 1999 Plan. Under this program (the 2006 LTIP), 14 senior executive officers of Bankshares (including each of the Named Executives), have the potential to receive restricted stock units (if earned, convertible to shares of common stock on a one-for-one basis) based on Bankshares achieving specified performance goals over a three-year period. The target award for each participant is a number of restricted stock units, such number determined by dividing a multiple of such participant s annual salary as of March 29, 2006 by the closing price of Bankshares common stock on the date of grant. Based on such closing price, the value of such target awards for the Named Executives were as follows: Mr. Kelly $1,500,000; Mr. Mason $900,000; Mr. Wilson $900,000; Mr. Reid $600,000; and Mr. Troupe $600,000. Awards are earned based on the percentage improvement (not compounded), if any, in Bankshares pre-tax operating earnings for 2008 as compared to 2005. The amount of the target award earned varies based on the amount of such percentage improvement achieved, as follows: 15% improvement 25% payout; 18% improvement 50% payout; 22.5% improvement 75% payout; 27% improvement 100% payout; 33% improvement 125% payout; 45% or more improvement 150% payout (maximum award). If earned, such awards will vest one year from the date of grant if the recipient remains employed by Bankshares through such date. If the recipient voluntarily terminates employment prior to that date or is terminated involuntarily for cause, the award will be forfeited. Dividend share equivalents accrue during the three-year performance

120

period and the one-year vesting period, and are issued in the form of additional shares in the event the award is earned and vests. In the event of a change in control during the performance period, awards are deemed earned and vest at 100% of the target award. As a result, upon the closing of the PNC merger, the awards will accelerate and be paid out at 100% of target. (See Change in Control below for a discussion of Bankshares philosophy with respect to the acceleration of awards in a change in control scenario.)

Other Elements

Secondary elements of our executive compensation program include qualified retirement plans, supplemental retirement plans, a deferred compensation plan, certain severance arrangements and perquisites, all of which are more fully described in those parts of this Item 11, which follow this Compensation Discussion and Analysis. Our philosophy with respect to these items is to maintain competitive overall compensation programs. Perquisites do not constitute a significant part of our executive compensation program. The primary perquisites for senior managers at or above the level of executive vice president (and equivalents) are use of a company-owned automobile, payment of certain club dues and the provision of in-house meals. We want to encourage our senior management to belong to a golf or social club so that they have an appropriate entertainment forum for customers and appropriate interaction with their communities. In addition, we continue to provide certain perquisites (such as club dues and automobile use) because historically they have been considered as part of the executive compensation package and we believe that they are provided by many of our competitors. We provide in-house meals because we already maintain a corporate dining room for the purpose of entertaining customers and other visitors, and by making meals available to executives we believe that it saves time and increases their efficiency. We annually review the perquisites that senior management receives. Senior management also participates in Bankshares other benefit plans on the same terms as other employees. These plans include medical, dental and life insurance. Relocation benefits also are reimbursed but are individually negotiated when they occur.

2006 Compensation

The Committee met in January 2006, and again in February, to outline the process for determining the 2006 compensation of executive management. Upon the recommendation of management, the Committee was willing to consider a new annual cash bonus program, and a new long-term incentive program utilizing restricted stock, and asked its consultant, Cook, to work with management and its consultant, Mr. Bieler, to develop recommendations with respect to these matters for its review. In addition, to provide information to assist it in determining the components and levels of 2006 compensation, the Committee directed Cook to perform a competitive assessment of Mr. Kelly s total compensation and equity holdings, and to prepare tally sheets for the nine most highly compensated members of senior management (including Mr. Kelly and the other Named Executives), showing (i) the value of total 2005 compensation paid to each individual, (ii) the value of stock-denominated compensation held, (iii) the projected value of such equity holdings at various stock prices, and (vi) a summary of estimated benefits upon termination of employment (including upon a change in control).

Cook s report was delivered in March 2006. Cook s competitive assessment of Mr. Kelly s total compensation and equity holdings compared Mr. Kelly s 2005 compensation and aggregate equity compensation holdings to the 2004 equivalent information (the most recent information publicly available) with respect to the CEOs of 14 peer organizations, consisting of commercial banking organizations with market capitalizations (as of 12/31/05) ranging from $2.1 billion to $6.0 billion (compared to $4.6 billion for Bankshares as of that date).

Cook concluded that Mr. Kelly s 2005 total compensation was around the 75th percentile of peer norms, and that his total wealth from compensation-based equity holdings relative to peers ranked below the 10th percentile. In addition, the report concluded that Mr. Kelly s Supplemental Retirement Plan and Change-in-Control protection were generally competitive with external market norms, but that his general severance protection was below competitive norms. It should be noted that, prior to the date of Cook s report, Mr. Kelly had offered to relinquish his contractual rights to a general severance (in the form of continued salary and bonus for the remainder of his one-year employment agreement) upon termination without cause and to a cash severance payment upon termination upon a change-in-control, and that in fact these changes were accepted by the Committee and agreed to by Mr. Kelly and Bankshares in April 2006.

Because the financial performance data provided by Cook in its draft report with respect to the peer companies did not include all of the financial results and ratios typically used by securities analysts to evaluate performance in the commercial banking industry, the Committee requested that Sandler O Neill & Partners, L.P. (Sandler), Bankshares investment banker, provide such information. Sandler s peer group consisted of 13 of the 14 peer organizations identified by Cook, the lone exception being a company that had been acquired in 2005.

The performance information provided to the Committee by Sandler included five metrics relating to valuation, 11 metrics relating to trading and operating performance, and a comparison of Bankshares 1-year, 3-year and 5-year total shareholder returns to the peer group, a select group of Mid-Atlantic bank holding companies and a select group of regional bank holding companies.

The valuation metrics were: price/earnings ratio (2006 and 2007), long-term growth rate estimate in earnings per share, price/earnings ratio divided by long-term growth rate, price/tangible book value ratio, and premium to core deposits rate. In these categories, among the 14 companies (including Bankshares), Bankshares ranked 4th, 5th, 9th, 6th, 9th and 3rd, respectively. The relative trading and operating metrics included, with respect to profitability: core return on average assets, core return on average equity, return on average tangible equity, net interest margin, efficiency ratio, fee income ratio, year-over-year EPS growth and year-over-year net income growth. In these categories Bankshares ranked 1st, 9th, 12th, 3rd, 2nd, 9th, 3rd and 6th, respectively. In the capital measurement of tangible common equity divided by tangible assets, Bankshares ranked 1st, and in the credit quality metrics of reserves divided by non-performing assets, and non-performing assets divided by assets, Bankshares ranked 1st and 4th, respectively. Bankshares 1-year, 3-year and 5-year total shareholder returns of 15.4%, 75.3% and 70.0%, respectively, compared to 7.2%, 62.2% and 83.4% for the peer group, 7.8%, 48.9% and 77.3% for the group of Mid-Atlantic bank holding companies, and 9.4%, 77.0% and 98.9% for the group of regional bank holding companies.

The Committee also reviewed five years of financial highlights for Bankshares and comparable data that showed Bankshares as (i) one of only seven bank holding companies (with a market capitalization greater than $2 billion and less than $50 billion) in the country with a Net Interest Margin greater than 4.0%, ROAA greater than 1.5%, Tangible Equity/Assets greater than 7.5% and NPAs/Assets 40 bps or lower.

With the foregoing information as background, the Committee s decisions regarding senior executive officer 2006 compensation were primarily based upon an assessment of each senior executive officer s leadership performance and potential to enhance long-term shareholder value. The Committee members relied upon their judgment about each individual - and not on rigid guidelines or formulas, or short-term changes in business performance - in determining the amount and mix of compensation elements for each senior executive officer. Key factors affecting the Committee s judgments included the nature, scope and level of the executive s responsibilities; the executive s contribution to Bankshares financial results; the executive s effectiveness in leading Bankshares initiatives to improve customer service, productivity, cash flow and profitability; the executive s contribution to Bankshares commitment to corporate responsibility, including the executive s success in creating a culture of integrity and compliance with applicable law and Bankshares ethics policies; and the executive s commitment to corporate citizenship.

Based upon a belief that equity compensation should be a larger relative part of the overall compensation mix for the most senior executives than it had historically been, based on peer evaluation, and based on the understanding that equity ownership amongst our senior executives was lower than many of our competitors, the Committee decided on the following targets for compensation mix:

Name	**% Salary**	**% Cash Bonus Opportunity**	**% Long-term equity**
Mr. Kelly	30.0	30.0	40.0
Mr. Troupe	45.0	25.0	30.0
Mr. Mason	33.3	33.3	33.3
Mr. Wilson	33.3	33.3	33.3
Mr. Reid	37.5	37.5	25.0

Furthermore, the Committee looked at the mix of equity related compensation with the belief that it should be comprised of reward

122

created by stock price appreciation and reward created by long term operating performance. In providing for the former, we elected to use annual stock option awards, and in the case of the latter we created restricted stock units in conjunction with a long-term incentive program tied to achieving benchmark results in pre-tax operating income over a three year period. As we intended to issue units to individual executives only once in any three year period, we determined that only one fourth of the target award would be used in calculating the equity component of total compensation in any given year in which an unvested award remained outstanding. In determining the mix of the equity component to each executive, we allocated a greater percentage of stock options to the most senior executives, believing that the shareholders benefited from their closer relative relationship to the appreciation of the stock.

Decisions concerning specific compensation elements and total compensation paid or awarded to Bankshares senior executive officers, including the Chief Executive Officer, for 2006 were made within the framework described above and after consultation with Cook, the Committee s independent compensation consultant. The Committee also considered each executive s 2005 total compensation and the appropriate balance between incentives for long-term and short-term performance. With respect to senior executive officers other than the Chief Executive Officer, the Committee also considered the Chief Executive Officer s evaluation of the performance, value and contributions of each such executive. In implementing its 2006 executive compensation program in March 2006, the Committee also considered Bankshares financial performance during 2005, including the 20.4% increase in net income; the 18.1% increase in diluted earnings per share; the 8.1% increase in the stock price during 2005; the successful integration of the Community Bank of Northern Virginia acquisition; the substantial increases in loans, deposits and noninterest income; achievement of even better credit quality than in 2004 (which has been the best in the past 20 years); improvements in returns on assets and equity; improvements in the efficiency ratio; and maintenance of strong capital levels. The Committee also reviewed Bankshares performance relative to peers on many of these metrics. In all cases, the specific decisions involving 2006 senior executive officer compensation were ultimately based upon the Committee s judgment about the individual executive s performance and potential future contributions and about whether each particular payment or award would provide an appropriate incentive and reward for performance that would sustain and enhance long-term stockholder value.

The Committee makes a recommendation to the Bankshares Board of Directors, which determines Mr. Kelly s compensation. For 2006, Mr. Kelly received $950,000 in salary, a target cash bonus of $950,000 under the ACIP, non-qualified stock options for 120,000 shares of common stock valued at $843,142 on the date of grant and which become exercisable in equal installments over three years, and participation in the 2006 LTIP with a target award of 39,236 restricted stock units valued at $1,500,000 on the date of grant. In addition, in March 2006, Mr. Kelly received a restricted stock grant of 104,630 shares valued at $4 million on the date of grant. This award, which the Committee made for retention purposes in lieu of extending Mr. Kelly s contract beyond its current annual one-year renewal, vests pro rata over a four year period and is subject to forfeiture if Mr. Kelly is terminated for cause or voluntarily terminates his employment prior to any vesting date. The Committee based its decisions on its assessment of Mr. Kelly s performance. This assessment included a review of significant accomplishments and strong operating performance, as well as stock price performance during 2004 and 2005, all as discussed above.

In December 2006, the Committee awarded 2006 bonuses to senior management at the same levels as 2005 bonuses except for Mr. Wilson who had received a lower bonus in 2005. These bonuses were awarded pursuant to the PNC Merger Agreement, and were paid in December at the request of PNC. No other bonuses will be paid to these individuals in respect of 2006.

Compensation Committee Report

The Compensation Committee of the Board of Directors of Bankshares has reviewed and discussed the Compensation Discussion and Analysis contained in this Item 11 to Annual Report on Form 10-K with management. Based upon that review and those discussions, the Compensation Committee recommends to the Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

The Compensation Committee

Anthony W. Deering (Chair)

George L. Bunting, Jr.

Christian H. Poindexter

Clayton S. Rose

Donald J. Shepard

Summary Compensation Table

The following table shows all compensation earned by our Chief Executive Officer, our Chief Financial Officer, and the next three highest compensated executive officers for 2006.

On January 10, 2006, Bankshares announced a three-for-two stock split on its common stock. Share numbers and per share amounts used in the Summary Compensation Table and all other tables in this Part III of Form 10-K have been adjusted to give effect to the split.

Name and Principal Position	Year	Salary (1)	Bonus (2)	Stock Awards (3)	Option Awards (4)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings (5)	All Other Compensation (6)	Total
Edward J. Kelly, III President & CEO	2006	$ 950,000	$ 950,000	$ 2,047,193	$ 881,454	$ 0	$ 458,900	$ 363,077	$ 5,650,624
Terry L. Troupe CFO	2006	300,000	180,000	353,231	102,975	0	23,072	83,253	1,042,531
Alexander T. Mason Vice Chairman & COO	2006	750,000	750,000	963,282	486,320	0	10,930	247,631	3,208,163
Jay M. Wilson Vice Chairman and CEO of IWM	2006	750,000	750,000	188,667	259,894	5,426	11,115	180,989	2,146,061
J. Marshall Reid President of MSD&T	2006	500,000	500,000	462,780	162,290	4,478	27,569	227,765	1,884,882

(1) Includes salary deferred during 2006 pursuant to Bankshares Nonqualified Deferred Compensation Plan. Such deferred amounts are also included in the amounts provided under the heading Executive Contributions in Last FY in the Nonqualified Deferred Compensation Table below.

(2) Represents bonus earned for 2006 and paid in December 2006. Does not include bonuses earned in 2005 and paid in March 2006 in the following amounts: Mr. Kelly - $950,000; Mr. Troupe - $180,000; Mr. Mason - $750,000; Mr. Wilson - $375,000; and Mr. Reid - $500,000.

(3) Represents the compensation costs of the 2006 LTIP, RSUs and RSAs, including accrued dividends for financial reporting purposes for the year ended December 31, 2006 under FAS 123(R), rather than an amount paid to or realized by the Named Executive. Refer to Note No. 15 Stock-based Compensation Expense of the consolidated financial statements for the assumptions made in determining FAS 123(R) values. The FAS 123(R) value as of the grant date for RSUs and RSAs are spread over the number of months of service required for the grant to become non-forfeitable. In addition, ratable amounts expensed for grants that were granted in prior years

124

are included, that is, amounts in respect of grants made in 2003 through 2005. There can be no assurance that the FAS 123(R) amounts will ever be realized.

(4) Represents the compensation costs of stock options for financial reporting purposes for the year ended December 31, 2006 under FAS 123(R), rather than an amount paid to or realized by the Named Executive. Refer to Note No. 15 Stock-based Compensation Expense of the consolidated financial statements for the assumptions made in determining FAS 123(R) values. The FAS 123(R) value as of the grant date for stock options is spread over the number of months of service required for the grant to become non-forfeitable. In addition, ratable amounts expensed for grants that were granted in prior years are included, that is, amounts in respect of grants made in 2003 through 2005. There can be no assurance that the FAS 123(R) amounts will ever be realized.

(5) Amounts shown are solely an estimate of the increase in actuarial present value of the Named Executive s age 65 accrued benefit under Bankshares retirement plans for 2006. Assumptions are further described in Note No. 14 Pension and Other Postretirement Benefit Plans of the consolidated financial statements. There can be no assurance that the amounts shown will ever be realized by the Named Executives.

(6) See the Table captioned All Other Compensation-2006 for a break down of these amounts, which include perquisites, dividend equivalents and Bankshares match on 401(k) plan. In addition to the items in that chart, the Named Executives are provided dental, health, vision, life insurance and long-term disability insurance benefits, which are available to all employees. In addition, Bankshares has a dining room which operates for breakfast and lunch, is used by Bankshares employees for business purposes and may be used generally by executive officers free of charge. The average value of a breakfast in the dining room is $15 and the average value of a lunch in the dining room is $30.

All Other Compensation - 2006

The following chart reflects certain other compensation provided to Messrs. Kelly, Troupe, Mason, Wilson and Reid.

Name	401(k) (1)	Auto	Club Dues	Cash Balance SERP	401(k) SERP	Airfare	Total
Mr. Kelly	$ 13,200	$ 9,592	$ 20,461	$ 236,700	$ 78,900	$ 4,224	$ 363,077
Mr. Troupe	13,200	6,253	0	50,600	13,200	0	83,253
Mr. Mason	13,200	16,826	14,605	142,100	60,900	0	247,631
Mr. Wilson	13,200	1,344	3,445	114,100	48,900	0	180,989
Mr. Reid	13,200	9,825	19,140	147,200	38,400	0	227,765

(1) The 401(k) matching contribution is available to all employees.

125

Grants of Plan-Based Awards Table(1)

The following table sets forth information with respect to each grant of an award made to each of the Named Executives in 2006 under any compensation plan.

Name and Principal Position	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards(#) Threshold (2)	Target (2)	Maximum (2)	All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards (4)
Edward J. Kelly, III	3/29/06	0	0	0	0	120,000	$ 38.23	982,000
President & CEO	3/13/06	0	0	0	22,590	0	0.01	874,233
	3/29/06	0	0	0	104,630	0	0.01	3,998,959
	4/1/06	0	0	0	8,683 (3)	0	0.00	333,861
	3/29/06	9,809	39,236	58,854	0	0	0.00	1,499,992
Terry L. Troupe	3/7/06	0	0	0	22 (3)	0	0.00	843
CFO	3/13/06	0	0	0	6,909	0	0.01	267,486
	3/29/06	3,923	15,694	23,541	0	0	0.00	599,982
Alexander T. Mason Vice Chairman &	3/29/06	0	0	0	0	65,000	38.23	532,350
COO	3/13/06	0	0	0	19,932	0	0.01	771,368
	11/1/06	0	0	0	1,429 (3)	0	0.00	64,162
	3/29/06	5,885	23,541	35,312	0	0	0.00	899,977
Jay M. Wilson Vice Chairman and CEO	3/29/06	0	0	0	0	65,000	38.23	532,350
of	12/14/06	0	0	0	10,463	0	0.01	420,924
IWM	3/29/06	5,885	23,541	35,312	0	0	0.00	899,972
J. Marshall Reid	3/29/06	0	0	0	0	20,000	38.23	163,800
President of MSD&T	3/7/06	0	0	0	22 (3)	0	0.00	843
	3/13/06	0	0	0	10,630	0	0.01	411,381
	3/29/06	3,923	15,694	23,541	0	0	0.00	599,982

(1) There are no amounts that need to be reported under the column Estimated Future Payouts Under Non-Equity Incentive Plan Awards, so it has not been included.

(2) Relates only to potential awards under the 2006 LTIP, approved on March 29, 2006. The amounts do not include dividends earned on the original balances awarded. The threshold amount represents the minimum award to be paid out under the plan if minimum performance thresholds are met. The maximum column represents the largest award possible under the plan and the target column represents the expected award under the plan.

(3) This represents dividend equivalent shares earned on previous awards that were issued upon the vesting of such award.

(4) Option compensation is based on fair value of the award as determined using the Black-Scholes method based on the methods used under FAS 123(R). The value of stock awards is based on the closing price of one share of stock on the date of issuance less any compensation paid for the award. The grant date fair value of the dividend equivalent shares is based on market value of one share of common stock on the date of issuance. In accordance with FAS 123(R) the expense recorded for dividend equivalent shares is based on the total value of the dividend paid on the dividend payment date amortized over the remaining vesting period of the award.

126

For a discussion of various elements of compensation, including compensation arrangements and an explanation of the level of salary and bonus in proportion to total compensation, see Elements of Compensation Program and 2006 Compensation in the Compensation Discussion and Analysis.

All stock-based awards shown in the Grants of Plan-Based Awards Table were issued pursuant to the 1999 Plan and the programs thereunder. The Estimated Future Payouts Under Equity Incentive Plan Awards columns in that table include the potential awards under the Company s 2006 LTIP. The amounts of awards earned under the 2004 LTIP were determined at the end of 2005 and were awarded in March of 2006 and therefore appear as part of All Other Stock Awards column.

We and MSD&T have entered into an agreement with Mr. Kelly pursuant to which he serves in his executive positions. The agreement was for an initial term of five years, which ended February 2, 2006 and is subject to annual renewal thereafter unless either Bankshares, MSD&T or Mr. Kelly provide appropriate advance notice of termination. Mr. Kelly s agreement has been extended by its terms to February 2, 2008. Mr. Kelly s annual base salary is not less than $850,000, which may be increased from time to time. The agreement provides that his base salary will not be less in any year than in the preceding year. He was eligible for bonuses as a Class I participant in the Annual Incentive Compensation Plan and will be eligible for bonuses as a Class I participant in the 2006 Incentive Plan. Mr. Kelly will participate in all other compensation plans for which he is eligible, including the retirement plans discussed above.

On June 14, 2005, we and MSD&T approved an Amended and Restated Executive Employment Agreement among Bankshares, MSD&T and Jay M. Wilson, pursuant to which Mr. Wilson serves as our Vice Chairman of Bankshares and as Chairman and Chief Executive Officer of Investment and Wealth Management of Bankshares and MSD&T. The term of this agreement is initially from January 1, 2005 through January 1, 2008 and is subject to annual renewal thereafter unless either Bankshares, MSD&T or Mr. Wilson provide appropriate advance notice of termination. Mr. Wilson s annual base salary is not less than $750,000, which may be increased from time to time. The agreement provides that his base salary will not be less in any year than in the preceding year. He will be eligible for a bonus of up to 100% of his current salary and will participate in all other compensation plans for which he is eligible, including the retirement plans discussed above.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards					**Stock Awards**			
Name and Principal Position	**Number of Securities Underlying Unexercised Options Exercisable**	**Number of Securities Underlying Unexercised Options Unexercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options**	**Option Exercise Price**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested**	**Market Value of Shares or Units of Stock That Have Not Vested ($)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
Edward J. Kelly, III	3,820 (1)	0	0	$ 26.167	3/1/2011				
President & CEO	3,679 (1)	0	0	26.167	3/1/2011				
	3,679 (2)	0	0	26.167	3/1/2011				
	3,820 (2)	0	0	26.167	3/1/2011				
	75,000 (3)	0	0	29.993	3/12/2012				
	70,666 (4)	0	0	23.073	4/1/2013				
	4,333 (5)	0	0	23.073	4/1/2013				
	65,001 (6)	29,185 (6)	0	30.167	3/3/2014				
	0	3,313 (7)	0	30.167	3/3/2014				
	40,001 (8)	77,071 (8)	0	34.147	3/7/2015				
	0	2,928 (9)	0	34.147	3/7/2015				
	0	120,000 (10)	0	38.23	3/29/2016				
						22,590 (11)	1,056,986	39,236 (15)	1,835,852
						104,630 (12)	4,895,638	896 (16)	41,924
						538 (13)	25,173	0	0
						3,153 (14)	147,529	0	0
Terry L. Troupe	7,417 (17)	0	0	16.896	3/14/2010				
CFO	832 (18)	0	0	16.896	3/14/2010				
	2,499 (19)	0	0	29.993	3/12/2012				
	5,001 (20)	0	0	29.993	3/12/2012				
	5,418 (21)	0	0	23.073	4/1/2013				
	9,582 (22)	0	0	23.073	4/1/2013				
	0	3,313 (7)	0	30.167	3/3/2014				
	15,000	4,186 (23)	0	30.167	3/3/2014				
	0	2,928 (9)	0	34.147	3/7/2015				
	5,002	7,070 (24)	0	34.147	3/7/2015				
						6,909 (11)	323,319	15,694 (15)	734,322
						1,500 (25)	70,185	358 (16)	16,751
						81 (26)	3,790	0	0
						164 (13)	7,674	0	0
Alexander T. Mason Vice Chairman &	10,404 (27)	0	0	28.83	11/5/2013				
COO	27,096 (27)	0	0	28.833	11/5/2013				
	0	3,313 (7)	0	30.167	3/3/2014				
	25,001 (28)	9,185 (28)	0	30.167	3/3/2014				
	22,500 (29)	42,072 (29)	0	34.147	3/7/2015				
	0	2,928 (9)	0	34.147	3/7/2015				
	0	65,000 (30)	0	38.23	3/29/2016				
						19,932 (11)	932,618	23,541 (15)	1,101,483
						475 (13)	22,225	538 (16)	25,173
Jay M. Wilson Vice Chairman and	2,928 (31)	5,856 (31)	0	34.147	3/7/2015				
CEO of IWM	9,572 (31)	19,144 (31)	0	34.147	3/7/2015				
	0	65,000 (30)	0	38.23	3/29/2016				
						10,463 (32)	489,564	23,541 (15)	1,101,483
						0	0	538 (16)	25,173
J. Marshall Reid	7,582 (18)	0	0	16.896	3/14/2010				
President of MSD&T	8,917 (33)	0	0	16.896	3/14/2010				

19,167	(3) 0	0	29.993	3/12/2012				
3,333	(19) 0	0	29.993	3/12/2012				
18,166	(34) 0	0	23.073	4/1/2013				
4,333	(5) 0	0	23.073	4/1/2013				
20,001	(35) 6,685	(35) 0	30.167	3/3/2014				
0	3,313	(7) 0	30.167	3/3/2014				
0	2,928	(9) 0	34.147	3/7/2015				
5,002	(24) 7,070	(24) 0	34.147	3/7/2015				
0	20,000	(10) 0	38.23	3/29/2016				
					1,500	(25) 70,185	15,694	(15) 0
					10,630	497,378	358	0
					253	11,838	0	734,322
					82	3,837	0	16,751

(1) These options were granted 3/1/2001. They vest and become exercisable on the second anniversary of the grant.

(2) These options were granted 3/1/2001. They vest and become exercisable on the fourth anniversary of the grant.

(3) These options were granted 3/12/2002. They vest and become exercisable in equal installments (subject to rounding) on the first, second, and third anniversary of the grant.

(4) These options were granted 4/1/2003. They vest and become exercisable in installments, 25,001 shares on the first anniversary, 25,000 shares on the second anniversary and 20,665 shares on the third anniversary of the grant.

(5) These options were granted 4/1/2003. They vest and become exercisable on the third anniversary of the grant.

(6) These options were granted 3/3/2004. They vest and become exercisable in installments, 32,501 shares on the first anniversary, 32,500 shares on the second anniversary and 29,185 shares on the third anniversary of the grant.

(7) These options were granted 3/3/2004. They vest and become exercisable on the third anniversary of the grant.

(8) These options were granted 3/7/2005. They vest and become exercisable in installments, 40,001 shares on the first anniversary, 40,000 shares on the second anniversary and 37,071 shares on the third anniversary of the grant.

(9) These options were granted 3/7/2005. They vest and become exercisable on the third anniversary of the grant.

(10) These options were granted 3/29/2006. They vest and become exercisable in equal installments (subject to rounding) on the first, second, and third anniversary of the grant.

(11) These restricted stock awards were granted 3/13/2006. They vest and become exercisable on the first anniversary of the grant.

(12) These restricted stock units were granted 3/29/2006. They vest in equal installments (subject to rounding) on the first, second, third, and fourth anniversary of the grant. Even though the shares vest, they remain unissued until Mr. Kelly s departure from the company.

(13) These awards represent the unvested dividends on the restricted stock awards granted 3/13/2006. They vest when the underlying awards vest. See footnote (11).

(14) These awards represent the unvested dividends on the restricted stock units granted 3/29/2006. They vest when the underlying awards vest. See footnote (12).

(15) These restricted stock units were granted 3/29/2006. They are part of the 2006 Long Term Incentive Plan. The amounts presented are based on the target amount to be awarded. The performance period under assessment starts 1/1/2006 and ends 12/31/2008. The awards then have a one year vesting period from that time. The eventual number of shares awarded vest 12/31/09.

(16) These shares represent the unvested dividends on the restricted stock units to be awarded as part of the 2006 LTIP. They vest when the underlying awards vest.

See footnote (15).

(17) These options were granted 3/14/2000. They vest and become exercisable in installments, 5,918 shares on the first anniversary and 1,499 shares on the third anniversary of the grant.

(18) These options were granted 3/14/2000. They vest and become exercisable on the first anniversary of the grant.

(19) These options were granted 3/12/2002. They vest and become exercisable on the third anniversary of the grant.

(20) These options were granted 3/12/2002. They vest and become exercisable in equal installments, (subject to rounding) on the first and second anniversary of the grant.

(21) These options were granted 4/1/2003. They vest and become exercisable in installments, 1,085 shares on the second anniversary and 4,333 shares on the third anniversary of the grant.

(22) These options were granted 4/1/2003. They vest and become exercisable in installments, 5,001 shares on the first anniversary, 3,915 shares on the second anniversary and 666 shares on the third anniversary of the grant.

(23) These options were granted 3/3/2004. They vest and become exercisable in installments, 7,500 shares on the first anniversary, 7,500 shares on the second anniversary and 4,186 shares on the third anniversary of the grant.

(24) These options were granted 3/7/2005. They vest and become exercisable in installments, 5,002 shares on the first anniversary, 4,999 shares on the second anniversary and 2,071 shares on the third anniversary of the grant.

(25) These restricted stock awards were granted 3/7/2005. They vest and become exercisable in equal installments (subject to rounding) on the first, second, and third anniversary of the grant. The first installment has already vested, and the remaining shares are split evenly between the second and third installments.

(26) These awards represent the unvested dividends on the restricted stock awards granted 3/7/2005. They vest when the underlying awards vest. See footnote (25).

(27) These options were granted 11/5/2003. They vest and become exercisable in equal installments (subject to rounding) on the first, second, and third anniversary of the grant.

(28) These options were granted 3/3/2004. They vest and become exercisable in installments, 12,501 shares on the first anniversary, 12,500 shares on the second anniversary and 9,185 shares on the third anniversary of the grant.

(29) These options were granted 3/7/2005. They vest and become exercisable in installments, 22,500 shares on the first anniversary, 22,500 shares on the second anniversary and 19,572 shares on the third anniversary of the grant.

(30) These options were granted 3/29/2006. They vest and become exercisable in equal installments (subject to rounding) on the first, second, and third anniversary of the grant.

(31) These options were granted 3/7/2005. They vest and become exercisable in equal installments (subject to rounding) on the first, second, and third anniversary of the grant.

(32) These restricted stock awards were granted 12/14/2006. They vest and become exercisable in equal installments (subject to rounding) on the first, second, and third anniversary of the grant.

(33) These options were granted 3/14/2000. They vest and become exercisable in installments, 5,918 shares on the first anniversary and 2,999 shares on the third anniversary of the grant.

(34) These options were granted 4/1/2003. They vest and become exercisable in installments, 7,500 shares on the first anniversary, 7,500 shares on the second anniversary and 3,166 shares on the third anniversary of the grant. The expiration date listed in the table is the date the grant expires and is ten years after the date of grant.

(35) These options were granted 3/3/2004. They vest and become exercisable in installments, 10,001 shares on the first anniversary, 10,000 shares on the second anniversary and 6,685 shares on the third anniversary of the grant. The expiration date listed in the table is the date the grant expires and is ten years after the date of grant.

(36) These options were granted 3/7/2005. They vest and become exercisable in installments, 5,002 shares on the first anniversary, 4,999 shares on the second anniversary and 37,071 shares on the third anniversary of the grant. The expiration date listed in the table is the date the grant expires and is ten years after the date of grant.

Option Exercises and Stock Vested

Name and Principal Position	Option Awards Number of Shares Acquired on Exercise	Value Realized on Exercise	Stock Awards (1) Number of Shares Acquired on Vesting	Value Realized on Vesting
Edward J. Kelly, III President & CEO	0	$ 0	98,683	$ 3,793,731
Terry L. Troupe CFO	0	0	772	29,585
Alexander T. Mason Vice Chairman & COO	0	0	16,429	737,557
Jay M. Wilson Vice Chairman and CEO of IWM	0	0	0	0
J. Marshall Reid President of MSD&T	0	0	772	29,585

(1) This amount represents dividend equivalent shares released as part of the vesting of the underlying awards.

Pension Benefits

Name and Principal Position	Plan Name	Number of Years Credited Service		Present Value of Accumulated Benefit 12/31/2006 (3)	Payments During Last Fiscal Year
Edward J. Kelly, III President & CEO	Cash Balance Pension Plan	6.00	(2)	$ 55,391	$ 0
	Supplemental Retirement Agreement	28.00	(1)	1,768,363	0
Terry L. Troupe CFO	Cash Balance Pension Plan	10.00	(2)	129,973	0
Alexander T. Mason Vice Chairman & COO	Cash Balance Pension Plan	3.00	(2)	29,894	0
Jay M. Wilson Vice Chairman and CEO of IWM	Cash Balance Pension Plan	2.00	(2)	21,078	0
J. Marshall Reid President of MSD&T	Cash Balance Pension Plan	14.00	(2)	207,823	0

(1) Mr. Kelly s credited years of service under this plan begin from date he attained age 25. This was intended to restore benefits he lost because of his departure from former jobs prior to full retirement accruals.

(2) Equals numbers of years of credited service as of December 31, 2006. Credited service begins with the January 1 subsequent to a participant s hire date and ends with his or her last full month of employment.

(3) Represents actuarial present value in accordance with the same assumptions outlined in Note No. 14 Pension and Other Postretirement Benefit Plans of the consolidated financial statements.

Our senior management is eligible to participate in all of the qualified retirement plans made available to our employees generally, including our employees Cash Balance Pension Plan and the 401(k) Thrift Plan.

129

We entered into a nonqualified, unfunded Supplemental Retirement Agreement (the SRA) with Mr. Kelly upon his employment in 2001. This agreement is intended to restore benefits lost because of his departure from former jobs prior to full retirement accruals, and to provide Mr. Kelly with a fixed level of retirement benefits. The SRA acts as an umbrella plan, as the benefit derived under the SRA s formula is reduced by the benefits paid under our qualified plans, our supplemental cash balance and thrift plans and Mr Kelly s primary social security benefits. The monthly amount of the supplemental benefit is equal to one-twelfth of the sum of (i) the product of 0.5% of Mr. Kelly s final average compensation multiplied by his first 10 years of service, (ii) the product of 1% of Mr. Kelly s final average compensation multiplied by his next 15 years of service, and (iii) the product of 3% of Mr. Kelly s final average compensation multiplied by his next 15 years of service, reduced by the offsets above. Final average compensation means the average of Mr. Kelly s annual compensation for the three full years within the final five years of employment that produce the highest average. Annual compensation for this purpose includes base salary and bonus, in each case prior to reductions for elective contributions under qualified and nonqualified plans. Years of Service are measured from the date Mr. Kelly attained age 25. The supplemental benefit is generally paid in the form of a single life annuity for Mr. Kelly s life and is subject to reduction in the event of early retirement or other termination of employment, disability or death prior to age 65. Mr. Kelly has voluntarily agreed to consider his employment terminated, solely for purposes of this agreement, in connection with, and upon consumation of the PNC Merger.

None of the other Named Executives has a supplemental retirement agreement.

Nonqualified Deferred Compensation

Name	Plan Name	Executive Contributions in Last FY	Registrant Contributions in Last FY	Aggregate Earnings in Last FY	Aggregate Withdrawals/ Distributions In Last FY	Aggregate Balance at Last FYE
Edward J. Kelly, III	DCP	$ 0	$ 0	$ 0	$ 0	$ 0
President & CEO	Cash Balance SERP	0	0	236,700	0	587,406
	401(K) SERP	0	0	78,900	0	222,563
Terry L. Troupe	DCP	0	0	0	0	0
CFO	Cash Balance SERP	0	0	50,600	0	126,650
	401(K) SERP	0	0	13,200	0	41,800
Alexander T. Mason	DCP	0	0	0	0	0
Vice Chairman & COO	Cash Balance SERP	0	0	142,100	0	252,197
	401(K) SERP	0	0	60,900	0	108,710
Jay M. Wilson	DCP	187,500	0	5,426	0	192,926
Vice Chairman and CEO of IWM	Cash Balance SERP	0	0	114,100	0	152,152
	401(K) SERP	0	0	48,900	0	65,365
J. Marshall Reid	DCP	250,000	0	4,478	0	254,478
President of MSD&T	Cash Balance SERP	0	0	147,200	0	524,647
	401(K) SERP	0	0	38,400	0	161,261

The table above represents amounts deferred by the Named Executives pursuant to Bankshares Deferred Compensation Plan for our officers, referred to herein as the DCP. The DCP, approved by the Board in 2005, is unfunded and nonqualified. Generally, all executives of our participating affiliates who have compensation that exceeds by a specified amount the compensation limit imposed by Section 401(a)(17) of the Internal Revenue Code are eligible to participate in the DCP. The number of eligible participants in 2006 was 80, which included all of the Named Executives. The DCP permits participants to elect, in the manner permitted by Section 409A of the Internal Revenue Code, to voluntarily defer base salary and certain incentive payments. Participant accounts under the DCP are credited or debited with earnings or losses based on a participant s election among a number of measurement funds made available in connection with the DCP. Subject to the requirements of Section 409A of the Internal Revenue Code, participants may elect, under certain

130

circumstances, to receive distributions from the DCP while the participant is still employed with Bankshares or one of its affiliates. With respect to distributions following separation from service, participants may elect a lump sum payment or payment in installments, depending on the circumstances of the participant s separation from service.

We sponsor an unfunded, nonqualified, supplemental Cash Balance Pension Plan (the Cash Balance SERP), which is reflected in the above table. All of our employees and our affiliates employees having compensation for a calendar year in excess of the compensation limit imposed by Section 401(a)(17) of the Internal Revenue Code for tax-qualified retirement plans ($220,000 for 2006) and who are approved for participation by the Board s Employee Benefit Committee are eligible participants under this plan. The number of eligible participants in 2006 was 80, which included all of the Named Executives, each of whom participated in this plan in 2006. At the end of a calendar year, the account of each participant is credited with an amount equal to the difference between the amount with which the participant s account under the cash balance pension plan would have been credited but for the compensation limitation imposed by the Internal Revenue Code, and the amount actually credited to the participant s account under the cash balance pension plan. In addition, if a participant s benefit under the cash balance pension plan is limited by Section 415 of the Internal Revenue Code and is not already provided for under this plan, an amount equal to the shortfall will be added to the participant s account. At the end of a calendar year (but prior to the above credit), each participant s account is credited with interest equal to the average value of interest rates on 52-week U.S. Treasury Bills, determined pursuant to a fixed formula, but no less than four percent nor more than twelve percent, until the participant s account is fully distributed. An account is distributed after the participant s termination of employment or death, either in a single-sum payment, or in equal annual installments over a period not to exceed ten years.

We also sponsor an unfunded, nonqualified supplemental Thrift Plan (the 401(k) SERP). Generally, all vice presidents and more senior officers who participate in the 401(k) SERP, who have compensation for a calendar year in excess of the compensation limit imposed by Section 401(a)(17) of the Internal Revenue Code for tax qualified retirement plans ($220,000 in 2006) and who are approved for participation by the Board s Employee Benefit Committee are eligible participants under this plan. The number of eligible participants in 2006 was 80, which included all of the Named Executives, each of whom participated in this plan in 2006. At the end of a calendar year, the account of each participant is credited with an amount equal to 3% of the portion of the participant s compensation for that calendar year that exceeds the compensation limit imposed by the Internal Revenue Code. At the end of a calendar year (but prior to the above credit), each participant s account is credited with interest at the per annum rate of five percent, except that interest is pro-rated for accounts that terminate in midyear. Generally, an account is distributed in a lump sum payment after a participant s termination of employment or death.

We maintain the Cash Balance SERP and the 401(k) SERP in order that a select group of employees, the top hat group, may receive benefits under these plans that they are precluded from receiving under our qualified plans because of IRS limits.

Potential Payments upon Termination or Change in Control

Termination Payments

We believe that Bankshares should provide reasonable severance benefits to senior executives who are terminated involuntarily, unless extraordinary circumstances (such as cause as defined in an employment agreement, or ethical violations or other wrongdoing) exist. We also believe that these severance benefits should be tailored to reflect the individual circumstances, including length of tenure, responsibilities and past contributions of the terminated executive, the circumstances giving rise to the termination, how long it may take (and how likely it may be) for the executive to find comparable employment and such other factors as we deem relevant. Thus, it is our policy (except as described in the following paragraph and under the heading Change of Control below) not to enter into written severance agreements prior to or during employment, nor do we have a specific severance policy for senior executives. In the event of an involuntary termination of a senior executive under circumstances in which management believes severance is warranted, and where no contractual obligation exists, management will make a recommendation to the Committee for severance based on the factors listed above. All severance arrangements for senior executives are reviewed and approved by the Committee in advance.

Occasionally, Bankshares has entered into written employment contracts with members of senior management and other key employees. Generally, Bankshares will only do so in connection with the recruitment of such individuals. Of the Named Executives, only Mr. Kelly and Mr. Wilson have employment agreements. Mr. Kelly s was for an initial five-year

131

term, and Mr. Wilson s was for a three-year term. Under both agreements, upon the expiration of the original term and on each anniversary thereof, the agreement automatically renews for an additional one-year period unless either party gives notice to the other 90 days prior to such date that it declines such extension. Originally, both contracts included a provision whereby in the event of a termination without cause prior to their expiration, the executive would be entitled to continue to receive all benefits (including salary) provided for in the agreement until the expiration of the remaining term of such agreement. The original term of Mr. Kelly s agreement expired in February 2006 and has renewed automatically in accordance with its terms for an additional one year term, so that the current expiration date is January 31, 2008. Mr. Wilson s employment agreement is still in its original term and will expire January 1, 2008, subject to the automatic renewal provision. Bankshares employment agreements with Mr. Kelly and Mr. Wilson define cause as proven or admitted fraud or material illegal acts, or a breach of any of the executive s covenants of undivided loyalty to and the performance of duties for Bankshares.

In April 2006, Mr. Kelly and Bankshares agreed, at Mr. Kelly s request, to amend his employment contract to provide that all of the obligations of the Company to Mr. Kelly thereunder (including any obligation to continue salary and other benefits through the unexpired term thereof) would terminate upon his termination by Bankshares for any reason, including a termination without cause.
Generally, in the event of a termination we do not accelerate the vesting of equity compensation. However, in instances where such termination by Bankshares is in violation of the terms of an employment agreement, or without cause as defined in certain restricted stock agreements, the vesting of restricted stock awards is required upon termination. Our stock options do not require acceleration upon termination for any reason other than normal retirement.

We believe that these severance benefits are generally more modest than those provided by comparable companies (because we do not enter into formal severance agreements prior to termination, generally do not enter into employment agreements, and do not accelerate vesting of equity compensation), although we have not conducted a study to confirm this. Based upon a hypothetical termination date of December 31, 2006, the severance benefits Bankshares would have been obligated to pay to each of the Named Executives would have been as follows:

Name	Base Salary	Bonus	Accelerated Equity Awards/Units	Continued Retirement Benefits	Healthcare and Other Insurance Benefits	Other Benefits	Total
Mr. Kelly	$ 0	$ 0	5,083,397	$ 0	$ 0	$ 0	$ 5,083,397
Mr. Troupe	0	0	18,821	0	0	0	18,821
Mr. Mason	0	0	29,969	0	0	0	29,969
Mr. Wilson	750,000	750,000	151,130	0	14,765	0	1,665,895
Mr. Reid	0	0	27,164	0	0	0	27,164

Change in Control Payments

We have entered into written agreements (Executive Severance Agreements) with 17 senior executives, including each of the Named Executives, that provide for cash severance and other payments to such executives in the event of their termination in connection with a change of control of Bankshares. We have done so on our belief, confirmed by resolutions adopted by the Bankshares Board, that it is in the best interests of Bankshares to have the continued dedication of such executives, despite the possibility, threat or occurrence of a change in control, and that it is necessary, in order to diminish the inevitable distraction of such a situation, to encourage each executive s full attention and dedication to Bankshares currently and in the event of any threatened or pending change in control (including determinations as to the best interests of Bankshares and its stockholders should the possibility of a change in control arise) and to provide such executives with compensation arrangements upon a change in control which would provide each of the executives with individual financial security in the event he or she is terminated as a result of such change of control and which are competitive with those of other corporations.

Historically, we entered into Executive Severance Agreements only with our CEO and General Counsel. In 2002, we began to enter into such agreements in connection with the recruitment of senior executives as an additional inducement to join Bankshares. In 2003, as the number of newly-recruited senior executives with such agreements increased, the Committee determined that as an equitable matter such agreements should be extended to other members of senior management as well. In making this decision, the Committee determined that, relative to the overall value of Bankshares, the potential benefits payable under these agreements were relatively minor and that the benefits outweighed the additional cost.

132

Pursuant to the agreements (all of which are identical, other than Mr. Kelly s as noted below), in the event that during the effective period of the agreements, following a change of control of Bankshares, any of such executives is terminated (prior to his or her retirement date) within three years of a change of control without cause or if such executive resigns for good reason , then he or she is entitled to receive a lump sum cash severance payment equal to three times such individual s average salary and cash bonus over the prior three years. All of these agreements are so-called double trigger , which means that in order to trigger the cash severance payment both of the following must occur: the occurrence of a change of control and the termination of the executive (either by the employer without cause or by the executive for good reason).

For the purposes of these agreements, a change of control means any of the following occurrences: (a) a person or group becomes the beneficial owner of at least 35% of our outstanding common stock; (b) there occur certain specified changes in the composition of the Board of Directors; (c) our stockholders approve a reorganization, merger, consolidation or statutory share exchange and such transaction is consummated or effective, unless after such transaction, holders of the previously outstanding common stock own specified amounts of the combined voting power of the surviving entity; or (d) a liquidation or dissolution of Bankshares or sale of all or substantially all of our assets. Cause means termination upon (i) an act of personal dishonesty taken by the executive intended to result in substantial personal enrichment of the executive at our expense, (ii) the executive s willful, deliberate and continued failure to perform substantially his or her duties, which is not remedied after receipt of written notice, or (iii) conviction of a felony. Good reason includes the assignment to the executive of any duties inconsistent with his or her status and position as they exist immediately prior to the change of control, a substantial failure by us to comply with our obligations to the executive under any employment arrangement with such executive, relocation of the executive s place of employment outside of the City of Baltimore, a purported termination of the executive not otherwise permitted under his or her employment arrangement or the failure of any potential successor to assume expressly the obligations of the agreement.

In addition to the cash severance payment, because of the so-called parachute tax imposed by Internal Revenue Code Section 280G, we have agreed to reimburse each member of senior management with whom we have an Executive Severance Agreement for any taxes imposed as a result of change in control benefits. We have done so because we believe this to be consistent with competitive practices.

In March 2006, the Committee approved the amendment of all of its Executive Severance Agreements with executives, including those with each of the Named Executives, to change the calculation of the cash severance payments which may be made under the agreements. Prior to such amendment, severance payments required under the agreements would have been calculated at the maximum amount (when combined with amounts otherwise payable upon termination) which is deductible under Section 280G of the Internal Revenue Code, as amended. Generally, the maximum amount deductible is three times average base annual compensation (including salary, bonus, fringe benefits and deferred compensation) over five years. As a result of the amendment, payments required under the agreements are now calculated at three times the sum of (i) twelve times the average monthly base salary received by the executive during the thirty-six month period prior to such termination, plus (ii) the average of the annual bonuses earned by the executive for the three fiscal years preceding such termination. (Mr. Kelly s agreement was also amended, at his request, to eliminate the cash severance payment in its entirety.) The agreements continued to provide for additional payments to the executive to make him or her whole for the consequence of any excise tax imposed upon him or her if the Section 280G limits are exceeded. However, the amendment also included a so-called valley provision, whereby if excise tax can be avoided by the reduction of parachute payments to the executive (not to exceed $150,000), then the parachute payments would be reduced by the minimum amount necessary to avoid the excise tax. The amendment also clarified the definition of change of control , clarified that no payments will be made absent the consummation of a change of control, clarified the circumstances under which the agreement could be triggered in the event of a termination in advance of a change of control, and added provisions to reflect new regulations under Section 409A of the Internal Revenue Code, as amended. These changes (other than the elimination of the cash severance payment in Mr. Kelly s agreement) were made primarily to make such agreements more favorable to Bankshares.

In addition to the cash severance payments payable under the Executive Severance Agreements, the ACIP provides that in the event of a change in control, cash incentive compensation for each of the Named Executives for the year in which such change in control occurs would vest immediately (at 100% of target levels). Likewise, equity incentive awards under the 2004 LTIP and the 2006 LTIP would also vest immediately in accordance with the terms of such plans in the event of the occurrence of a change in control. Although individual restricted stock and stock options agreements generally do not provide for automatic acceleration in the event of a change in control, our Board has adopted a resolution in each of the past four years expressing its intent to act to protect the holders of equity incentive awards in the event of a change in control, and that such action may include, without limitation, any one or more of the following: acceleration or change of the exercise dates of any stock options; acceleration or change of the vesting or delivery dates of any restricted stock grants or other awards; acceleration or change of any performance period; arrangements with holders of options, stock grants or other awards for the payment of appropriate consideration to them for the cancellation and surrender of any such options, stock grants or other awards; or other measures deemed appropriate by the Compensation Committee and the Board of Directors.

We believe that these levels of benefits in the event of a change in control are generally consistent with the general practice among our peers, although we have not conducted a study to confirm this.

In December 2006 and January 2007, all of the Bankshares executives covered by Executive Severance Agreements agreed to waive their rights under these agreements and any applicable employment agreements in exchange for other rights that are set forth in new agreements with PNC, which will become effective only as of the closing of the PNC Merger.

Based upon a hypothetical termination on December 31, 2006 following a change in control, severance benefits payable to each of the Named Executives would be as follows:

Name	Cash Severance Payment	Value of Accelerated Equity Awards	Tax Gross-up	Total
Mr. Kelly	$ 0	$ 7,311,358	$ 3,230,000	$ 10,541,358
Mr. Troupe	1,315,466	788,612	1,014,635	3,118,713
Mr. Mason	4,155,525	1,346,258	2,565,166	8,066,949
Mr. Wilson	3,900,000	1,431,280	2,575,918	7,907,198
Mr. Reid	2,508,588	833,908	1,650,772	4,993,268

Director Compensation

Name	Fees Earned or Paid in Cash (1)	Stock Awards (2),(3)	Total (4)
Cynthia A. Archer	$ 56,000	$ 28,220	$ 84,220
R. Carl Benna(5)	50,000	(3) 28,220	78,220
Richard O. Berndt	60,000	28,220	88,220
Howard B. Bowen(5)	50,000	(3) 28,220	78,220
William R. Brody, M.D.	35,000	28,220	63,220
Eddie C. Brown	35,000	28,220	63,220
George I. Bunting, Jr.	46,000	28,220	74,220
Anthony W. Deering	40,000	28,220	68,220
Darrell D. Friedman	35,000	28,220	63,220
Freeman A. Hrabowski, III	40,000	28,220	68,220
Robert A. Kinsley	35,000	28,220	63,220
Jenny G. Morgan	46,000	28,220	74,220
Morton B. Plant(6)	46,000	28,220	74,220
Christian H. Poindexter	46,000	28,220	74,220
Clayton S. Rose	46,000	28,220	74,220
James L. Shea	35,000	28,220	63,220
Donald J. Shepard	35,000	28,220	63,220

134

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(1) Of the amounts in this column, the following directors deferred the amounts next to their name: Ms. Archer $50,500; Mr. Benna - $35,000, Mr. Berndt - $60,000, Mr. Bowen - $35,000, Mr. Brown - $35,000, Mr. Deering - $40,000, Mr. Friedman - $35,000, Mr. Hrabowski - $35,000, Mr. Kinsley - $35,000, Ms. Morgan - $40,500, Mr. Rose - $40,500, Mr. Shea - $35,000 and Mr. Shepard - $35,000.

(2) Includes 750 shares of stock awarded to each director with a Fair Market Value of $37.63 per share.

(3) All directors deferred 100% of the amount reflected in this column, except Messrs. Berndt, Brody, Bunting, Plant and Poindexter, who did not defer any of their stock awards.

(4) No director received compensation to be reported under the headings Option Awards, Non-Equity Incentive Plan Compensation, Change in Pension Value and Nonqualified Deferred Compensation Earnings or All Other Compensation . Therefore, such columns have not been included.

(5) The fees earned include $15,000 paid under contractual obligations associated with the acquisition of F&M Bank.

(6) Mr. Plant was a director during 2006 and until his death on January 10, 2007.

Directors who are employees are not compensated for their services as directors. Effective in 2005, non-employee directors began receiving an annual retainer of $35,000 in December of each year and an annual award of 750 shares of our common stock. The Chair of the Audit Committee receives an additional retainer of $15,500 per year for serving in this position and the other members of the Audit Committee receive an additional retainer of $5,500 for service on the Audit Committee. The Chairs of the Nominating and Corporate Governance Committee and the Compensation Committee receive an additional retainer of $5,000 per year for serving in those positions. Non-employee directors who are also members of certain MSD&T committees receive $500 for attendance at each committee meeting. Non-employee directors may elect to receive common stock, valued at the time of the election date in December, in lieu of all or a portion of their annual retainer. For 2007, the director fees and annual retainer will remain the same, except that directors will receive cash in an amount up to $35,505 in lieu of the annual stock retainer and, assuming the closing of the PNC Merger, all director fees (including the cash in lieu of the stock retainer) will be reduced and prorated to the closing date.

Non-employee directors may elect to defer all or a portion of their annual retainers and other fees into our Stock Retainer and Deferred Compensation Plan for Non-Employee Directors (the Stock Retainer and Deferred Compensation Plan). The Stock Retainer and Deferred Compensation Plan permits non-employee directors of Bankshares and our affiliates to elect, in the manner permitted by Section 409A of the Internal Revenue Code of 1986, as amended, to voluntarily defer payment of their annual stock and cash retainers and some or all of their fees. Amounts and stock deferred by each individual director are credited to a deferred compensation account as phantom stock units. At the close of each calendar quarter, the sum of cash deferred in that quarter by a director is converted to phantom stock units by dividing such sum by the closing market price of our common stock, and the phantom stock units are then cumulatively credited to the director s account. At the close of each calendar quarter, the sum of dividend equivalents attributable to the director s account at the beginning of the quarter, assuming that such dividends had actually been paid, is similarly converted to additional phantom stock units and cumulatively credited. The aggregate phantom stock units in the participant s account are paid in whole shares of our common stock following the date the participant ceases to be a non-employee director. At the election of the participant, which must generally be made at the same time as the election to defer the respective compensation, payments may be made in a lump sum or, if the value of the participant s account equals or exceeds $50,000, in installments over a period of not more than ten years. The Stock Retainer and Deferred Compensation Plan gives non-employee directors of Bankshares the option to elect to receive shares of our common stock in lieu of the undeferred portion of their cash retainer, if in excess of $3,000, based on the value of the stock on the election date in December.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is or ever was an officer or employee of Bankshares. No member of the Compensation Committee is, or was during 2006, an executive officer of another company whose board of directors has a comparable committee on which one of our executive officers serves.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

The following table provides information as of December 31, 2006 with respect to our equity compensation plans.

Plan category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)(1)**	**Weighted-average exercise price of outstanding options, warrants and rights (b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)**
Equity compensation plans approved by security holders	3,533,830	$ 27.59	1,550,898
Equity compensation plans not approved by security holders	0		0
Total	3,533,830	$ 27.59	1,550,898

(1) The amounts reflected in this column include 388,049 shares of deferred stock to be issued under our Stock Retainer and Deferred Compensation Plan for Non-Employee Directors, which are not added to the weighted average exercise price calculation in column (b)

136

Stock Ownership by Directors and Named Executive Officers

This table indicates the amount of Bankshares common stock beneficially owned by our directors and executive officers named in the Summary Compensation Table as of February 15, 2007. In general, beneficial ownership includes those shares a director or named executive officer has the power to vote or transfer, and stock options that are exercisable currently or that become exercisable within 60 days of such date. Except as otherwise noted, the persons named in the table below have sole voting and investment power with respect to all shares shown as beneficially owned by them. The individuals named in the table below did not beneficially own more than 1% of the outstanding shares of our common stock. In addition, the directors and executive officers as a group did not beneficially own more than 1% of the outstanding shares of common stock.

Name of Individual	**Amount of Common Stock Beneficially Owned (1)**		**Amount of Phantom Stock Units Beneficially Owned (2)**
Cynthia A. Archer	1,575		12,710
R. Carl Benna	34,071	(3)	3,900
Richard O. Berndt	49,151		21,224
Howard B. Bowen	20,285		3,882
William R. Brody, M.D.	3,975		5,902
Eddie C. Brown	5,250		3,704
George L. Bunting, Jr.	26,360		-
Anthony W. Deering	94,500		3,409
Peter W. Floeckher, Jr.	59,369		-
Darrell D. Friedman	900		9,160
Freeman A. Hrabowski, III	1,035		8,844
Edward J. Kelly, III	381,480		-
Robert A. Kinsley	24,212		9,977
Alexander T. Mason	109,340		-
Jenny G. Morgan	772		3,555
Christian H. Poindexter	3,862		-
J. Marshall Reid	140,741	(4)	-
Clayton S. Rose	1,650		6,862
James L. Shea	1,654		4,737
Donald J. Shepard	21,000	(5)	13,709
Jay M. Wilson	68,788		-
Directors and executive officers as a group (27 persons)	1,049,970		111,575

(1) The numbers shown include the following amounts of our common stock that the following individuals, and the group, have the right to acquire, within 60 days of February 15, 2007, through the exercise of stock options granted pursuant to Bankshares stock option plans or as a result of dividend equivalent shares under our 1999 Plan: Mr. Benna 6,864; Mr. Bowen 5,478; Mr. Floeckher 52,617; Mr. Kelly 293,134; Mr. Mason 92,911; Mr. Reid 98,177; and Mr. Wilson 15,988. All directors, nominees and executive officers as a group, 565,169.

(2) The phantom stock units are derivative securities held for the account of the respective director under our Stock Retainer and Deferred Compensation Plan for Non-Employee Directors and can be exchanged for shares of our common stock within 60 days if the person ceases to be a director of Bankshares.

(3) Includes 3,000 shares held by two trusts for family members of which Mr. Benna is trustee, but has no beneficial interest.

(4) Includes 24,261 shares owned by his spouse.

(5) Includes 18,750 shares owned by a family trust of which Mr. Shepard is not trustee, but in which he has a beneficial interest.

137

Change of Control Transaction

On October 8, 2006, Bankshares entered into an Agreement and Plan of Merger with The PNC Financial Services Group, Inc. (PNC) pursuant to which Bankshares will merge with and into PNC, with PNC as the surviving corporation in the merger. When the merger is completed, Bankshares stockholders will receive a combination of PNC common stock and cash in exchange for their Bankshares common stock. Each share of Bankshares common stock will be converted into the right to receive 0.4184 of a share of PNC common stock (including the related preferred stock purchase rights under PNC s May 2000 Rights Agreement) and $16.45 in cash, without interest. Under the formula set forth in the merger agreement, an aggregate of up to approximately 54.2 million shares of PNC common stock (and an equal number of related rights) may be issued and $2.13 billion paid in the merger. This merger was approved by Bankshares stockholders on February 27, 2007, and received substantially all of the required regulatory approvals. The merger is currently expected to close in March of 2007. Pending the merger, Bankshares must comply with the covenants contained in the merger agreement, but is generally continuing to operate in the ordinary course of business.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Transactions with Related Parties

In the ordinary course of business we may use the products or services of organizations of which our directors are officers or directors. The law firm of Venable LLP, of which Mr. Shea is chairman, has rendered legal services to Bankshares, certain of its affiliates and certain accounts of which MSD&T is a fiduciary for aggregate payments since the beginning of 2006 of approximately $1.5 million. The law firm of Gallagher, Evelius & Jones, LLP, of which Mr. Berndt is a managing partner, has rendered services to MDS&T and certain accounts of which MDS&T is a fiduciary for aggregate payments since the beginning of 2006 of approximately $784,000 (of which only approximately $83,000 was paid by Bankshares of its affiliates as the remainder was paid directly by MSD&T s customers). Mr. Wilson is a member of the Advisory Board of Spring Capital Partners, L.P., and he holds a limited partnership interest in that entity and a carried interest in that entity s general partner. Bankshares has invested $5.5 million in Spring Capital Partners, L.P. as of December 31, 2006, and has a commitment to invest an additional $3.2 million. The investment and commitment were made prior to Mr. Wilson joining Bankshares. Ms. Morgan is a Principal with Sterling Partners. Bankshares has invested $3.3 million in Sterling Capital as of December 31, 2006, and has a commitment to invest and additional $3.2 million. The investment in Sterling Partners was made prior to Ms. Morgan joining Sterling Partners. Bankshares Chairman and Chief Executive Officer, Edward J. Kelly, III is a director of the Hartford Financial Services Group with which Bankshares had investments in bank-owned life insurance of approximately $72 million as of December 31, 2006. In addition, Donald J. Shepard serves as the Chairman of the Executive Board and Chief Executive Officer of AEGON N.V., a holding company of insurance and insurance-related companies with which Bankshares has an investment in bank-owned life insurance of approximately $40 million as of December 31, 2006.

In the ordinary course of business, our affiliates have made loans and extended credit, and expect in the future to make loans and extend credit, to our directors, officers, and their associates, including entities of which these individuals may be a director, officer, partner, member or employee. These loans were made substantially on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with non-affiliated persons and did not involve more than the normal risk of collectibility or present other unfavorable features. We believe that all such transactions are in conformity with the Sarbanes-Oxley Act of 2002.

138

Director Independence

The Board of Directors currently has twenty members. The Board of Directors has determined that a majority of the Board of Directors is comprised of independent directors, as defined in Nasdaq Rule 4200. Our independent directors are: Cynthia A. Archer, R. Carl Benna, Richard O. Berndt, William R. Brody, M.D., Eddie C. Brown, George L. Bunting, Jr., Anthony W. Deering, Darrell D. Friedman, Freeman A. Hrabowski, III, Jenny G. Morgan, Christian H. Poindexter, Clayton S. Rose, James L. Shea and Donald J. Shepard. Each member of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee is an independent director as independence is defined in the listing standards of the Nasdaq Global Select Market.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit Fees

Ernst & Young LLP was our independent registered public accounting firm for 2006, and PricewaterhouseCoopers was our independent registered public accounting firm for 2005. Aggregate fees for professional services rendered by Ernst & Young LLP for the fiscal year ended December 31, 2006 and by PricewaterhouseCoopers LLP for the fiscal year ended December 31, 2005 were as follows:

	Fiscal Year Ended December 31, 2006	**Fiscal Year Ended December 31, 2005**
Audit Fees	$ 1,500,000	$ 1,700,000
Audit-Related Fees	345,680	187,000
Tax Fees	52,750	152,175
All Other Fees	0	19,000
Total	$ 1,898,430	$ 2,058,175

Audit Fees were for professional services rendered and for the audits of our consolidated financial statements and the issuance of comfort letters, consents and the review of documents filed with the Securities and Exchange Commission. Audit-Related Fees were for assurances and related services concerning the Report of Institutional Trust Controls (SAS 70) and regulatory reports on internal controls. Tax Fees were related to tax compliance, tax planning and tax advice, including assistance with and representation in tax audits. All Other Fees were for services rendered for information systems reviews not performed in connection with the audit, compensation and other consulting services.

Neither Ernst & Young LLP nor PricewaterhouseCoopers LLP rendered professional services to us in connection with financial system design and implementation during the years ended December 31, 2006 and 2005.

Audit Committee Pre-Approval Policies and Procedures

Under its charter, the Audit Committee is responsible for selecting our independent registered public accounting firm. The principal independent registered public accounting firm for each year is typically selected at the Audit Committee meeting held in January or March of each year. The Audit Committee periodically pre-approves the engagement of the principal independent registered public accounting firm to perform certain defined audit and non-audit services. These engagements include the performance of services in connection with the issuance of consents, comfort letters, the review of documents filed with the Securities and Exchange Commission, and consulting with us on accounting or control issues which may arise during the year. The Audit Committee also periodically pre-approves the engagement of the principal independent registered public accounting firm to work with management in the evaluation of tax planning and compliance matters. All other projects involving the principal independent registered public accounting firm are specifically reviewed and approved prior to the engagement of the audit firm.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

The following documents are filed or furnished as part of this report, except as indicated.

(1) The financial statements filed herewith are listed in the accompanying Index to Financial Statements.

(2) Financial Statement Schedules are omitted because of the absence of the conditions under which they are required or because the information called for is included in the Consolidated Financial Statements or notes thereto.

(3) Exhibits filed or furnished herewith or incorporated by reference herein are set forth in the following table prepared in accordance with Item 601 of Regulation S-K.

Exhibit Table

(2) Plan of acquisition, reorganization, arrangement, liquidation or succession

a. Agreement and Plan of Merger, dated October 8, 2006, by and between The PNC Financial Services Group, Inc. and Mercantile Bankshares Corporation (Incorporated by reference to Registrant s Form 8-K, filed October 10, 2006, Exhibit 2.1, Commission File No. 0-5127).

(3) Charter and by-laws

A. (1) Articles of Incorporation effective May 27, 1969 (Incorporated by reference to Registrant s Registration Statement on Form S-1, No. 2-39545, Exhibit 3-A(1)).

(2) Articles of Amendment effective June 6, 1969 (Incorporated by reference to Registrant s Registration Statement on Form S-1, No. 2-39545, Exhibit 3-A(2)).

(3) Articles Supplementary effective August 28, 1970 (Incorporated by reference to Registrant s Registration Statement on Form S-1, No. 2-39545, Exhibit 3-A(3)).

(4) Articles of Amendment effective December 14, 1970 (Incorporated by reference to Registrant s Registration Statement on Form S-1, No. 2-39545, Exhibit 3-A(4)).

(5) Articles Supplementary effective May 10, 1971 (Incorporated by reference to Registrant s Registration Statement on Form S-1, No. 2-39545, Exhibit 3-A(5)).

(6) Articles Supplementary effective July 30, 1971 (Incorporated by reference to Registrant s Registration Statement on Form S-1, No. 2-41379, Exhibit 3-A(6)).

(7) Articles of Amendment effective May 8, 1986 (Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 1993, Exhibit 3-A(7), Commission File No. 0-5127).

(8) Articles of Amendment effective April 27, 1988 (Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 1993, Exhibit 3-A(8), Commission File No. 0-5127).

(9) Articles Supplementary effective September 13, 1989 (Incorporated by reference to Registrant s Form 8-K filed September 27, 1989, Exhibit B attached to Exhibit 4-A, Commission File No. 0-5127).

(10) Articles Supplementary effective January 3, 1990 (Incorporated by reference to Registrant s Form 8-K filed January 9, 1990, Exhibit B attached to Exhibit 4-A, Commission File No. 0-5127).

(11) Articles of Amendment effective April 26, 1990 (Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 1990, Exhibit 3-A(11), Commission File No. 0-5127).

(12) Articles of Amendment effective April 30, 1997 (Incorporated by reference to Registrant s Registration Statement on Form S-4, No. 333-43651, Exhibit 3(i)(L)).

(13) Articles Supplementary effective June 9, 1999 (Incorporated by reference to Registrant s Registration Statement on Form S-8, No. 333-90307, Exhibit 4.1.M).

(14) Articles Supplementary effective September 30, 1999 (Incorporated by reference to Registrant s Registration Statement on Form S-8, No. 333-90307, Exhibit 4.1.N).

(15) Certificate of Correction effective July 3, 2002, concerning Articles of Amendment effective May 8, 1986 (Incorporated by reference to Registrant s Quarterly Report for the quarter ended September 30, 2002, Exhibit 3A(15), Commission File No. 0-5127).

(16) Certificate of Correction effective July 3, 2002, concerning Articles of Amendment effective April 26, 1990 (Incorporated by reference to Registrant s Quarterly Report for the quarter ended September 30, 2002, Exhibit 3A(16), Commission File No. 0-5127).

(17) Articles of Amendment effective May 19, 2006 (Incorporated by reference to Registrant s Quarterly Report for the quarter ended June 30, 2006, Exhibit 3A(17), Commission File No. 0-5127).

B. By-Laws of the Registrant, as amended (Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 2004, Exhibit 3.B, Commission File No. 0-5127).

(1) By-Laws of the Registrant, as amended September 11, 2006 (Incorporated by reference to Registrant s Form 8-K, filed September 15, 2006, Exhibit 3B(1), Commission File No. 0-5127).

(4) Instruments defining the rights of security holders, including indentures.

A. Rights Agreement dated as of June 8, 1999 between Registrant and the Rights Agent, including Form of Rights Certificate and Articles Supplementary (Incorporated by reference to Form 8-K of Registrant filed June 11, 1999, Exhibit 4, Commission File No. 0-5127, and to Form 8-A of Registrant filed June 11, 1999, Exhibits 1, 2 and 3, Commission File No. 0-5127).

B. Amendment to the Stockholder Protection Rights Agreement, dated as of June 8, 1999, entered into as of October 8, 2006, between Mercantile Bankshares Corporation and Mercantile-Safe Deposit and Trust Company, as Rights Agent (Incorporated by reference to Registrant s Form 8-K, filed October 10, 2006, Exhibit 4.1, Commission File No. 0-5127).

C. Indenture between Registrant and JP Morgan Chase Bank, as Trustee, dated as of April 15, 2003, relating to Subordinated Notes due 2013 (Incorporated by reference to Registrant s Registration Statement on Form S-4, No. 333-105238, Exhibit 4.1).

D. Form of 4.625% Subordinated Note due 2013, Series B (Incorporated by reference to Registrant s Registration Statement on Form S-4, No. 333-105238, Exhibit 4.2).

141

(10) Material contracts

A. Mercantile Bankshares Corporation and Affiliates Annual Incentive Compensation Plan, as amended and restated through March 12, 2002. (Incorporated by reference to Registrant s Definitive Proxy Statement, filed March 22, 2003, Appendix A).

B. Dividend Reinvestment and Stock Purchase Plan of Mercantile Bankshares Corporation (Incorporated by reference to the Plan text included in Registrant s Registration Statement on Form S-3, No. 33-44376).

C. Mercantile Bankshares Corporation and Participating Affiliates Unfunded Deferred Compensation Plan for Directors, as amended through March 9, 2004 (Incorporated by reference to Registrant s Registration Statement on Form S-8, No. 333-115741, Exhibit 4.4).

D. Mercantile Bankshares Corporation Employee Stock Purchase Dividend Reinvestment Plan dated February 13, 1995 (Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 1994, Exhibit 10 I, Commission File No. 0-5127).

E. Mercantile Bankshares Corporation (1989) Omnibus Stock Plan (Incorporated by reference to Registrant s Quarterly Report on Form 10-Q for the period ended September 30, 1997, Exhibit 10 K, Commission File No. 0-5127).

F. Mercantile Bankshares Corporation 1999 Omnibus Stock Plan and First Amendment of Mercantile Bankshares Corporation 1999 Omnibus Stock Plan (Incorporated by reference to Registrant s Definitive Proxy Statement, filed April 8, 2004, Appendix A).

G. Mercantile Bankshares Corporation and Participating Affiliates Supplemental Cash Balance Executive Retirement Plan, dated April 27, 1994, effective January 1, 1994 (Incorporated by reference to Registrant s Annual Report on Form 10-K for year ended December 31, 1994, Exhibit 10 R, Commission File No. 0-5127).

H. Mercantile Bankshares Corporation and Participating Affiliates Supplemental 401(k) Executive Retirement Plan, dated December 13, 1994, effective January 1, 1995 (Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 1994, Exhibit 10 S, Commission File No. 0-5127).

I. Mercantile Bankshares Corporation Stock Retainer and Deferred Compensation Plan For Non-Employee Directors (Incorporated by reference to Registrant s Current Report on Form 8-K, filed May 16, 2005, Exhibit 10.1, Commission File No. 0-5127).

J. Mercantile Bankshares Corporation Option Agreement with J. Marshall Reid, dated August 21, 1995 (Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 1998, Exhibit 10 R, Commission File No. 0-5127).

K. Mercantile Bankshares Corporation Option Agreement with Terry L. Troupe, dated September 10, 1996 (Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 1999, Exhibit 10 S, Commission File No. 0-5127).

L. Executive Employment Agreement dated February 2, 2001, among Mercantile Bankshares Corporation, Mercantile-Safe Deposit and Trust Company and Edward J. Kelly, III (Incorporated by reference to Form 8-K of Registrant filed February 13, 2001, Exhibit 10 U, Commission File No. 0-5127), as amended by Agreement effective February 21, 2002 (Incorporated by reference to Registrant s annual report on Form 10-K for the year ended December 31, 2001 Exhibit 10R, Commission File No. 0-5127).

M. Executive Severance Agreement dated February 2, 2001, among Mercantile Bankshares Corporation, Mercantile-Safe Deposit and Trust Company and Edward J. Kelly, III (Incorporated by reference to Form 8-K of Registrant filed February 13, 2001, Exhibit 10 V, Commission File No. 0-5127), as amended by Agreement effective February 21, 2002 (Incorporated by Reference to Registrant s Annual Report on Form 10-K, for the year ended December 31, 2001, Exhibit 10S, Commission File No. 5127).

N. Supplemental Retirement Agreement dated February 2, 2001, among Mercantile Bankshares Corporation, Mercantile-Safe Deposit and Trust Company and Edward J. Kelly, III (Incorporated by reference to Form 8-K of Registrant filed February 13, 2001, Exhibit 10 W, Commission File No. 0-5127).

O. Mercantile Bankshares Corporation Option Agreement with Edward J. Kelly, III, dated March 2, 2001 (Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 2000, Exhibit 10 X, Commission File No. 0-5127).

P. Schedule and Form of Mercantile Bankshares Corporation Option Agreements entered into in 2000 with J. Marshall Reid (40,000 shares), and Terry L. Troupe (20,000 shares) (Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 2000, Exhibit 10 Y, Commission File No. 0-5127).

Q. Executive Employment Agreement dated March 19, 2002, among Mercantile Bankshares Corporation, Mercantile-Safe Deposit and Trust Company and John L. Unger (incorporated by reference to Registrant s Form 8-K filed April 3, 2002 Exhibit 10Y, Commission File No. 0-5127).

R. Executive Severance Agreement dated March 19, 2002, among Mercantile Bankshares Corporation, Mercantile-Safe Deposit and Trust Company and John L. Unger (incorporated by reference to Registrant s Form 8-K April 3, 2002, Exhibit 10Z, Commission File No. 0-5127).

S. Mercantile Bankshares Corporation Option Agreement with Edward J. Kelly, III, dated May 7, 2002 (incorporated by reference to Registrant s Quarterly Report for the quarter ended June 30, 2002, Exhibit 10AA, Commission File No. 0-5127).

T. Mercantile Bankshares Corporation Option Agreement with J. Marshall Reid, dated May 7, 2002 (incorporated by reference to Registrant s Quarterly Report for the quarter ended June 30, 2002, Exhibit 10BB, Commission File No. 0-5127).

U. Mercantile Bankshares Corporation Option Agreement with John L. Unger, dated May 7, 2002 (incorporated by reference to Registrant s Quarterly Report for the quarter ended June 30, 2002, Exhibit 10DD, Commission File No. 0-5127).

V. Mercantile Bankshares Corporation Option Agreement with Terry L. Troupe, dated May 7, 2002 (incorporated by reference to Registrant s Quarterly Report for the quarter ended June 30, 2002, Exhibit 10EE, Commission File No. 0-5127).

W. Mercantile Bankshares Corporation Restricted Stock Agreement with Edward J. Kelly, III, dated April 29, 2002 (incorporated by reference to Registrant s Quarterly Report for the quarter ended June 30, 2002, Exhibit 10FF, Commission File No. 0-5127).

X. Mercantile Bankshares Corporation Restricted Stock Agreement with J. Marshall Reid, dated April 29, 2002 (incorporated by reference to Registrant s Quarterly Report for the quarter ended June 30, 2002, Exhibit 10HH, Commission File No. 0-5127).

Y. F&M Bancorp Restated 1983 Incentive Stock Option Plan (Incorporated by reference to Registrant s Registration Statement on Form S-8, No. 333-108123, Exhibit 4.4).

Z. F&M Bancorp 1995 Stock Option Plan (Incorporated by reference to Registrant s Registration Statement on Form S-8, No. 333-108123, Exhibit 4.5).

AA. F&M Bancorp 1999 Employee Stock Option Plan (Incorporated by reference to Registrant s Registration Statement on Form S-8, No. 333-108123, Exhibit 4.6).

BB. F&M Bancorp 1999 Stock Option Plan for Non-Employee Directors (Incorporated by reference to Registrant s Registration Statement on Form S-8, No. 333-108123, Exhibit 4.7)

CC. Patapsco Valley Bancshares, Inc. Incentive Stock Option Plan (Incorporated by reference to Registrant s Registration Statement on Form S-8, No. 333-108123, Exhibit 4.8).

DD. Patapsco Valley Bancshares, Inc. Directors Stock Option Plan (Incorporated by reference to Registrant s Registration Statement on Form S-8, No. 333-108123, Exhibit 4.9).

EE. Patapsco Valley Bancshares, Inc. Employee Stock Purchase Plan (Incorporated by reference to Registrant s Registration Statement on Form S-8, No. 333-108123, Exhibit 4.10).

FF. Monocracy Bancshares, Inc. 1994 Stock Incentive Plan (Incorporated by reference to Registrant s Registration Statement on Form S-8, No. 333-108123, Exhibit 4.11).

GG. Monocracy Bancshares, Inc. 1997 Independent Directors Stock Option Plan (Incorporated by reference to Registrant s Registration Statement on Form S-8, No. 333-108123, Exhibit 4.12).

HH. Executive Employment Agreement dated as of February 1, 2002 by and between Mercantile-Safe Deposit and Trust Company and John J. Pileggi (Incorporated by reference to Registrant s Annual report on Form 10-K for the year ended December 31, 2004, Exhibit 10.UU, Commission File No. 0-5127).

II. Executive Severance Agreement dated as of February 1, 2002 by and between Mercantile-Safe Deposit and Trust Company and John J. Pileggi (Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 2003, Exhibit 10.VV, Commission File No. 0-5127).

JJ. Executive Employment Agreement dated as of January 13, 2003 by and between Mercantile-Safe Deposit and Trust Company and Michael M. Paese (Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 2003, Exhibit 10.WW, Commission File No. 0-5127).

KK. Executive Severance Agreement dated as of March 10, 2004 by and between Mercantile Bankshares Corporation and Peter W. Floeckher (Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 2003, Exhibit 10.XX, Commission File No. 0-5127).

LL. Executive Severance Agreement dated as of March 10, 2004 by and among Mercantile Bankshares Corporation, Mercantile-Safe Deposit and Trust Company and Deborah A. Kakaris (Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 2003, Exhibit 10.YY, Commission File No. 0-5127).

MM. Executive Severance Agreement dated as of March 10, 2004 by and between Mercantile Bankshares Corporation and Priscilla S. Hoblitzell (Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 2003, Exhibit 10.ZZ, Commission File No. 0-5127).

NN. Amended and Restated Executive Employment Agreement dated June 14, 2005 by and among Registrant, Mercantile-Safe Deposit and Trust Company and Jay M. Wilson (Incorporated by reference to Registrant s Form 8-K, filed June 17, 2005, Exhibit 10.1, Commission File No. 0-5127).

OO. Amended and Restated Executive Severance Agreement dated June 14, 2005 by and among Registrant, Mercantile-Safe Deposit and Trust Company and Jay M. Wilson (Incorporated by reference to Registrant s Form 8-K, filed June 17, 2005, Exhibit 10-2, Commission File No. 0-5127).

PP. Lease Agreement by and between MBC Realty, LLC and Mercantile-Safe Deposit and Trust Company dated as of November 19, 2004 and effective as of December 13, 2005 (Incorporated by reference to Registrant s Annual Report on Form 10-K for the Year Ended December 31, 2004, Exhibit 10.PP, Commission File No. 0-5127).

144

QQ. Membership Interests Purchase Agreement (MBC Realty, LLC) by and between Registrant and Harbor Group International L.L.C. dated as of October 20, 2004 (Incorporated by reference to Registrant s Annual Report on Form 10-K for the Year Ended December 31, 2004, Exhibit 10.QQ, Commission File No. 0-5127).

RR. First Amendment to Membership Interests Purchase Agreement (MBC Realty, LLC) by and between Registrant and Harbor Group, International, L.L.C. dated as of November 18, 2004 (Incorporated by reference to Registrant s Annual Report on Form 10-K for the Year Ended December 31, 2004, Exhibit 10.RR, Commission File No. 0-5127).

SS. Form of Option Agreement for grants made under the Mercantile Bankshares Corporation 1999 Omnibus Stock Plan (Incorporated by reference to Registrant s Annual Report on Form 10-K for the Year Ended December 31, 2004, Exhibit 10.SS, Commission File No. 0-5127).

TT. Form of Restricted Stock Award Agreement for grants made under the Mercantile Bankshares Corporation 1999 Omnibus Stock Plan (Incorporated by reference to Registrant s Annual Report on Form 10-K for the Year Ended December 31, 2004, Exhibit 10.TT, Commission File No. 0-5127).

UU. Mercantile Bankshares Corporation 2004 Restricted Stock Program, as amended (Incorporated by reference to Registrant s Annual Report on Form 10-K for the Year Ended December 31, 2005, Exhibit 10.UU, Commission File No. 0-5127).

VV. Executive Severance Agreement effective as of November 5, 2003 by and between Registrant and Alexander T. Mason (Incorporated by reference to Registrant s Annual Report on Form 10-K for the Year Ended December 31, 2004, Exhibit 10.VV, Commission File No. 0-5127).

WW. Executive Severance Agreement effective as of August 15, 2002 by and between Registrant and Kevin A. McCreadie (Incorporated by reference to Registrant s Annual Report on Form 10-K for the Year Ended December 31, 2004, Exhibit 10.WW, Commission File No. 0-5127).

XX. Executive Employment Agreement effective as of August 15, 2002 by and among Registrant, Mercantile Capital Advisors, Inc. and Kevin A. McCreadie (Incorporated by reference to Registrant s Annual Report on Form 10-K for the Year Ended December 31, 2004, Exhibit 10.XX, Commission File No. 0-5127).

YY. Mercantile Bankshares Corporation Deferred Compensation Plan (Incorporated by reference to Registrant s Current Report on Form 8-K, filed March 14, 2005, Exhibit 10.1, Commission File No. 0-5127).

ZZ. Form of Mercantile Bankshares Corporation Restricted Stock Unit Award Agreement with Edward J. Kelly, III, dated March 29, 2006 (Incorporated by reference to Registrant s Quarterly Report for the quarter ended March 30, 2006, Exhibit 10.ZZ, Commission File No. 0-5127).

AAA. Form of Restricted Stock Unit Award Agreement for grants made under the Mercantile Bankshares Corporation Omnibus Stock Plan, 2006 Long-Term Incentive Program (Incorporated by reference to Registrant s Quarterly Report for the quarter ended March 30, 2006, Exhibit 10 AAA, Commission File No. 0-5127).

BBB. Amendment to Chief Executive Officer s Employment Agreement, Amendment and Restatement of Chief Executive Officer s Executive Severance Agreement and Amendment to Other Executive Officers Executive Severance Agreements (Incorporated by reference to Registrant s Current Report on Form 8-K, filed April 4, 2006 and as amended On Registrant s Current Report on Form 8-K/A, dated April 7, 2006, Commission File 0-5127).

CCC. Mercantile Bankshares Corporation Annual Cash Incentive Plan, adopted May 9, 2006 (Incorporated by reference to Registrant s Form 8-K, filed May 15, 2006, Exhibit 10.1, Commission File No. 0-5127).

DDD. Amendment Number One to Restricted Stock Unit Award Agreement by and between Mercantile Bankshares Corporation and Edward J. Jelly, III dated as of March 29, 2006, entered into as of October 8, 2006 (Incorporated by reference to Registrant s Form 8-K, filed October 10, 2006, Exhibit 10.1, Commission File No. 0-5127).

145

(14) Code of Business Conduct and Ethics as amended to date (Incorporated by reference to Registrant s Current Report on Form 8-K, filed June 19, 2006, Exhibit 14, Commission File No. 0-5127).

(21) Subsidiaries of the Registrant (filed herewith).

(23) Consent of Independent Registered Public Accounting Firms

A. Consent of Ernst & Young LLP (filed herewith).

B. Consent of PricewaterhouseCoopers LLP (filed herewith).

(24) Power of Attorney dated March 1, 2007 (filed herewith).

(31) Certifications pursuant to Section 302 of the Sarbanes Oxley Act of 2002
A. Certification of the Chief Executive Officer of Mercantile Bankshares Corporation (filed herewith).
B. Certification of the Chief Financial Officer of Mercantile Bankshares Corporation (filed herewith).

(32) Certifications pursuant to Section 906 of the Sarbanes Oxley Act of 2002
A. Certificate of the Chief Executive Officer of Mercantile Bankshares Corporation (furnished herewith).
B. Certificate of the Chief Financial Officer of Mercantile Bankshares Corporation (furnished herewith).

146

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements is included in Item 8 of this Annual Report on Form 10-K.

Management s Report on Internal Control Over Financial Reporting is included in Item 8 of this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting is included in Item 8 of this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements is included in Item 8 of this Annual Report on Form 10-K.

Consolidated Financial Statements and related notes are included in Item 8 of this Annual Report on Form 10-K, as follows:

Consolidated Balance Sheets, December 31, 2006 and 2005

Statements of Consolidated Income for the years ended December 31, 2006, 2005, and 2004

Statements of Changes in Consolidated Shareholders Equity for the years ended December 31, 2006, 2005 and 2004

Statements of Consolidated Cash Flows for the years ended December 31, 2006, 2005 and 2004

Notes to Consolidated Financial Statements

147

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and 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

By: /s/ Edward J. Kelly, III March 1, 2007

Edward J. Kelly, III
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Principal Executive Officer

/s/ Edward J. Kelly, III March 1, 2007

Edward J. Kelly, III
Chairman, President and Chief Executive Officer

Principal Financial Officer

/s/ Terry L. Troupe March 1, 2007

Terry L. Troupe
Executive Vice President and Chief Financial Officer

Principal Accounting Officer

/s/ William T. Skinner, Jr. March 1, 2007

William T. Skinner, Jr.
Senior Vice President and Controller

A majority of the Board of Directors:

Cynthia A. Archer, Richard O. Berndt, Howard B. Bowen, R. Carl Bowen, William R. Brody, Freeman A. Hrabowski III, Alexander T. Mason, Jenny G. Morgan, Christian H. Poindexter, Clayton S. Rose, James L. Shea, Donald J. Shepard and Jay M. Wilson.

By:	/s/ Edward J. Kelly, III	March 1, 2007
	Edward J. Kelly, III For Himself and as Attorney-in-Fact	