

Provident Bankshares Corporation



Company Profile

Provident Bankshares Corporation is the holding company for Provident Bank, a regional full-service commercial bank with \$4.9 billion in assets. Provident serves individuals and businesses in the dynamic Baltimore-Washington corridor through a network of 109 offices in Maryland, Northern Virginia and southern York County, Pennsylvania. Provident Bank offers a complete line of financial services that include retail and commercial banking and additional services through wholly owned subsidiaries. Mutual funds, annuities and insurance products are available through Provident Investment Center and leases through Court Square Leasing and Provident Lease Corp. Visit Provident on the Web at www.provbank.com.

2002 Financial and Strategic Highlights

- Diluted earnings per share rose 20% to \$1.88 in 2002, up from \$1.56 in 2001
- Net income totaled \$48.3 million, up 17% from \$41.5 million in 2001
- Return on average common equity was 16.22%, up from 14.05% for 2001
- Return on average assets was 1.00%, up from 0.81% in 2001
- Average core loans grew 14% while non-core loans declined 38%
- Average core deposits increased 6% while non-core deposits decreased 45%
- Non-interest income (excluding net gains) increased 15% for the year and comprised 38% of Provident's total revenues for the year
- A successful network expansion strategy continued in 2002 with the addition of 12 new branches

“Provident had another successful year in 2002 with solid gains in core deposits, core loans and fee income. With our executive succession plans in place, Provident is well-positioned to continue the market growth and solid financial performance we have achieved over the past 12 years.”

—Peter M. Martin, Chairman and Chief Executive Officer

Selected Financial Data

| DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA | YEAR ENDED DECEMBER 31, | | | | |
|---|-------------------------|-------------|-------------|-------------|-------------|
| | 2002 | 2001 | 2000 | 1999 | 1998 |
| Interest Income (tax-equivalent) (1) | \$ 277,837 | \$ 349,035 | \$ 413,681 | \$ 353,341 | \$ 319,240 |
| Interest Expense | 135,522 | 208,933 | 258,677 | 207,421 | 189,868 |
| Net Interest Income (tax-equivalent) (1) | 142,315 | 140,102 | 155,004 | 145,920 | 129,372 |
| Provision for Loan Losses | 9,825 | 17,940 | 29,877 | 11,570 | 12,027 |
| Net Interest Income after Provision for Loan Losses | 132,490 | 122,162 | 125,127 | 134,350 | 117,345 |
| Non-Interest Income | 86,394 | 74,955 | 64,470 | 55,445 | 48,786 |
| Net Gains | 2,786 | 11,727 | 10,746 | 5,459 | 13,437 |
| Non-Interest Expense | 150,861 | 145,478 | 141,421 | 128,941 | 120,034 |
| Income before Income Taxes (tax-equivalent) (1) | 70,809 | 63,366 | 58,922 | 66,313 | 59,534 |
| Income Tax Expense (tax-equivalent) (1) | 22,504 | 20,741 | 19,217 | 22,163 | 20,504 |
| Income before Accounting Change | 48,305 | 42,625 | 39,705 | 44,150 | 39,030 |
| Cumulative Effect of Accounting Change | — | (1,160) | — | — | — |
| Net Income | \$ 48,305 | \$ 41,465 | \$ 39,705 | \$ 44,150 | \$ 39,030 |
| Per Share Amounts: | | | | | |
| Basic—Net Income before Accounting Change | \$ 1.94 | \$ 1.65 | \$ 1.44 | \$ 1.58 | \$ 1.39 |
| —Net Income | 1.94 | 1.61 | 1.44 | 1.58 | 1.39 |
| Diluted—Net Income before Accounting Change | \$ 1.88 | \$ 1.60 | \$ 1.41 | \$ 1.53 | \$ 1.34 |
| —Net Income | 1.88 | 1.56 | 1.41 | 1.53 | 1.34 |
| Cash Dividends Paid | \$ 0.85 | \$ 0.75 | \$ 0.64 | \$ 0.54 | \$ 0.45 |
| Tax-Equivalent Adjustment (1) | \$ 791 | \$ 941 | \$ 983 | \$ 964 | \$ 1,133 |
| Total Assets | \$4,890,722 | \$4,899,717 | \$5,499,443 | \$5,094,477 | \$4,675,897 |
| Total Loans | 2,560,563 | 2,776,893 | 3,338,194 | 3,180,784 | 3,100,211 |
| Total Deposits | 3,187,966 | 3,356,047 | 3,954,770 | 3,808,528 | 3,419,557 |
| Total Stockholders' Equity | 315,635 | 286,282 | 310,306 | 274,599 | 296,077 |
| Total Common Equity (2) | 300,715 | 292,740 | 321,001 | 318,922 | 290,769 |
| Total Long-Term Debt (3) | 814,546 | 860,106 | 792,942 | 666,280 | 774,477 |
| Return on Average Assets (4) | 1.00% | 0.81% | 0.73% | 0.90% | 0.90% |
| Return on Average Equity (4) | 16.14 | 14.11 | 14.40 | 15.46 | 13.75 |
| Return on Average Common Equity | 16.22 | 14.05 | 12.48 | 14.61 | 13.99 |
| Efficiency Ratio | 65.96 | 67.64 | 64.44 | 64.03 | 67.40 |
| Stockholders' Equity to Assets | 6.45 | 5.84 | 5.64 | 5.39 | 6.33 |
| Average Equity to Average Assets | 6.15 | 5.73 | 5.07 | 5.83 | 6.52 |
| Tier 1 Leverage Ratio | 7.47 | 7.13 | 6.77 | 7.10 | 7.05 |
| Tier 1 Capital to Risk Weighted Assets | 11.64 | 10.09 | 9.37 | 9.19 | 9.21 |
| Total Regulatory Capital to Risk Weighted Assets | 12.73 | 11.09 | 10.31 | 10.12 | 10.26 |
| Dividend Payout Ratio | 45.10 | 48.35 | 45.41 | 34.26 | 32.16 |
| Book Value per Share | 12.96 | 11.40 | 12.01 | 10.76 | 12.19 |

(1) Tax-advantaged income has been adjusted to a tax-equivalent basis using the combined statutory federal and state income tax rate in effect of 35% in 2002 through 1999, and 39.55% for 1998.

(2) Common equity excludes net accumulated other comprehensive income which is comprised of unrealized gains or losses on available for sale securities and unrealized gains or losses on the effective portion of cash flow hedges and minimum pension liability adjustment.

(3) Long-term debt is composed primarily of FHLB Advances and Trust Preferred Securities.

(4) Exclusive of Cumulative Change in Accounting Principle, Return on Average Assets and Return on Average Equity for 2001 would have been .83% and 14.50%, respectively.



“A long journey starts with a single step.” We’ve all heard the old proverb. Perhaps, with a little license, we can change it to “A long voyage starts when the first gust sweeps you out of port.”

My banking voyage started in 1964 when my employer assigned me—then a young systems engineer—to First National Bank of Boston, which later became Bank of Boston. I actually enjoyed banking more than computer programming and decided to join Bank of Boston where I worked until 1984. (It later became Fleet Boston.) In 1984, I joined Equitable Bank in Baltimore. While with Equitable, I worked with Gary Geisel, Provident’s current President and soon-to-be Chairman and CEO, as well as a number of other prominent members of the Provident management team. In 1990, Equitable was acquired by Maryland National Bank, which was later acquired by Nationsbank, which still later became Bank of America. That same year, I joined Provident Bank as President and Chief Operating Officer, along with my colleague and good friend, Carl Stearn, who joined Provident as Chairman and CEO.

My banking career has been both personally and professionally rewarding. I have had the opportunity to do important and meaningful work in the company of talented and dedicated people. But as an investor, you’re probably more interested in the future than in the

Letter from the Chairman

past—except when the past is prelude, which I believe it is in the case of Provident Bank.

Provident has a proud tradition stretching back 117 years. The Bank was originally established as a mutual savings bank to safeguard the savings of Baltimore seafarers. Soon, other hardworking folks joined these customers, and the Bank began to expand throughout the Baltimore area. Longtime area residents still tell me that their first savings account and first mortgage loan were with Provident.

In 1987, Provident became a commercial bank. The Bank continued to grow and serve local families and businesses, but it was this change from thrift to a commercial bank that precipitated Provident’s current voyage.

When I joined Provident in 1990, we had 38 branches in Baltimore and its surrounding counties. The network badly needed modernizing and reconfiguring, as did the operational infrastructure serving it. We had just 33,000 checking accounts and \$277 million in consumer loans. That year, Provident lost \$3.9 million.

The seas were a bit stormy and our ship was a little leaky. But over the next several years, the managers and employees of Provident Bank worked tirelessly to improve our branch network, expand our product lines, upgrade our operating systems and acquire new customers.

By 1997, we had a reconfigured, expanded and improved network of 66 branches. This network included 14 branches in Montgomery County, which we acquired with our purchase of Citizens Savings Bank that same year, and 15 branches in retail stores, which represented the foundation of our successful in-store branching strategy.

By 1997, we had also grown to 179,755 retail checking accounts, \$2.8 billion in total deposits and \$2.7 billion in total loans. That year, our earnings were \$25 million, EPS was \$1.06, ROE was 9.91% and ROA was .68%. Provident’s leverage ratio was 7.06%, and the total capital ratio was 10.24%. Non-performing assets were .47% of total loans and the loan loss reserve was \$36.9 million.

At this point in our history, the Bank was also leveraged to generate the income needed to expand our branch network and enhance our operating systems. As a result, our core loans and deposits were a smaller portion of our total assets and liabilities than were purchased and syndicated loans and brokered deposits. Still, the Provident ship was sailing a well-planned course. The officers and crew were executing well, and our financial performance was getting better.

In 2002, Provident generated attractive earnings from a strong balance sheet. Our earnings had grown to \$48.3 million, EPS had risen to \$1.88 per diluted share, ROE was 16.14% and ROA was 1.00%. Provident ended the year with 109 branches, including 43 locations in the Greater Washington area.

The Bank’s balance sheet reflected core loans of \$1.76 billion, non-core loans of \$802 million and \$3.2 billion in total deposits, of which \$2.8 billion were core. Of our core deposits, \$461 million were commercial and \$2.32 billion were retail. We had 275,440 retail checking accounts and 196,450 retail debit cards. Our leverage ratio was 7.47%, and the total risk-based capital ratio was 12.7%. Non-performing assets were .97% of total loans—and virtually all non-performing loans were, and remain, fully collateralized

with one- to four-family dwellings. Provident's loan loss reserve was 1.31% at year-end 2002.

While we have not changed our name like many of my prior employers and our current competitors, Provident has evolved over time. In the last dozen years, we have grown from our solid Baltimore roots by extending our branches and commercial operations to serve the entire Baltimore-Washington corridor. We have become a strong commercial bank, and this progress reflects the talent of our employees. Our evolution from a struggling thrift to a solid Baltimore bank to a successful regional banking institution is an important element of the Provident story.

Today, Provident is a strong and competitive organization in a vibrant and attractive market. We have built a foundation of quality earnings based on a solid balance sheet. Our experienced and capable management team will continue to take full advantage of the opportunities to serve both individuals and businesses throughout the Baltimore-Washington corridor.

The Provident ship is fit, the sales are trim, the course is well conceived and the voyage well executed. Over the last two years, Gary Geisel has increasingly been in charge of this ship.

I have worked with Gary since 1984. He has never assumed a responsibility at which he did not excel. I know he will also excel in his new role as Provident Chairman and CEO. Kevin Byrnes, with strong executive credentials and a background in this area, is already making an impact. He will be an excellent President and Chief Operating Officer. Together with Provident's experienced and dedicated senior management team, I know

Twelve Years of Growth

| DOLLARS IN MILLIONS | JAN. 1, 1990 | DEC. 31, 2002 |
|------------------------------|--------------|---------------|
| Assets | \$1,326 | \$4,890 |
| Commercial Real Estate Loans | \$ 166 | \$ 589 |
| Commercial Loans | \$ 185 | \$ 376 |
| Residential Mortgages | \$ 262 | \$ 169 |
| Consumer Loans | \$ 277 | \$ 841 |
| Checking | \$ 96 | \$ 793 |
| Money Market | \$ 130 | \$ 430 |
| Savings | \$ 419 | \$ 662 |
| CDs | \$ 393 | \$ 640 |
| IRAs | \$ 96 | \$ 135 |
| Employees | 700 | 1,600 |
| Branches | 38 | 109 |

they will provide the leadership and direction to sustain Provident on the path of success.

In the last 13 years, we've concentrated on developing sound strategies and excellent execution. Excellent execution requires excellent people—and that's what we have.

It has been a pleasure and a privilege to serve as President under Carl Stearn and as Chairman and CEO since 1998. I will retire from a sound bank with excellent management and a well-defined strategy for continued success. Provident is, and will remain, committed to providing enhanced shareholder value and the benefits of a solid, long-term investment.

I thank our Board of Directors for their sound advice and support over the years. I particularly thank Carl Stearn and Sister Rosemarie Nassif, who both retire in 2003 from the Provident Bankshares Board of Directors, for their dedication, commitment and for their thoughtful counsel always offered with intellect and character.

In this, my final letter to shareholders, I conclude by thanking all of you for your support and commitment to Provident over the years. May you always be blessed with "fair winds and following seas."

Sincerely,



Peter M. Martin
Chairman and Chief Executive Officer



Letter from the President

We are pleased with our 2002 fiscal year results and look forward to continued success with the key strategies that were executed over the past two years. We believe the correct long-term corporate goals for Provident Bank are in place. We will continue to build upon and refine these strategies in 2003 in order to build a balance sheet that more closely resembles our peer group as we decrease our reliance on non-core business and emphasize core bank assets.

Our continued focus on core business strategies, which resulted again in positive revenue momentum for 2002 and beyond, include:

- Broaden our presence and customer base in the Washington market
- Grow commercial business in the Baltimore-Washington corridor
- Continue branch expansion in the attractive markets we serve
- Focus resources on growth in core business lines
- Improve financial fundamentals

This expansion strategy continues to pay dividends. The Washington metropolitan area was not part of our defined market until 1997, and today this growing region is a major contributor to the success of the retail and commercial core businesses. In 1999, we had 24 branches in the Washington metropolitan area out of a total network of 83. Today, we have 43 Washington locations out of a total network of 109. One-quarter of our total core deposits now reside in the Washington metropolitan area.

Our retail success is the result of executing a well-defined branch expansion strategy that includes a heavy emphasis on what we call "Spoke 'N Hub," where we lead with in-store locations and follow with traditional sites. Our in-store branches become profitable in 18 months, and some of the first branches that we

opened in our Washington expansion are already producing excellent results. Our key partners are Shoppers Food Warehouse, Metro Food Market, SuperFresh, BJ's Wholesale Club and Wal-Mart. We have also developed a strong Washington area team in Commercial Banking, who focus on small and lower middle market businesses, commercial and residential real estate, as well as our cash management business. We have increased and improved our resources in the Washington market, and the results are impressive. Over the past four years, Washington area commercial loans have grown from 31% of our total core commercial outstandings to 37% while, at the same time, commercial deposits in Washington have grown from 26% to 38% of our total core commercial deposit base.

We continue to look for acquisition opportunities in the Washington metropolitan market. Those opportunities are likely to either build upon our core banking expansion in that region or assist us by accelerating our growth with the insurance business. Provident's current success with insurance through alliances and partnerships is a positive sign that this type of business acquisition would fit our strategic goals.

While our long-term vision continues to emphasize core strengths as a retail bank, we are also making excellent progress in growing our core commercial banking business across the Baltimore-Washington corridor. At the same time, we continue to build on our historical expertise in commercial and residential real estate. Over the past four years, commercial deposits have grown from 9% of our total core deposits to 13%. At the same time, core commercial loans (real estate and commercial) stand at 52% of total core loans.

With commercial banking, our approach has been to define our strategy, find the best people to execute it and then put the right infrastructure and culture in place to support this business. For example, the purchase and installation of the Enterprise Contact Management system will assist us in cross-selling products to existing customers as well as provide good tracking of

prospect activity. Culturally, we've become an organization where everyone is responsible for promoting Provident to existing and future customers. This includes myself and the entire senior management team.

In terms of core business, we have exceeded our goal for decreasing our reliance on the non-core balance sheet. Over the past three years, non-core earning assets have declined from 51% to 37% of total earning assets, and non-core deposits have declined from 39% to 18% of total deposits. We see our brokered CDs continuing to decline during 2003, while acquired consumer loans and national syndicated loans should stabilize at current levels throughout 2003.

As we transform the balance sheet with an emphasis on core business, we remain focused on improving our financial fundamentals: margin, efficiency ratio and ROA. We believe our key strategies will continue to improve these financial fundamentals, even as we expand the franchise. Some of this improvement is being realized as the net interest margin rose to 3.14%, the efficiency ratio improved to 66% and ROA reached 1.00% in 2002.

I would like to close with some comments on issues that I am passionate about: namely, our initiatives with customers and employees. These groups are important constituents and a critical ingredient in the success of Provident over the past 100 years.

On the customer front, we continue to look for ways to enhance what we are known for: superior customer service. We survey customer satisfaction in each of our branches quarterly, and the results strongly influence the monetary rewards our retail employees earn each quarter. Additionally, we have begun surveying our commercial customers and prospects in a similar way.

We are also seeing changes in our competitive landscape in terms of large bank mergers. For Provident, this signals increased opportunities in the marketplace given our status as a locally managed regional bank with direct access to decision makers. Through focused

marketing efforts, we are hoping to form new relationships with those customers affected by the mergers. The Bank is an attractive alternative for customers who would like to do business with a locally owned financial institution strategically committed to the Baltimore-Washington corridor.

We remain committed to seeking feedback from employees as a way of improving our leadership techniques. For example, in addition to E-mail, I now have what is known as "G-Mail." The intranet site allows employees to directly correspond with me on a variety of issues. This unique access has created an open communication environment, which I believe is a critical element of employee satisfaction.

Finally, I would like to thank Peter Martin for his incredible contributions to Provident Bankshares Corporation over the past 12 years. His leadership, wisdom and experience were instrumental in enabling Provident to evolve from a small thrift into a leading commercial bank in the Baltimore-Washington corridor. I will truly miss Peter, who has been a guiding force, not only within the Company, but in the community as well. Personally, Peter has been a wonderful mentor, and I am pleased that he has decided to remain as a member of the Board of Directors of Provident Bankshares Corporation.

We look forward to building on Peter's many initiatives and welcome our new President and Chief Operating Officer, Kevin Byrnes, to an



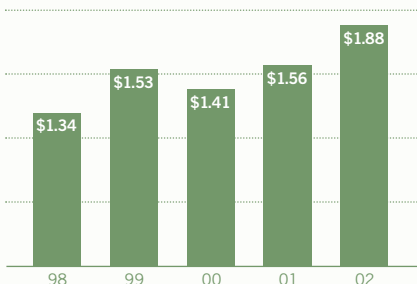
exceptional team of senior managers. Kevin's extensive banking experience and community involvement credentials fit perfectly with our culture and strategies. Together, we will work toward even greater success in 2003.

Sincerely,

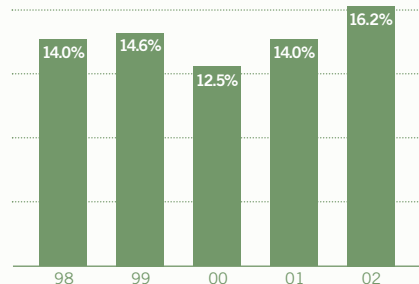
Gary N. Geisel
President and Chief Operating Officer

▲ Provident announced a new management team effective April 2003. Chairman and Chief Executive Officer Peter M. Martin (left) with successor Gary N. Geisel (right); Kevin G. Byrnes (center) will assume Geisel's duties as President and Chief Operating Officer.

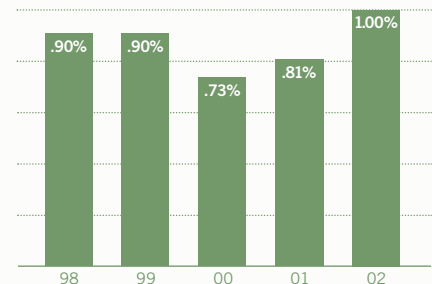
Diluted Earnings Per Share
IN DOLLARS



Return on Average Common Equity
IN PERCENTAGES



Return on Average Assets
IN PERCENTAGES



The Washington metro region represents 24% of the Bank's average core loans and deposits.

Expanding our presence

Provident's success in Baltimore helped launch the Bank's continued expansion into the vibrant Greater Washington market, which includes Montgomery and Prince George's counties in Maryland, the District of Columbia and Northern Virginia. Since the 1997 acquisition of Citizens Saving Bank in Montgomery County, Provident's presence has steadily grown through retail branch expansion and a Commercial Banking Group staffed with experienced professionals who know the region.

At the end of 2002, Provident had 43 of its offices in the Greater Washington area. The Bank opened 10 branches in the area during the year, including eight in-store branches with convenient weekend and evening hours.

Provident's expansion strategy is contributing to continued strong growth in its customer base. In 2002, 36% of all new retail accounts were generated by Greater Washington branches. Branch banking deposits in the region were up 6% in 2002 and now comprise 26% of total branch deposits.

In the commercial area, core loans grew 8% in the Greater Washington market while, at the same time, core commercial deposits increased 72% in 2002.



“Our experience in this market has put Provident on the map in Greater Washington.”



Provident's entry into this dynamic market has also opened up new business opportunities, such as banking services for government contractors. The Bank's expertise in this area is already yielding dividends, and Provident expects this business to grow in the future.

The Greater Washington team is a major stakeholder in the community as employees, led by Group Manager Enos K. Fry, serve on numerous boards and commissions, such as the Washington Board of Trade, Leadership Montgomery County, and the Alexandria and

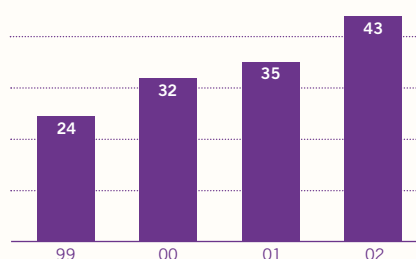
Fairfax Chambers of Commerce. In 2002, Provident also continued its outreach to the fast-growing Hispanic population in Greater Washington with support of the Hispanic College Fund.

Through retail branch expansion, a growing commercial business and ongoing community outreach, Provident's aggressive expansion into the Greater Washington area will continue to complement the Bank's historic strength in the Baltimore market.

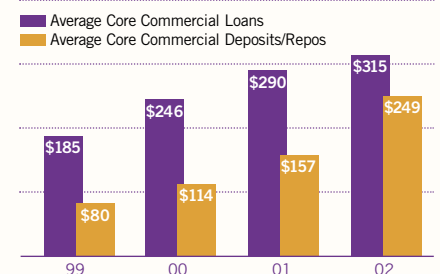
▲ L. Burwell Gunn, Managing Director, Washington Metro Commercial Banking, and Cecilia Hodges, Managing Director, Washington Metro Real Estate Banking, in Old Town Alexandria, Virginia. With a combined 48 years in banking and expert knowledge of the region, this team is building Provident's customer base in a fast-growing market.

◀ Scott Harris, Senior Vice President, welcomes customers Jerry and Lita Hyland in Provident's new office in Burke, Virginia, one of 12 new branches that opened in 2002. As small business owners, the Hylands value the convenient location, efficient service and friendly staff at Provident.

Branch Expansion in Greater Washington
BRANCH LOCATIONS



Commercial Loan and Deposit/Repo Growth
WASHINGTON AREA BALANCES IN MILLIONS



From Baltimore to Washington, Provident is growing its commercial customer base one relationship at a time.

Business driven

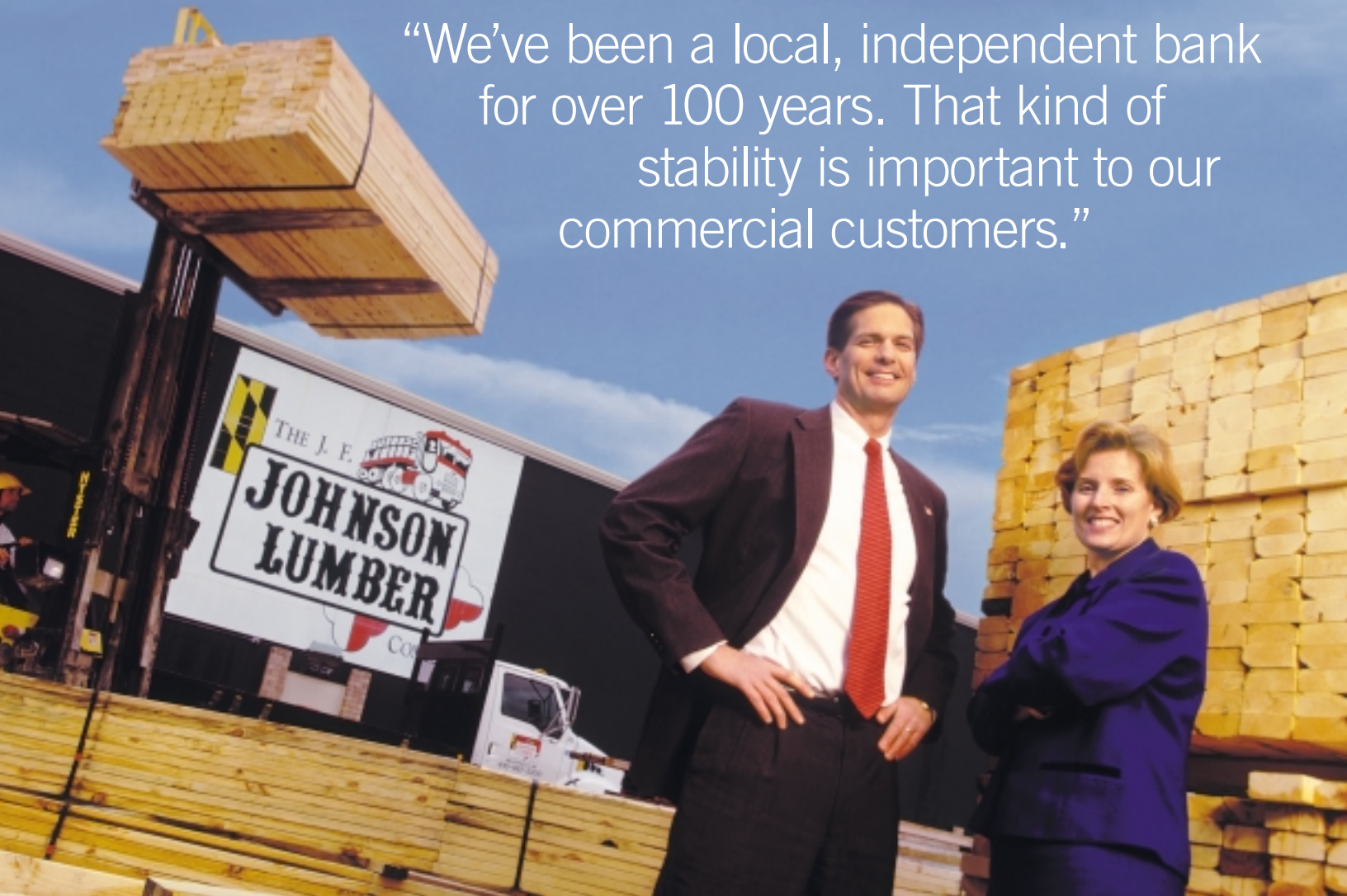
Provident enjoyed a year of growth in its Commercial Banking Group, driven by cash management sales and increases in core commercial loans. The results showed solid gains in core commercial business across the Baltimore-Washington corridor.

One of Provident's goals is to increase its commercial banking presence through the efforts of experienced relationship managers, high-quality credit standards and the delivery of customized financial solutions to businesses. Under this strategy, Provident grew its core commercial loan portfolio by 8% over 2001. This growth came from both the commercial and historically strong real estate lending units. Asset quality remained strong as non-performing commercial loans totaled less than \$500,000 at the end of 2002.

A continuing success story for Provident revolves around deposit-based services that support business growth. The Bank's Commercial Cash Management Department reported core deposits increased 40% in 2002. Some of this growth is due to the heightened efforts by relationship managers to cross-sell our line of cash management products to customers.



“We’ve been a local, independent bank for over 100 years. That kind of stability is important to our commercial customers.”



In 2002, Provident also launched a new tool to build on that effort by strengthening the Bank’s ability to manage customer relationships. The Enterprise Contact Management system allows managers to maintain and track all relationships the Bank has with its commercial customers. This system will help the Bank effectively expand product and service relationships.

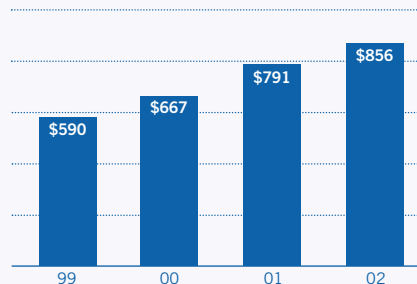
A cross-functional team has provided over 100 hours of training to relationship managers, who will use this new tool to help meet customer needs.

Provident’s Commercial Banking Group is positioned to build on a successful year with the expectation of continued business growth in 2003.

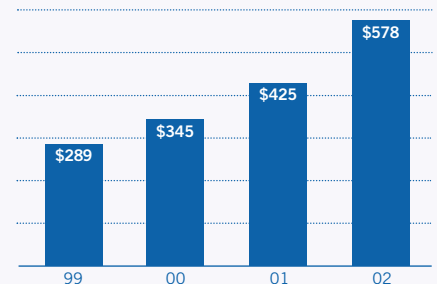
▲ John Goedeke and Ellen Fish, both Senior Vice Presidents, Commercial Banking, at the J.F. Johnson Lumber Company in Anne Arundel County, Maryland. For this 75-year-old company, President Robert Johnson relies on Provident for financing, deposit and cash management services. Mr. Johnson also uses Provident for his personal business.

◀ EarthData, a Provident commercial customer, is an airborne mapping and remote sensing company in Washington, D.C. In the aftermath of the September 11th terrorist attacks on the World Trade Center, the company delivered 3-D maps of the site to New York City support and rescue operations. Pictured is David Chavez, Senior Technician Specialist at EarthData, studying the digital aerial photography taken of the twin towers. Provident handles all of EarthData’s commercial needs, including equipment and real estate financing and cash management.

Core Commercial Loan Growth
AVERAGE BALANCES IN MILLIONS



Core Commercial Deposit/Repo Growth
AVERAGE BALANCES IN MILLIONS



Innovative products and expanded customer choices contributed to a successful year for Provident's core banking operations.

Customer focused

One of Provident's key strategic goals is to focus resources on core business line growth. In 2002, that strategy yielded impressive results as the Bank continued to reduce its volume of non-core loans and deposits. Average core consumer loan balances grew 20% in 2002, driven by a 33% increase in average marine loan balances from 2001.

Provident generated \$181 million in new home equity loans and lines of credit—an increase of 13% or \$20 million. In May, the Bank launched a new association with LendingTree.com, an Internet-based loan marketplace, which led to \$12.5 million in home equity lines and loans in just six months. In addition, expanding our Baltimore-Washington footprint increased the Bank's presence and name recognition.

Our telephone and Internet sales unit, known as Provident Direct, also provided customers with convenient access to banking products. The team booked \$95 million in consumer loans and opened over 1,500 deposit accounts. Online banking was another option for customers as Internet banking with Bill Payment grew 43% in 2002.



“Our growing branch network means customers don’t have to travel far to bank with Provident. At Flowers World Wide, we’re the bank next door!”



Provident’s focus on the small business market is another key factor in our core business growth strategies. The Small Business lending group’s customers increased 25% from 2001. Fee income from this segment also rose substantially over the past year, and average deposit balances grew 26% during the same period. At the same time, small business loan production increased 102%, which represents strong growth potential in this market for 2003.

Provident’s strategy to expand into vibrant, high-growth markets continued during 2002

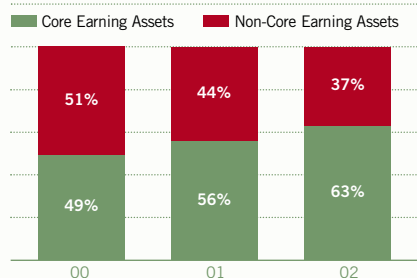
as the branch network expanded to 109 in the Baltimore-Washington corridor. The Bank also added to its successful in-store office locations by forming a new partnership with SuperFresh Grocery Stores and an expanded relationship with BJ’s Wholesale Club.

Provident’s progress in branch expansion, small business and core retail businesses is a positive sign that our focus on core banking operations will help achieve long-term financial goals.

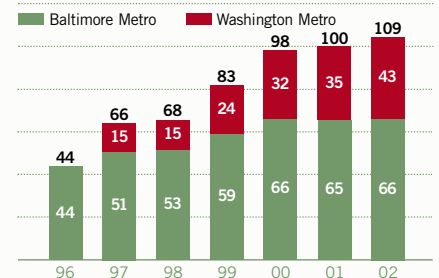
▲ Eric Dawes, Managing Director, Consumer Lending, and Ann Clair, Managing Director, Branch Banking, on the steps of Flowers World Wide in Montgomery County, Maryland. The President of the company, James Chung, handles all of his small business needs at the nearby Gaithersburg branch.

◀ Maureen and Tim Shelley of Columbia, Maryland, with sons Devin and Ryan, are building an addition to their kitchen and dining room. As they put it, “The rooms got smaller and the boys got bigger.” The Shelleys became Provident customers through the Bank’s new association with LendingTree.com. Their home equity loan process was “painless,” and now they are considering Provident for their other banking needs.

Core Business Line Growth
DECREASING RELIANCE ON NON-CORE ASSETS



Branch Network
BRANCH LOCATIONS



Provident Bank invests in the communities we serve through corporate giving and a commitment to employee volunteerism.

Community oriented

Founded in 1886, Provident has a proud history of corporate philanthropy. In 2002, Provident contributed over \$500,000 to non-profit organizations as part of a Company philosophy to make a positive difference in the communities we serve.

Provident focuses its support in the following areas: education, economic development, health and human services, arts and culture, and civic initiatives. The year 2002 provided several opportunities for Provident to make meaningful contributions.

In keeping with its goal to actively seek scholarships for deserving students based on financial need, Provident sponsored the Independent College Fund of Maryland's Annual Meeting and established the "Provident Scholar" award. The Bank provided support for educational programs to other area colleges and schools, such as the St. Ignatius Loyola Academy, College of Notre Dame, Coppin State College, Essex Community College and the Baltimore City School system.

Provident also targeted resources toward financial literacy initiatives through counseling to non-profit organizations in Baltimore, such as the Bon Secours Community Center and



“Provident’s scholarship helped make my dream of a college education a reality.”



East Harbor Village. In 2002, Provident President and Chief Operating Officer Gary Geisel initiated Provident’s involvement in “Sound Cents,” a campaign launched by the Maryland Bankers Association to teach teenagers the fundamentals of planning for their financial future.

Families benefited from Provident’s sponsorship of the Second Annual Montgomery County Housing Fair in Gaithersburg, Maryland. The Bank’s support allowed individuals, especially the Spanish-speaking public, to learn more about credit counseling and buying or refinancing a home. In Fairfax, Virginia, Provident continued its partnership with the

◀ Chairman and CEO Peter M. Martin is pictured with employee Janine Smith of the Commercial Real Estate Banking Division. Janine was named “Volunteer of the Year” in 2002 and was the proud recipient of the inaugural Peter M. Martin Community Involvement Award for outstanding community service.

Food Allergy Network, Inc. The Bank funded a brochure on food allergy prevention that was distributed to expectant mothers.

Provident renewed its associations with organizations that promote the arts by funding, among others, the Maryland State Boy’s Choir, the Baltimore Museum of Art and the Strathmore Hall Arts Center in Montgomery County, Maryland.

In addition to financial involvement, Provident employees actively volunteer and serve on boards and commissions in their neighborhoods. In 2002, Provident established a “Provident Volunteer Corps” to support volunteer activities. The committee organized Provident’s first “Volunteer of the Year” event. Janine Smith, an employee in the Bank’s Real Estate Lending Division, was awarded the inaugural Peter M. Martin Community Involvement Award for her outstanding commitment to community service.

Provident and its employees are proud to support programs that enhance the quality of life for families and communities in the Baltimore-Washington corridor.

▲ “Provident Scholar” John Bosley attends Villa Julie College in Baltimore and plans to graduate with a second degree in accounting. Hugh Newton (right), Provident’s Group Manager of Commercial Banking, is on the Board of the Independent College Fund of Maryland, which awards scholarships to students in need of financial aid.

Consolidated Statement of Condition

| DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS | 2002 | DECEMBER 31, 2001 |
|--|--------------------|----------------------|
| Assets | | |
| Cash and Due from Banks | \$ 145,063 | \$ 105,986 |
| Short-Term Investments | 3,129 | 11,798 |
| Mortgage Loans Held for Sale | 8,899 | 6,932 |
| Securities Available for Sale | 1,993,229 | 1,804,234 |
| Loans | 2,560,563 | 2,776,893 |
| Less: Allowance for Loan Losses | 33,425 | 34,611 |
| <i>Net Loans</i> | 2,527,138 | 2,742,282 |
| Premises and Equipment, Net | 47,031 | 45,687 |
| Accrued Interest Receivable | 28,101 | 34,057 |
| Intangible Assets | 9,340 | 9,747 |
| Other Assets | 128,792 | 138,994 |
| Total Assets | \$4,890,722 | \$4,899,717 |
| Liabilities | | |
| Deposits: | | |
| Noninterest-Bearing | \$ 492,661 | \$ 384,009 |
| Interest-Bearing | 2,695,305 | 2,972,038 |
| <i>Total Deposits</i> | 3,187,966 | 3,356,047 |
| Short-Term Borrowings | 539,758 | 366,321 |
| Long-Term Debt | 814,546 | 860,106 |
| Other Liabilities | 32,817 | 30,961 |
| <i>Total Liabilities</i> | 4,575,087 | 4,613,435 |
| Stockholders' Equity | | |
| Common Stock (par value \$1.00) authorized 100,000,000 shares; issued 31,737,237 and 31,405,793 shares at December 31, 2002 and 2001, respectively | | |
| | 31,737 | 31,406 |
| Capital Surplus | 289,698 | 284,457 |
| Retained Earnings | 124,862 | 97,749 |
| Net Accumulated Other Comprehensive Income (Loss) | 14,920 | (6,458) |
| Treasury Stock at Cost—7,373,601 and 6,294,201 shares at December 31, 2002 and 2001, respectively | | |
| | (145,582) | (120,872) |
| <i>Total Stockholders' Equity</i> | 315,635 | 286,282 |
| Total Liabilities and Stockholders' Equity | \$4,890,722 | \$4,899,717 |

Refer to the Provident Bankshares Corporation 2002 Annual Report on Form 10-K for a complete set of consolidated financial statements.

Consolidated Statement of Income

| DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA | YEAR ENDED DECEMBER 31, | | |
|--|-------------------------|------------------|------------------|
| | 2002 | 2001 | 2000 |
| Interest Income | | | |
| Interest and Fees on Loans | \$174,672 | \$231,573 | \$281,942 |
| Interest on Securities | 100,468 | 114,036 | 128,402 |
| Tax-Advantaged Interest | 1,816 | 2,176 | 2,092 |
| Interest on Short-Term Investments | 90 | 309 | 262 |
| <i>Total Interest Income</i> | <i>277,046</i> | <i>348,094</i> | <i>412,698</i> |
| Interest Expense | | | |
| Interest on Deposits | 83,013 | 142,642 | 177,696 |
| Interest on Short-Term Borrowings | 6,338 | 12,462 | 33,758 |
| Interest on Long-Term Borrowings | 46,171 | 53,829 | 47,223 |
| <i>Total Interest Expense</i> | <i>135,522</i> | <i>208,933</i> | <i>258,677</i> |
| <i>Net Interest Income</i> | <i>141,524</i> | <i>139,161</i> | <i>154,021</i> |
| Less: Provision for Loan Losses | 9,825 | 17,940 | 29,877 |
| <i>Net Interest Income after Provision for Loan Losses</i> | <i>131,699</i> | <i>121,221</i> | <i>124,144</i> |
| Non-Interest Income | | | |
| Service Charges on Deposit Accounts | 70,710 | 60,331 | 50,544 |
| Commissions and Fees | 4,823 | 4,836 | 4,737 |
| Net Gains | 2,786 | 11,727 | 10,746 |
| Other Non-Interest Income | 10,861 | 9,788 | 9,189 |
| <i>Total Non-Interest Income</i> | <i>89,180</i> | <i>86,682</i> | <i>75,216</i> |
| Non-Interest Expense | | | |
| Salaries and Employee Benefits | 74,215 | 70,307 | 71,207 |
| Occupancy Expense, Net | 14,447 | 13,634 | 12,951 |
| Furniture and Equipment Expense | 10,970 | 10,249 | 10,073 |
| External Processing Fees | 20,202 | 16,867 | 16,080 |
| Other Non-Interest Expense | 31,027 | 34,421 | 31,110 |
| <i>Total Non-Interest Expense</i> | <i>150,861</i> | <i>145,478</i> | <i>141,421</i> |
| Income before Income Taxes | 70,018 | 62,425 | 57,939 |
| Income Tax Expense | 21,713 | 19,800 | 18,234 |
| <i>Income before Cumulative Effect of Change in Accounting Principle</i> | <i>48,305</i> | <i>42,625</i> | <i>39,705</i> |
| Cumulative Effect of Change in Accounting Principle, Net* | — | (1,160) | — |
| <i>Net Income</i> | <i>\$ 48,305</i> | <i>\$ 41,465</i> | <i>\$ 39,705</i> |
| Basic Earnings Per Share | | | |
| Income before Cumulative Effect of Change in Accounting Principle | \$ 1.94 | \$ 1.65 | \$ 1.44 |
| Cumulative Effect of Change in Accounting Principle, Net* | — | (0.04) | — |
| <i>Net Income</i> | <i>\$ 1.94</i> | <i>\$ 1.61</i> | <i>\$ 1.44</i> |
| Diluted Earnings Per Share | | | |
| Income before Cumulative Effect of Change in Accounting Principle | \$ 1.88 | \$ 1.60 | \$ 1.41 |
| Cumulative Effect of Change in Accounting Principle, Net* | — | (0.04) | — |
| <i>Net Income</i> | <i>\$ 1.88</i> | <i>\$ 1.56</i> | <i>\$ 1.41</i> |

*Effective January 1, 2001, the Corporation adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

Refer to the Provident Bankshares Corporation 2002 Annual Report on Form 10-K for a complete set of consolidated financial statements.



Corporate Information

Corporate Headquarters

114 East Lexington Street
Baltimore, Maryland 21202
Telephone: 410-277-7000
www.provbank.com

Registrar and Transfer Services

EquiServe
P.O. Box 43010
Providence, Rhode Island 02940-3010
Investor Relations: 1-866-820-0125
www.equiserve.com

Independent Accountants

KPMG L.L.P.
111 S. Calvert Street
Baltimore, Maryland 21202

Annual Meeting

The annual stockholders meeting will be held on Wednesday, April 16, 2003, at 10 a.m. at the Corporate Headquarters of Provident Bankshares Corporation, 114 East Lexington Street, Baltimore, Maryland.

Additional Information

Analysts, investors and others seeking financial data regarding the Corporation or the Form 10-K reports that are filed with the Securities and Exchange Commission may obtain information or copies without charge, upon written request to:

Josie Porterfield
Investor Relations Manager
Provident Bankshares Corporation
114 East Lexington Street
Baltimore, Maryland 21202
410-277-2889 or 1-800-626-1580
porterfield@provbank.com

Dividend Reinvestment and Stock Purchase Plan

Holders of Provident Bankshares Corporation common stock may reinvest their dividends and/or make optional cash investments to purchase additional common stock of the Corporation through the Dividend Reinvestment and Direct Stock Purchase Plan (the "Plan"). Effective December 1, 2002, new investors are also eligible to participate in the Plan. To obtain a Plan prospectus, Plan materials or to enroll, contact EquiServe online at equiserve.com or by phone at 1-866-820-0125.

Stock Market Listing

The common stock of Provident Bankshares Corporation is traded in the over-the-counter (OTC) market and is quoted on the NASDAQ Stock Market under the symbol PBKS.

Statements contained in this summary annual report which are not historical facts are forward-looking statements, as the term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in documents filed by the Company with the Securities and Exchange Commission from time to time.

Executive Management PROVIDENT BANK (PICTURED OPPOSITE)

STANDING (LEFT TO RIGHT)

Enos K. Fry, Group Manager, Washington Metro Area; **H. Les Patrick**, Group Manager, Credit Administration; **Robert H. Newton Jr.**, Group Manager, Commercial Banking; **R. Wayne Hall**, Group Manager, Risk Management; **Jeanne M. Uphouse**, Group Manager, Organizational Support Services; **Russell G. Johnson**, Group Manager, Operations; **John J. King**, Group Manager, Community Banking.

SEATED (LEFT TO RIGHT)

Dennis A. Starliper, Executive Vice President and Chief Financial Officer; **Gary N. Geisel**, President and Chief Operating Officer; **Peter M. Martin**, Chairman and Chief Executive Officer; **Kevin G. Byrnes**, Senior Executive Vice President; **Richard J. Oppitz Jr.**, Executive Vice President, Consumer Lending Group.

Board of Directors PROVIDENT BANKSHARES CORPORATION

Melvin A. Bilal
Attorney at Law

Thomas S. Bozzuto
President
The Bozzuto Group

Kevin G. Byrnes
Senior Executive Vice President
Provident Bank

Ward B. Coe III, Esquire
Partner
Whiteford, Taylor & Preston, L.L.P.

Charles W. Cole Jr.
Chairman of the Board
Legg Mason Trust Company, F.S.B.

Pierce B. Dunn
Chairman of the Board
MIRCON, Inc.

Enos K. Fry
Group Manager, Washington Metro Area
Provident Bank

Gary N. Geisel
President and Chief Operating Officer
Provident Bankshares Corporation/Provident Bank

Mark K. Joseph
Chairman and Chief Executive Officer
Munimae Midland, LLC

Barbara B. Lucas
Senior Vice President and Corporate Secretary
The Black & Decker Corporation

Peter M. Martin
Chairman and Chief Executive Officer
Provident Bankshares Corporation/Provident Bank

Frederick W. Meier Jr.
President
Lord Baltimore Capital Corp. and
Lord Baltimore Properties

Rosemarie Nassif, SSND, Ph.D.
President
Holy Names College

Francis G. Riggs
Executive Vice President and Director
Riggs, Counselman, Michaels and Downes, Inc.

Sheila K. Riggs
Chairperson
Maryland Health and Higher Education
Facilities Authority

Carl W. Stearn
Chairman of the Executive Committee,
Retired Chairman and Chief Executive Officer
Provident Bankshares Corporation/Provident Bank

Donald E. Wilson, M.D., MACP
Vice President, Medical Affairs
University of Maryland
Dean, School of Medicine

Officers PROVIDENT BANKSHARES CORPORATION

Peter M. Martin
Chairman and Chief Executive Officer

Gary N. Geisel
President and Chief Operating Officer

Dennis A. Starliper
Executive Vice President and
Chief Financial Officer

Robert L. Davis
General Counsel and Secretary

Karen L. Malecki
Treasurer

Jeannine C. Morganthall
Auditor

Managing Directors PROVIDENT BANK

Lawrence J. Beyer
Managing Director and Treasurer
Treasury

Ann M. Clair
Managing Director
Branch Banking

Robert L. Davis
Managing Director and General Counsel
Legal and Compliance

Eric G. Dawes
Managing Director
Consumer Lending

Peter C. Georgopoulos
Managing Director
Residential Mortgage

L. Burwell Gunn
Managing Director
Washington Metro Commercial Banking

Cecilia A. Hodges
Managing Director
Washington Metro Real Estate Banking

Lillian S. Kilroy
Managing Director
Marketing and Public Relations

Karen L. Malecki
Managing Director and Controllor
Finance and Control

Jeannine C. Morganthall
Managing Director and Auditor
Audit

Raymond E. Schlissler
Managing Director
Baltimore Real Estate Banking

Robert L. Schmidt
Managing Director
Deposit and Loan Support

Donald E. Sheeler
Managing Director
Provident Investment Center, Inc.

Daniel C. Sigmon
Managing Director
Technology Management

Clifford O. Webster
Managing Director
Administrative Services



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