

# **MERCANTILE BANKSHARES CORPORATION**

## **AUDIT COMMITTEE CHARTER**

### **ORGANIZATION AND COMPOSITION**

This charter governs the activities of the Audit Committee of the Board of Directors of Mercantile Bankshares Corporation. The Committee shall review and reassess the charter, as well as complete a self-evaluation, at least annually and submit it for approval by the Board of Directors. The Committee shall be appointed by the Board of Directors and shall consist of at least three directors. Committee members may be replaced by Board. Each member of the Committee shall meet the independence and general experience requirements of the Nasdaq Stock Market, Inc. (“Nasdaq”), Section 10A(m)(3) of the Securities Exchange Act of 1934 (the “Exchange Act”) and the rules and regulations of the Securities and Exchange Commission (the “Commission”).

### **PURPOSE**

The Audit Committee is appointed by the Board to assist the Board in monitoring (1) the integrity of the financial statements of Mercantile Bankshares Corporation and its subsidiaries (the “Corporation”), (2) the independent auditor’s qualifications and independence, (3) the performance of the Corporation’s internal audit function and independent auditors, (4) the compliance by the Corporation with legal and regulatory requirements, and (5) the systems of internal accounting and financial controls.

### **MEETINGS**

The Committee shall meet as often as it determines, but not less frequently than quarterly. The Committee shall meet periodically with management, the internal auditors and the independent auditor in separate executive sessions. The Committee may request any officer or employee of the Corporation or the Corporation’s outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or advisors to, the Committee.

### **AUTHORITY AND RESPONSIBILITIES**

The Audit Committee shall have the sole authority to appoint or replace the independent auditor. The Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor employed by the Corporation (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Audit Committee.

The Committee shall approve in advance all auditing services and permissible non-audit services (including the fees and terms thereof) to be performed for the Corporation by its independent auditor, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Committee prior to the completion of the audit.

The Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Corporation shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Committee.

The Committee shall prepare the report required by the rules of the Commission to be included in the Corporation's annual proxy statement.

The following shall be the principal recurring processes of the Audit Committee in carrying out its oversight responsibilities. The processes are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

#### Financial Statement and Disclosure Matters

1. Discuss with management the Corporation's earnings press releases (prior to the release thereof), including the use of "pro-forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussions may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).
2. Review and discuss with management and the independent auditor the annual audited financial statements, including disclosures made in management's discussion and analysis, and recommend to the Board whether the audited financial statements should be included in the Corporation's Form 10-K.
3. Review and discuss with management and the independent auditor the Corporation's quarterly financial statements prior to the filing of its Form 10-Q, including the results of the independent auditor's reviews of the quarterly financial statements.
4. Discuss with management and the independent auditor significant financial reporting issues and judgements made in connection with the preparation of the Corporation's financial statements, including any significant changes in the Corporation's selection or application of accounting principles, any major issues as to the adequacy of the Corporation's internal controls, and any special steps adopted in light of material control deficiencies, as identified by the independent auditor.
5. Review and discuss quarterly reports from the independent auditors on:
  - (a) All critical accounting policies and practices to be used.

- (b) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.
  - (c) Other material written communication between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
- 6. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Corporation's financial statements.
- 7. Discuss with management and the Internal Auditor the Corporation's major financial and operational risk exposures and the steps management has taken to monitor and control such exposures, including the Corporation's risk assessment and risk management policies.
- 8. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
- 9. Review disclosures made to the Audit Committee by the Corporation's CEO and CFO during their certification process for the Form 10-K and Form 10-Q regarding any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Corporation's internal controls.

#### Oversight of the Corporation's Relationship with the Independent Auditor

- 10. Review and evaluate annually the lead partner and the auditor team assigned to the Corporation by the independent auditor.
- 11. Obtain and review a report from the independent auditor at least annually regarding (a) the independent auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between the independent auditor and the Corporation. Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, and taking into account the

opinions of management and internal auditors. The Committee shall present its conclusions with respect to the independent auditor to the Board.

12. Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing and the audit as required by law. Consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis.
13. Recommend to the Board policies for the Corporation's hiring of employees or former employees of the independent auditor who participated in any capacity in the audit of the Corporation.
14. Meet with the independent auditor prior to the audit to discuss the planning and staffing of the audit.

#### Oversight of the Corporation's Internal Audit Function

15. The senior internal audit executive reports directly to the Audit Committee. In addition, the senior internal audit executive reports administratively to the Corporation's Chief Risk Officer.
16. Review the significant reports to management prepared by the internal auditing department and management's responses.
17. Discuss with the independent auditor and management the internal audit department responsibilities, budget and staffing, and any recommended changes in the planned scope of the internal audit.

#### Compliance Oversight Responsibilities

18. Obtain on an annual basis from the independent auditor assurance that Section 10A(b) of the Exchange Act has not been implicated.
19. Obtain on an annual basis reports from management, the Corporation's senior internal auditing executive and the independent auditor that the Corporation and entities are in conformity with applicable legal requirements and the Corporation's Code of Business Conduct and Ethics. Review reports and disclosures of insider and affiliated party transactions. Advise the Board with respect to the Corporation's policies and procedures regarding compliance with applicable laws and regulations and with the Corporation's Code of Business Conduct and Ethics.
20. Establish procedures for the receipt, retention and treatment of complaints received by the Audit Committee and/or the Corporation regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

21. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Corporation's financial statements, accounting policies, or risk management policies.
22. Discuss with the Corporation's General Counsel legal matters that may have a material or significant impact on the financial statements or the Corporation's compliance policies.
23. Provide periodic oversight of other risk factors, such as market risk, etc. to assist the Board in ensuring the Corporation has an adequate process to address specific risks.

### **LIMITATION OF AUDIT COMMITTEE'S ROLE**

While the Audit Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. Management is responsible for preparing the Corporation's financial statements and disclosures and the independent auditors are responsible for auditing and certifying such financial statements.

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*Revised February 2006*