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PROVIDENT BANKSHARES
CORPORATION

Confidential Treatment Requested

March 6, 2009

Mr. Neil M. Barofsky
Special Inspector General
Office of The Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, D.C. 20220

Dear Mr. Barofsky:

In response to your letter dated February 6, 2009 regarding your Office's audit of Provident Bankshares Corporation's (the "Company") use of funds received pursuant the Troubled Asset Relief Program ("TARP") and our compliance with the Emergency Economic Stabilization Act of 2008's ("EESA") requirements relating to executive compensation, please find the requested information below.

For your convenience, I have restated your questions, followed by our responses.

Question 1:

Please provide a narrative response specifically outlining (a) your anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) your actual use of TARP funds to date; and (d) your expected use of unspent TARP funds. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that you have taken that you would not have been able to take absent the infusion of TARP funds.

Response:

(a) The Company was (b) (8) [redacted] and encouraged, as a healthy bank, to participate in the TARP program. The Company received TARP funds on November 14, 2008. The primary reason that the Company accepted the TARP funds was to offset the expected loss of capital resulting from the effect of mark-to-market accounting on the Company's investment portfolio and from increased consumer and commercial loan charge-offs. Management determined that this augmentation of capital would provide an additional measure of safety for depositors and would enable the Company to continue to meet customer loan needs.

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The Company did not develop detailed plans for deployment of the TARP funds prior to receipt of those funds.

The Company did not make public statements regarding its specific use of TARP funds. On October 27, 2008, the Company announced that it had received preliminary approval for participation in the TARP Capital Purchase Program. The Company did not make any statements about its intended use of TARP funds at that time. Following the receipt of TARP funds, the Company issued a press release on November 17, 2008, in which the Company's Chief Executive Officer stated that: "This investment will further strengthen our capital position, increase our ability to finance attractive lending opportunities, and enable Provident to provide additional support for economic growth in our local markets."

(b) The funds were not segregated from other Company funds upon receipt. At that time, there had been no indication or suggestion that recipients of TARP funds should segregate those funds or earmark them for special purposes.

(c) The Company contributed all of the TARP funds to its subsidiary, Provident Bank (the "Bank") as additional paid-in capital. Under applicable regulatory requirements, the Bank must maintain a ratio of total capital to risk-weighted assets of at least 10% to be qualified as "well-capitalized." This means that for every $1 of capital, the Bank has the ability to raise an additional $9 through deposits or borrowings, which it can then invest in loans or other interest-earning assets. Upon receipt of the TARP funds, management calculated how much of the additional capital should be restricted to provide a risk cushion for expected future to mark-to-market write downs and how much could be leveraged to grow interest-earning assets. Management concluded that the TARP funds could support loan growth of approximately $314 million.

The Bank initially used the TARP funds to reduce short-term borrowings. Management chose this alternative over holding the funds in cash because it would improve the Bank's capital ratios and net interest income pending deployment of the funds. Management determined that as funds are needed for loans, the Bank could increase short-term borrowings if necessary.

As of January 30, 2009, the Company had already made significant strides towards deploying the capital provided by the TARP funds. From receipt of the TARP funds on November 15, 2008 through January 30, 2009, the Bank has extended $182 million of new credit. This is comprised of outstanding loans and lines of credit of $129 million and remaining commitments to lend of $53 million. Exhibit A summarizes the amounts and numbers of loans made during this period. As Exhibit A shows, the Bank, through the benefit of the TARP funds, has been making both consumer and commercial loans.

In addition, since receipt of TARP funds, the Bank has purchased $60 million of Ginnie Mae mortgage-backed securities. By purchasing these securities, the Bank is facilitating the origination of consumer mortgage loans secured by the Federal Housing Administration and the Department of Veterans Affairs.

Exhibit B illustrates the changes in the Company's balance sheet from November 14, 2008, which is the day before receiving the TARP funds, to January 30, 2009. This Exhibit shows a net increase in earning assets of approximately $114 million.

In sum, the capital provided by the TARP funds provides support for the Bank to add $314 million of earning assets. After two and one-half months, the Bank had extended $182 million of credit and had increased earning assets by $114 million.

(d) We anticipate that the Bank will continue to leverage the capital provided by the TARP funds to make loans and grow its loan portfolio.

Question 2:

Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.

Response:

Section 1.2(d)(iv) of the Securities Purchase Agreement – Standard Terms required that, as a condition to the receipt of TARP funds, the Company effect such changes to its compensation plans and arrangements as may be necessary to comply with the compensation restrictions in Section 111(b) of EESA. In connection with the receipt of the TARP funds, the Company complied with the requirements of the Securities Purchase Agreement by entering into an Acknowledgment and Agreement with each of its SEOs that addresses the compensation requirements imposed on TARP recipients. The form of agreement is attached as Exhibit C.

Applicable Treasury regulations require the Company's compensation committee to review the SEO incentive compensation arrangements with the Company's senior risk officers, or other personnel acting in a similar capacity, to ensure that SEOs are not encouraged to take unnecessary and excessive risks that could threaten the value of the financial institution. The Company's compensation met on February 12, 2009 to review SEO incentive compensation arrangements with the Company's Chief Risk Officer. At such meeting, the Chief Risk Officer reviewed with the compensation committee his quarterly risk issues list, which identifies the most significant risks facing the Company. On December 18, 2008, the Company and M&T Bank Corporation ("M&T") agreed to a strategic business combination in which the Company will merge with a subsidiary of M&T. We currently anticipate that the merger will be completed in the second quarter of 2009. Because of the pending business combination, the Company does not anticipate paying any incentive compensation relating to 2009 performance. Accordingly, the compensation committee determined that there were no incentive compensation arrangements that required modification.

The American Recovery and Reinvestment Act of 2009 requires Treasury to establish further restrictions on executive compensation. Because Treasury has not yet promulgated the regulations required by this Act, the Company has taken no actions with respect to the restrictions contained in the Act and this letter does not address those restrictions.

* * * * *

The Company requests confidential treatment of this letter. The financial information contained in this letter and the exhibits hereto is financial information that is not otherwise available to the public and, therefore, is confidential. For this reason, this letter is protected under 5 U.S.C. § 552(b)(4).

* * * * *

The undersigned duly authorized senior executive officer of the Company hereby certifies, on behalf of the Company, and subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001, that all statements, representations, and supporting information provided in and with this letter are true and complete to the best of my knowledge.

Sincerely,

Dennis A. Starliper
Executive Vice President
and Chief Financial Officer

Exhibit A

Provident Bank

Extensions of Credit

November 14, 2008 through January 30, 2009

LOAN / LINE	Segment	New Commitments	Outstanding	Available Commitment	Units
LINES OF CREDIT					
	BUSINESS BANKING	6,029,646	1,672,842	4,356,803	61
	COMMERCIAL	41,672,724	15,748,680	25,924,044	17
	CONSUMER	36,958,164	15,166,116	21,792,048	406
LINES OF CREDIT Total		84,660,533	32,587,638	52,072,895	484
LOANS					
	BUSINESS BANKING	4,955,552	4,850,397	105,155	29
	COMMERCIAL	46,430,783	45,616,437	814,346	20
	CONSUMER	5,192,352	5,155,380	36,972	89
	LEASES	40,800,000	40,800,000	-	
LOANS Total		97,378,688	96,422,214	956,474	138
Grand Total		182,039,221	129,009,853	53,029,369	622

Exhibit B

PROVIDENT BANKSHARES CORPORATION
CONSOLIDATED STATEMENT OF CONDITION

DOLLARS IN THOUSANDS
Condensed/Unaudited

	Balance 1/30/09	Balance 11/14/08	Variance
ASSETS			
Treasury Investments	$1,363,884	$ 1,317,738	$ 46,146
Mtg Lns Held For Sale	6,123	3,950	2,173
Construction	1,001,934	989,881	12,053
Comm'l Mortgage	571,485	556,703	14,782
Residential Mortgage	49,618	50,103	(485)
Home Equity	1,172,460	1,148,759	23,701
Marine	337,209	346,277	(9,068)
Other Consumer	23,487	23,620	(133)
Acq'd Residential	199,083	204,313	(5,230)
Comm'l Business	997,727	967,912	29,815
Total Loans	4,353,003	4,287,568	65,435
Total Earning Assets	5,723,010	5,609,256	113,754
Allow For Loan Losses	(71,579)	(59,456)	(12,123)
Cash	51,129	51,449	(320)
Cash Items	51,304	38,485	12,819
Due From Accounts	(6,959)	(93,024)	86,065
Net Bank Premises	62,686	62,418	268
Other Assets	733,800	689,260	44,540
Total Assets	$ 6,543,391	$ 6,298,388	$ 245,003
LIABILITIES			
Savings	$ 481,588	$ 486,676	$ (5,088)
Retail Online Savings	119,821	89,796	30,025
Direct CD'S/IRA'S	1,115,080	1,118,373	(3,293)
Brokered/MM CD'S	1,178,196	1,242,700	(64,504)
CDARS	98,117	78,217	19,900
Money Market Deposits	651,435	584,277	67,158
Interest-Bearing DDA	463,441	434,171	29,270
NIB Retail DDA	285,081	281,311	3,770
NIB Comml DDA	371,533	376,740	(5,207)
NIB Other	5,7[illegible]9	3,338	2,431
Total Deposits	4,770,061	4,695,599	74,462
Short-Term Borrowings	130,820	77,802	53,018
Repo Sweep	211,212	241,902	(30,690)
Long-Term Debt	495,000	520,000	(25,000)
Trust Preferred	184,417	184,396	21
Other Liabilities	74,453	45,234	29,219
Total Liabilities	5,865,963	5,764,933	101,030
CAPITAL			
Capital Stock	597,980	445,387	152,593
Retained Earnings	79,448	88,068	(8,620)
Total Capital	677,428	533,455	143,973
Total Liabilities and Capital	$ 6,543,391	$ 6,298,388	$ 245,003

Exhibit C

Emergency Economic Stabilization Act Acknowledgement and Agreement

This Acknowledgement and Agreement applies to (1) the revised Change in Control Agreement between Provident Bankshares Corporation and the Executive named below, effective January 1, 2009, and (2) any bonus or incentive compensation arrangement for the Executive.

The Emergency Economic Stabilization Act of 2008 ("EESA") may restrict compensation paid to "senior executive officers" during the period that the United States Treasury holds equity or debt positions of a financial institution resulting from a purchase under the "Troubled Asset Relief Program" or the "Capital Purchase Program". EESA also may prohibit or restrict "golden parachute payments" to senior executive officers during that period.

Provident Bank may elect to participate in the Troubled Asset Relief Program and/or the Capital Purchase Program.

The undersigned Executive may be considered a "senior executive officer", bonus and incentive compensation for the Executive may be subject to the EESA prohibitions/restrictions, and payments under the Change in Control Agreement may constitute "golden parachute payments" that are subject to the prohibitions/restrictions. Further guidance from the Treasury Department and other federal government agencies is required before these issues can be resolved.

By signing below, the Executive acknowledges and agrees that certain benefits promised under the revised Change in Control Agreement and any bonus and incentive compensation plans may need to be prohibited or restricted to the extent required by EESA.

Under the Capital Purchase Program, the Executive must give the United States Treasury a waiver releasing any claims the Executive may have as a result of Treasury regulations that modify the terms of benefit plans, arrangements and agreements so as to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of EESA. By signing below, the Executive agrees to grant such waiver to the extent required by EESA.

WITNESS: EXECUTIVE:

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