

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

JUNE 2, 2003  
DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED)

THE PNC FINANCIAL SERVICES GROUP, INC.  
(Exact name of registrant as specified in its charter)

COMMISSION FILE NUMBER 1-9718

PENNSYLVANIA  
(State or other jurisdiction of  
incorporation or organization)

25-1435979  
(I.R.S. Employer  
Identification No.)

ONE PNC PLAZA  
249 FIFTH AVENUE  
PITTSBURGH, PENNSYLVANIA 15222-2707  
(Address of principal executive offices, including zip code)

(412) 762-2000  
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

ITEM 5. OTHER EVENTS AND REGULATION FD DISCLOSURE

On June 2, 2003, PNC ICLC Corp. ("PNCICLC"), an indirect non-bank subsidiary of The PNC Financial Services Group, Inc. ("PNC"), entered into a Deferred Prosecution Agreement (the "Deferred Prosecution Agreement") with the United States Department of Justice, Criminal Division, Fraud Section (the "Department of Justice"). A copy of the Deferred Prosecution Agreement is attached hereto as Exhibit 99.1, and is incorporated by reference herein. The description of the Deferred Prosecution Agreement as set forth herein is qualified in its entirety by reference to the actual text of the agreement. PNC has issued a press release relating to the Deferred Prosecution Agreement which is attached hereto as Exhibit 99.2 and incorporated herein by reference. PNC has also prepared a Question and Answer sheet which is attached hereto as Exhibit 99.3 and incorporated herein by reference.

Pursuant to the terms of the Deferred Prosecution Agreement, the United States will file a complaint in the United States District Court for the Western District of Pennsylvania charging PNCICLC with conspiracy to commit securities fraud, in violation of Title 18, United States Code, Section 371. The Department of Justice will recommend to the Court that the prosecution of PNCICLC be deferred for a period of twelve (12) months in light of PNCICLC's exceptional remedial actions to date and its willingness to acknowledge responsibility for its behavior, continue its cooperation with the Department of Justice and other governmental regulatory agencies, demonstrate its future good faith conduct and full compliance with the securities laws and generally accepted accounting principles and consent to the establishment of a restitution fund and the assessment of a monetary penalty as further described below. The Department of Justice has further agreed that if PNCICLC is in full compliance with all of its obligations under the Deferred Prosecution Agreement, the Department of Justice will seek dismissal with prejudice of the complaint within 30 days of the twelve month anniversary of the agreement and at such time the agreement shall be terminated.

Under the terms of the Deferred Prosecution Agreement, PNCICLC accepts and acknowledges responsibility for its behavior in connection with the PAGIC transactions and agrees to cooperate fully with the Department of Justice in its ongoing investigation of others. PNCICLC has agreed to pay a total of \$90 million to establish a fund for victim restitution, including for the settlement of any pending shareholder securities litigation, payable within 30 days of the

date of the agreement. The fund will be administered by former Federal Judge Arlin Adams. PNCICLC has also agreed to pay a monetary penalty of \$25 million to the United States Treasury within 10 days of the date of the agreement.

As previously disclosed, the PAGIC transactions were the subject of a July 2002 consent order entered into between PNC and the United States Securities and Exchange Commission (the "SEC") and the subject of a separate written agreement that was entered into between PNC and the Federal Reserve. The Deferred Prosecution Agreement brings closure to the main governmental investigations applicable to PNC and its affiliates stemming from the 2001 transactions, though such investigations continue as to others, with respect to which PNC has committed its full cooperation. The Deferred Prosecution Agreement was entered into by the Department of Justice in light of PNCICLC's exceptional remedial actions to date, and its willingness to acknowledge responsibility for its behavior in connection with the PAGIC

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transactions through the undertakings set forth in the agreement and through its continued cooperation with the government regarding these matters. The agreement has also been designed to avoid the imposition of adverse collateral consequences relating to PNC's important banking, brokerage, asset management, fiduciary and processing businesses, which businesses had no improper involvement in the conduct associated with PNCICLC and the PAGIC transactions. While the Deferred Prosecution Agreement has been entered into by PNCICLC with the objective of avoiding material adverse financial consequences for PNC or its affiliates beyond the funding responsibilities related to the restitution fund and the monetary penalty called for under the agreement, PNC may incur additional expenses and collateral costs associated PNCICLC's entry into the agreement, the impact of which can not be fully assessed at this time.

As previously disclosed, there is a putative class action lawsuit pending against PNC relating to the PAGIC transactions. There can be no assurance as to the impact or effect that PNCICLC's entry into the Deferred Prosecution Agreement may have on the outcome of this lawsuit or related claims. PNC believes that it has substantial defenses against such claims, including through the assertion of claims against other third parties. The \$90 million that PNCICLC has committed to fund for victim restitution under the Deferred Prosecution Agreement will be available to satisfy PNC shareholder claims, including for the settlement of the pending shareholder securities law litigation.

The Statement of Facts attached to the Deferred Prosecution Agreement sets forth the government's factual predicate for the complaint that has been filed in connection with the Deferred Prosecution Agreement. PNCICLC has acknowledged and accepted responsibility for its behavior as set forth in the Statement of Facts by entering into the Deferred Prosecution Agreement and by, among other things, the extensive remedial actions that it has taken to date, its continuing commitment of full cooperation with the Department of Justice and other governmental agencies and its agreement to establish a restitution fund and the other undertakings it has made in the Deferred Prosecution Agreement. PNCICLC has agreed that if future criminal proceedings were to be brought in the event of any breach by it of the Deferred Prosecution Agreement, PNCICLC would not contest the admissibility of the Statement of Facts in any such proceedings. Consistent with PNCICLC's obligations under the Deferred Prosecution Agreement, PNCICLC is permitted to raise defenses and/or assert affirmative claims in civil and regulatory proceedings relating to the matters set forth in the Statement of Facts. In the Statement of Facts knowledge has been attributed to PNCICLC by the government under corporate attribution and collective knowledge doctrines, and subject to PNCICLC's obligations under the Deferred Prosecution Agreement, PNCICLC may assert that knowledge referred to therein may have been limited to only selected individuals associated with PNCICLC or to the collective knowledge of selected individuals. Any such defenses, claims or limitations are by no means meant to diminish PNCICLC's acknowledgement of responsibility relating to such matters.

PNCICLC did not act alone in connection with the PAGIC transactions, and PNC has agreed to cooperate fully with the government in connection with its ongoing investigation of others. Such parties share a large part of the responsibility for the actions taken in connection with the PAGIC transactions, and PNC has preserved its rights to pursue claims relating to the PAGIC matters against other third party actors. PNC strongly disapproves of any and all improper conduct that

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occurred in connection with the PAGIC matters, and the PNC Board and management team have made it clear that PNC will have zero tolerance for such conduct by PNC related parties or others.

PNC does not anticipate that the entry by PNCICLC into the Deferred Prosecution Agreement will have any impact on PNC's dividend policy.

PNC's previously announced stock repurchase program, under which it is authorized to repurchase up to 35 million shares of common stock through February 29, 2004, continues in effect. Under this program, PNC has purchased 4.4 million shares in 2003 to date at a total cost of \$193 million. The extent and timing of share repurchases during the remainder of the year will depend on a number of factors including, among others, market and general economic conditions, regulatory capital considerations, alternative uses of capital and the potential impact on PNC's credit rating. Under applicable regulations, as long as PNC remains subject to its written agreement with the Federal Reserve Bank of Cleveland, it must obtain prior regulatory approval to repurchase its common stock in amounts that exceed 10 percent of its consolidated net worth in any 12-month period. A total of 4.7 million common shares have been repurchased under this program from inception through the date hereof.

#### FORWARD-LOOKING STATEMENTS

This report contains, and other statements that PNC may make may contain, forward-looking statements with respect to PNC's outlook or expectations for earnings, revenues, expenses, capital levels, asset quality or other future financial or business performance, strategies or expectations, or the impact of legal, regulatory or supervisory matters on PNC's business operations or performance. Forward-looking statements are typically identified by words or phrases such as "believe," "feel," "expect," "anticipate," "intend," "outlook," "estimate," "forecast," "project," "position," "target," "assume," "achievable," "potential," "strategy," "goal," "objective," "plan," "aspiration," "outcome," "continue," "remain," "maintain," "seek," "strive," "trend," and variations of such words and similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may," or similar expressions.

PNC cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and the Corporation assumes no duty and does not undertake to update forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

In addition to factors mentioned elsewhere in this report or previously disclosed in PNC's SEC reports (accessible on PNC's website at [www.pnc.com](http://www.pnc.com) and on the SEC's website at [www.sec.gov](http://www.sec.gov)), the following factors, among others, could cause actual results to differ materially from those anticipated in forward-looking statements or from historical performance:

(1) changes in political, economic or industry conditions, the interest rate environment or financial and capital markets, which if adverse could result in: a deterioration in credit quality, increased credit losses, and increased funding of unfunded loan commitments and letters of

credit; an adverse effect on the allowances for credit losses and unfunded loan commitments and letters of credit; a reduction in demand for credit or fee-based products and services; a reduction in net interest income, value of assets under management and assets serviced, value of private equity investments and of other debt and equity investments, value of loans held for sale or value of other on-balance sheet and off-balance sheet assets; or changes in the availability and terms of funding necessary to meet PNC's liquidity needs; (2) relative and absolute investment performance of assets under management; (3) the introduction, withdrawal, success and timing of business initiatives and strategies, decisions regarding further reductions in balance sheet leverage, the timing and pricing of any sales of loans held for sale, and PNC's inability to realize cost savings or revenue enhancements, or to implement integration plans relating to or resulting from mergers, acquisitions, restructurings and divestitures; (4) customer borrowing, repayment, investment and deposit practices and their acceptance of PNC's products and services; (5) the impact of increased competition; (6) how PNC chooses to redeploy available capital, including the extent and timing of any share repurchases and investments in PNC businesses; (7) the inability to manage risks inherent in PNC's business; (8) the unfavorable resolution of legal proceedings or government inquiries; the impact of increased litigation risk from recent regulatory and other governmental developments; and the impact of reputational risk created by recent regulatory and other governmental developments on such matters as business generation and retention, the ability to attract and retain management, liquidity and funding, (9) the denial of insurance coverage for claims made by PNC; (10) an increase in the number of customer or counterparty delinquencies, bankruptcies or defaults that could result in, among other things, increased credit and asset quality risk, a higher provision for credit losses and reduced profitability; (11) the impact, extent and timing of technological changes, the

adequacy of intellectual property protection and costs associated with obtaining rights in intellectual property claimed by others; (12) actions of the Federal Reserve Board; (13) the impact of legislative and regulatory reforms and changes in accounting policies and principles; (14) the impact of the regulatory examination process, the Corporation's failure to satisfy the requirements of written agreements with regulatory and other governmental agencies, and regulators' future use of supervisory and enforcement tools; and (15) terrorist activities and international hostilities, including the situations surrounding Iraq and North Korea, which may adversely affect the general economy, financial and capital markets, specific industries, and the Corporation.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

The exhibits listed on the Exhibit Index on page 7 of this Form 8-K are filed herewith.

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SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE PNC FINANCIAL SERVICES GROUP, INC.  
(Registrant)

Date: June 2, 2003

By: /s/ William S. Demchak

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William S. Demchak  
Vice Chairman and  
Chief Financial Officer

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EXHIBIT INDEX

- 99.1 Deferred Prosecution Agreement between PNC ICLC Corp.  
and the United States Department of Justice
- 99.2 Press Release dated June 2, 2003
- 99.3 Question and Answer Sheet

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IN THE UNITED STATES DISTRICT COURT  
FOR THE WESTERN DISTRICT OF PENNSYLVANIA

UNITED STATES OF AMERICA,	)	
	)	
Plaintiff,	)	
	)	CRIMINAL NO.
vs.	)	
	)	VIOLATION:
PNC ICLC CORP.,	)	18 U.S.C. Sec. 371
a Delaware Corporation,	)	
	)	(Conspiracy to Commit
Defendant.	)	Securities Fraud)

DEFERRED PROSECUTION AGREEMENT

Defendant PNC ICLC CORP. ("PNCICLC"), a Delaware Corporation, by its undersigned attorneys, pursuant to authority granted by its Board of Directors, and the United States Department of Justice, Criminal Division, Fraud Section (the "Fraud Section"), enter into this Deferred Prosecution Agreement ("Agreement").

1. PNCICLC accepts and acknowledges that the United States will file a criminal complaint in the United States District Court for the Western District of Pennsylvania charging PNCICLC with conspiracy to commit securities fraud, in violation of Title 18, United States Code, Section 371.

2. PNCICLC accepts and acknowledges responsibility for its behavior as set forth in the Statement of Facts attached hereto as Annex A and incorporated by reference herein by entering into this Agreement and by, among other things, the extensive remedial actions that it has taken to date, its continuing commitment of full cooperation with the Fraud Section and other governmental agencies, and its agreement to establish a restitution fund and the other undertakings it has made as set forth herein.

3. PNCICLC expressly agrees that it shall not, through its present or future attorneys, board of directors, agents, officers or employees, make any public statement contradicting any statement of fact contained in the Statement of Facts. Any such contradictory public statement by PNCICLC, its present or future attorneys, board of directors, agents, officers or employees, shall constitute a breach of this Agreement as governed by paragraph 12 of this Agreement, and PNCICLC would thereafter be subject to prosecution pursuant to the terms of this Agreement. The decision of whether any public statement by any such person contradicting a fact contained in the Statement of Facts will be imputed to PNCICLC for the purpose of determining whether PNCICLC has breached this Agreement shall be at the sole discretion of the

Fraud Section. Should the Fraud Section decide at its sole discretion to notify PNCICLC of a public statement by any such person that in whole or in part contradicts a statement of fact contained in the Statement of Facts, PNCICLC may avoid breach of this Agreement by publicly repudiating such statement within 48 hours after such notification. PNCICLC agrees that in the event that future criminal proceedings were to be brought in accordance with Paragraphs 12 and 14 of this Agreement PNCICLC will not contest the admissibility of the Statement of Facts in any such proceedings. Consistent with PNCICLC's obligations as set forth above, PNCICLC shall be permitted to raise defenses and/or assert affirmative claims in civil and regulatory proceedings relating to the matters set forth in the Statement of Facts.

4. During the term of this Agreement, PNCICLC agrees to cooperate fully with the Fraud Section, and with any other agency designated by the Fraud Section, regarding any matter about which PNCICLC has knowledge.

5. PNCICLC agrees that its cooperation, as agreed to in Paragraph 4 above, shall include, but is not limited to, the following: Completely and truthfully disclosing all information with respect to the activities of PNCICLC and its affiliates, and its present and former officers, agents, and employees, concerning all matters inquired into by the Fraud Section as may be requested by the Fraud Section; Assembling, organizing and providing on request from the Fraud Section, all documents, records, or other tangible evidence in PNCICLC's possession, custody, or control; Not asserting a claim of attorney-client or work-product privilege as to any documents, information, or testimony requested by the Fraud Section related to factual internal investigations or

contemporaneous advice given to PNCICLC concerning the conduct at issue. In making production of any such documents, PNCICLC neither expressly nor implicitly waives its right to assert any privilege with respect to the produced documents or the subject matters thereof that is available under law against non-parties to this Agreement. Using its best efforts to make available its employees to provide information and/or testimony as requested by the Fraud Section, including sworn testimony before a federal grand jury or in federal trials, as well as interviews with federal law enforcement authorities. Cooperation under this paragraph will include identification of witnesses who, to PNCICLC's knowledge, may have material information regarding the matters under investigation. Using its best efforts to make available for interviews, or for testimony, present or former PNCICLC officers, directors, and employees as requested by the Fraud Section. Providing testimony and other information deemed necessary by the Fraud Section or a court to identify or establish the original location, authenticity, or other evidentiary foundation necessary to admit into evidence documents in any criminal or other proceeding as requested by the Fraud Section. Remaining a viable institution during the duration of this agreement.

6. PNCICLC shall continue to comply with any currently in force agreements between PNCICLC and the Securities and Exchange Commission or any other federal agency as long as any such agreements shall remain in effect; as any such agreements may be amended or modified or terminated from time to time by the respective parties to said agreements.

7. PNCICLC agrees to pay a total of \$90,000,000 dollars into a fund established for victim restitution, including for the settlement of any pending shareholder

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securities law litigation, payable within 30 days of execution of this Agreement. The payment of this money into the fund shall not constitute an adjudication of any individual claim asserted or to be asserted by any victim. The fund will be administered by a third party administrator selected by PNCICLC and acceptable to the Fraud Section, who shall, at six months intervals from the execution of this agreement, and at the conclusion of the distribution of the fund, provide to the Fraud Section and PNCICLC reports identifying the name and address of each recipient of a portion of the fund and the amount of the fund distributed to each recipient. None of the proceeds of the fund shall be payable as attorney's fees. All costs of administering the victim fund are to be borne by PNCICLC. To the extent that any money in the fund is not claimed by victims within four (4) years, the remaining amount shall revert to the United States Treasury.

8. PNCICLC agrees to pay a monetary penalty of \$25,000,000 dollars to the United States Treasury, payable within 10 days of execution of this Agreement.

9. In light of PNCICLC's exceptional remedial actions to date and its willingness to (i) acknowledge responsibility for its behavior; (ii) continue its cooperation with the Fraud Section and other governmental regulatory agencies; (iii) demonstrate its future good conduct and full compliance with the securities laws and generally accepted accounting procedures; and (iv) consent to payment into a restitution fund and the assessment of the monetary penalty as set forth in paragraphs 7 and 8 above, the Fraud Section shall recommend to the Court that prosecution of PNCICLC on the criminal complaint filed pursuant to Paragraph 1 be deferred for a period of 12 months.

10. The Fraud Section agrees that if PNCICLC is in full compliance with all of its obligations under this Agreement, the Fraud Section, within thirty (30) days of the expiration of 12 months from the date of this Agreement, will seek dismissal with prejudice of the criminal complaint filed against PNCICLC pursuant to Paragraph 1 and this Agreement shall expire.

11. Should the Fraud Section determine during the term of this Agreement that PNCICLC has committed any federal crime commenced subsequent to the date of this Agreement, PNCICLC shall, in the sole discretion of the Fraud Section, thereafter be subject to prosecution for any federal crimes of which the Fraud Section has knowledge. Except in the event of a breach of this Agreement, it is the intention of the parties to this Agreement that all investigations relating to the matters set forth in the Statement of Facts that have been, or could have been, conducted by the Fraud Section prior to the date of this Agreement shall not be pursued further as to PNCICLC.

12. Should the Fraud Section determine that PNCICLC has committed a willful and knowingly material breach of any provision of this Agreement, the Fraud Section shall provide written notice to PNCICLC of the alleged breach and provide PNCICLC with a two-week period in which to make a presentation to the Assistant Attorney General in charge of the Criminal Division to demonstrate that no breach has occurred, or, to the extent applicable, that the breach is not willful or knowingly material or has been cured. The parties hereto expressly understand and agree that should PNCICLC fail to make a presentation

to the Assistant Attorney General in charge of the Criminal Division within a two-week period, it shall be

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conclusively presumed that PNCICLC is in willful and material breach of this Agreement. The parties further understand and agree that the Assistant Attorney General's exercise of discretion under this paragraph is not subject to review in any court or tribunal outside the Criminal Division of the Department of Justice. In the event of a breach of this Agreement that results in a prosecution of PNCICLC, such prosecution may be premised upon any information provided by or on behalf of PNCICLC to the Fraud Section at any time, unless otherwise agreed when the information was provided.

13. PNCICLC shall expressly waive all rights to a speedy trial pursuant to the Sixth Amendment of the United States Constitution, Title 18, United States Code, Section 3161, Federal Rule of Criminal Procedure 48(b), and any applicable Local Rules of the United States District Court for the Western District of Pennsylvania for the period that this Agreement is in effect.

14. In case of the willful and knowingly material breach of this Agreement, any prosecution of PNCICLC relating to the PAGIC transactions that are not time-barred by the applicable statute of limitations as of the date of this Agreement may be commenced against PNCICLC notwithstanding the expiration of any applicable statute of limitations during the deferred prosecution period and up to the determination of any such willful and knowingly material breach. PNCICLC's waiver of the statute of limitations is knowing and voluntary and in express reliance on the advice of counsel.

15. PNCICLC agrees that, if it sells or merges all or substantially all of its business operations as they exist as of the date of this Agreement to or into a single purchaser or group of affiliated purchasers during the term of this Agreement, it shall include in any contract for sale or merger a provision binding the purchaser/successor to the obligations described in this Agreement.

16. It is understood that this Agreement is binding on PNCICLC, the Fraud Section and the United States Attorneys Office for the Western District of Pennsylvania, but specifically does not bind any other federal agencies, or any state or local law enforcement or licensing authorities, although the Fraud Section will bring the cooperation of PNCICLC and its compliance with its other obligations under this Agreement to the attention of state and local law enforcement or licensing authorities, if requested by PNCICLC or its attorneys. This Agreement also excludes any natural persons.

17. PNCICLC and the Fraud Section agree that, upon filing of the criminal complaint in accordance with Paragraph 1, this Agreement shall be publicly filed in the United States District Court for the Western District of Pennsylvania.

18. This Agreement sets forth all the terms of the Deferred Prosecution Agreement between PNCICLC and the Fraud Section. No modifications or additions to this Agreement shall be valid unless they are in writing and signed by the Fraud Section, PNCICLC's attorneys, and a duly authorized representative of PNCICLC.

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June 2, 2003  
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DATE

ON BEHALF OF THE GOVERNMENT  
/s/ Joshua R. Hochberg  
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JOSHUA R. HOCHBERG  
Acting United States Attorney  
United States Attorneys Office  
Western District of Pennsylvania  
  
Chief, Fraud Section  
Criminal Division  
United States Department of Justice

June 2, 2003  
-----  
DATE

/s/ John D. Arterberry  
-----  
JOHN D. ARTERBERRY  
Deputy Chief, Fraud Section  
Criminal Division  
United States Department of Justice

June 2, 2003  
-----

/s/ Paul E. Pelletier  
-----

DATE PAUL E. PELLETIER  
Special Counsel for Litigation, Fraud Section  
Criminal Division  
United States Department of Justice

June 2, 2003 /s/ Michael K. Atkinson  
-----

DATE MICHAEL K. ATKINSON  
Trial Attorney, Fraud Section  
Criminal Division  
United States Department of Justice

June 2, 2003 /s/ Christine Lee  
-----

DATE CHRISTINE LEE  
Trial Attorney  
Antitrust Division  
United States Department of Justice

APPENDIX A

IN THE UNITED STATES DISTRICT COURT  
FOR THE WESTERN DISTRICT OF PENNSYLVANIA

UNITED STATES OF AMERICA, )  
)  
Plaintiff, )  
) CRIMINAL NO.  
vs. )  
) VIOLATION:  
PNC ICLC CORP., ) 18 U.S.C. Sec. 371  
a Delaware Corporation, )  
) (Conspiracy to Commit  
Defendant. ) Securities Fraud)

STATEMENT OF FACTS

1. Defendant PNC ICLC CORP. (hereinafter "PNCICLC"), is a wholly owned indirect subsidiary of THE PNC FINANCIAL SERVICES GROUP, INC. (hereinafter "PNC"). PNC is a bank holding company and is the holding company for PNC Bank, National Association ("PNC Bank") and other bank and nonbank subsidiaries. PNC operates community banking, corporate banking, real estate finance, asset-based lending, wealth management, asset management and global fund services businesses. PNC's primary geographic markets are in Pennsylvania, New Jersey, Delaware, Ohio and Kentucky. Certain of PNC's securities are registered with the United States Securities and Exchange Commission ("SEC") pursuant to Section 12(b) of the Exchange Act and listed on the New York Stock Exchange. Federal banking and securities laws and regulations required PNC to provide periodic regulatory and financial reports concerning its operations and conditions.

2. Prior to and throughout 2001, PNC and PNCICLC reviewed various strategies to manage the volatility and improve the quality of the assets on PNC's balance sheet. During 2001, in furtherance of this strategy, PNC and PNCICLC entered into three transactions (each a "PAGIC transaction") involving a total of \$762 million in assets for the purpose of transferring certain loans and venture capital assets from PNC's balance sheet to other entities (each a "PAGIC entity"). PNC engaged in the PAGIC transactions through PNCICLC, which was the owner of PNC's interests in each of the PAGIC entities. The PAGIC entities were specifically created by PNCICLC for the purpose of the PAGIC transactions and were intended to be treated by PNC and PNCICLC as off-balance sheet "special purpose entities" or "SPEs" under applicable accounting principles commonly referred to as "Generally Accepted Accounting Principles" or "GAAP." PNC's ability under GAAP to account for the PAGIC entities as off-balance sheet SPEs, i.e., as if PNC no longer owned the assets transferred to those entities, depended upon whether or not the transactions complied with the GAAP requirements for nonconsolidation. At the time PNCICLC entered into the PAGIC transactions, there were three main GAAP requirements for nonconsolidation and sales recognition by the sponsor or transferor to be appropriate: (1) the

majority owner of the SPE must be an independent third party who has made a substantive capital investment in the SPE, (2) the independent third party must have control of the SPE, and (3) the majority owner must have substantive risks



and rewards of ownership of the SPE.

3. Each PAGIC transaction violated the GAAP requirements for nonconsolidation of SPEs. Therefore, PNC's second and third quarter 2001 regulatory reports and financial statements did not conform with GAAP for such off-balance sheet treatment. PNC improperly treated the transfers of assets to the PAGIC entities as sales qualifying for nonconsolidation, when it should have included the assets of the PAGIC entities in PNC's regulatory reports and financial statements, i.e., consolidated those assets into those statements and reports. This failure to consolidate, combined with the requirement that the PAGIC assets be characterized as "held for sale" assets when consolidated on PNC's balance sheet, resulted, among other things, in (a) a material overstatement of PNC's earnings per share for the third quarter of 2001 by 21.4%, (b) a material understatement of PNC's fourth quarter 2001 loss per share of 25% in a January 3, 2002 and January 17, 2002 press release, (c) a material overstatement of 2001 earnings per share by 52% in a January 17, 2002 press release, (d) material understatements of the amounts of PNC's nonperforming loans and nonperforming assets, and (e) material overstatements of the amounts of reductions in loans held for sale and overstatements in the amounts of securities available for sale.

4. The PAGIC structure was designed and marketed by a large insurance company (the "Insurance Company") and a national accounting firm (the "National Accounting Firm") as an allegedly innovative structure for permitting off-balance sheet treatment of troubled assets. It was originally designed by such firms in this context to change the character of a pool of assets as reflected on a company's books from loans to securities and to permit changes in the valuation of those assets (either mark-to-market valuations, impairments or additional reserves) to be reflected as an adjustment to equity in the balance sheet (a "below-the-line" adjustment). This would have the effect of reducing earnings volatility because the changes period-to-period in valuation of the underlying assets would not flow through to the company's income statement. The National Accounting Firm also served as both PNC's external and internal auditor during the period in which the three PAGIC transactions were entered into.

5. Each PAGIC transaction involved the creation of two limited liability companies, one of which sold a substantial ownership interest (97%) to PNCICLC and the remaining interest (3%) to a subsidiary of the Insurance Company. With funds received in exchange for its shares, each PAGIC entity purchased loans or venture capital assets from PNC; some assets were acquired directly in exchange for shares. Many of the loans and assets transferred by PNCICLC to the SPEs were volatile, troubled, or nonperforming.

6. In each of the second, third and fourth quarters of 2001, PNCICLC entered into a PAGIC transaction. The first PAGIC transaction ("PAGIC I") closed on June 28, 2001 (two days before the end of PNC's second quarter). The second PAGIC transaction ("PAGIC II") closed on September 27, 2001 (three days before the end of PNC's third quarter). The third PAGIC transaction ("PAGIC III") closed on November 30, 2001. The PAGIC III transaction was entered into by PNC Venture Corp. ("PNC Venture"), a separate indirect wholly owned subsidiary of PNC. PNCICLC subsequently acquired from PNC Venture all of the assets and related liabilities (including with respect to any conduct of PNC Venture in connection with the PAGIC III

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transaction) associated with the PAGIC III transaction. All references to PNCICLC herein include reference to PNCICLC as the successor in interest to PNC Venture with respect to its conduct in connection with the PAGIC III transaction. In its original regulatory and financial reports filed with the Federal Reserve Board and the SEC, respectively, for the second and third quarters of 2001, PNC treated the PAGIC entities as valid SPEs and applied the accounting treatment that the National Accounting Firm had indicated would be applicable to valid SPEs - i.e., a de-consolidation and reclassification of the underlying PAGIC assets.

7. On January 29, 2002, PNC issued a press release announcing revisions to second and third quarter 2001 financial statements to reflect consolidation of the PAGIC transactions, with the underlying assets being treated as "held for sale" in the consolidation. The press release disclosed that consolidation would reduce 2001 net income by \$155 million, equivalent to an overstatement of earnings per share by 38%, from \$1.91 per share to \$1.38 per share. The press release also disclosed that nonperforming assets would increase by approximately \$125 million to approximately \$393 million. The price of PNC's shares dropped 9.4% that day from \$61.87 per share to \$56.08 per share.

PAYMENT OF A DE FACTO STRUCTURING FEE OR BALANCE SHEET RENTAL FEE MEANT THE PAGIC TRANSACTIONS HAD TO BE CONSOLIDATED ON PNC'S FINANCIAL STATEMENTS AND REGULATORY REPORTS.

8. The PAGIC transactions failed to satisfy GAAP's requirement for non-consolidation of SPEs that the independent third party, i.e., the Insurance

Company, make and retain a substantive capital investment in the SPEs and, therefore, the SPEs should have been consolidated on PNC's financial statements and regulatory reports. At the time of the PAGIC transactions, three percent was the minimally acceptable level under GAAP to indicate a substantive capital investment sufficient for nonconsolidation, though a greater investment may be necessary depending on the facts and circumstances. The payment of a "structuring" fee or any other payments such as a "balance sheet rental" fee that reflected an implicit return of capital to the Insurance Company would need to be netted against the capital investment that was being made by the Insurance Company in the PAGIC entities. Because each PAGIC structure involved only a minimum 3% investment by the Insurance Company, any such fees or payments required consolidation of the SPEs under GAAP on PNC's financial statements and regulatory reports.

9. PNCICLC and the Insurance Company agreed to have the SPEs pay fees to the Insurance Company, characterizing those fees as "management fees," while PNCICLC knew that the "management fees" included compensation related to matters beyond the management services to be provided to the PAGIC entities by the Insurance Company. PNCICLC knew that this de facto "structuring fee" or "balance sheet rental fee" reduced the Insurance Company's capital investment below the minimally acceptable level under GAAP needed to qualify as a substantive capital investment for nonconsolidation. PNCICLC understood that what was characterized as "management fees" included payments to the Insurance Company to compensate the Insurance Company for, among other things, the costs and burdens associated with the consolidation of assets on the Insurance Company's balance sheet.

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10. To obtain the off-balance-sheet treatment of the PAGIC entities, PNCICLC and the Insurance Company did not disclose the existence of a de facto structuring fee or a balance sheet rental fee, and executed documents in each of the PAGIC transactions that characterized the fees as "management fees."

PNC'S RETENTION OF THE SUBSTANTIVE RISKS AND REWARDS OF OWNERSHIP OF THE SPEs MEANT THE PAGIC TRANSACTIONS HAD TO BE CONSOLIDATED ON PNC'S FINANCIAL STATEMENTS AND REGULATORY REPORTS.

11. The PAGIC transactions also did not comply with another GAAP requirement for nonconsolidation, namely that the Insurance Company, as the majority owner of the SPEs, have the substantive risks and rewards of ownership in the SPEs. Therefore, the SPEs should have been consolidated on PNC's financial statements and regulatory reports. Before entering into the PAGIC transactions, both the Insurance Company and PNCICLC knew that the Insurance Company, as the majority owner of the SPE, must have substantive risks and rewards of ownership of the assets of the SPEs. PNCICLC and the Insurance Company, however, knew that the PAGIC structures included financial terms that in substance resulted in PNC retaining substantive risk and rewards of changes in the underlying values of the assets held by the PAGIC entities.

12. PNCICLC contacted a New York law firm (the "New York Law Firm") regarding the issuance of a "true sale" opinion for the first PAGIC transaction, but after this firm expressed initial concerns about the firm's ability to deliver a "true sale" opinion PNCICLC replaced the New York Law Firm as the requested author with a Pittsburgh law firm (the "Pittsburgh Law Firm").

13. In PAGIC III, PNCICLC engaged a Washington, D.C. law firm (the "Washington, D.C. Law Firm") to help structure the transaction as well as initially to provide a "true sale" opinion for the transaction. The Washington, D.C. law firm noted in a memorandum that a main objective of the transaction was to assure that PNC derived the greatest portion of the economic value of the deal and the Insurance Company's participation was primarily fee, not equity, driven. The Pittsburgh Law Firm ultimately was retained to provide and did provide the true sale opinion for PAGIC III.

14. PNCICLC knew that PNC, rather than the Insurance Company, retained the substantial risks and rewards of ownership of the contributed assets. In particular, PNCICLC knew that the Insurance Company had no substantive exposure to declines in the values of the PAGIC entities because the Insurance Company's investments in those entities were tied substantively to the performance of highly-rated debt obligations or demand deposits and time deposits with maturities of one month or less. PNCICLC also knew that PNC, rather than the Insurance Company, would retain substantially all of the economic upside of its investment in the assets transferred into the SPE by PNC through PNC's right to convert its preferred interests into common stock.

15. Further, PNCICLC knew the so-called "management fees" effectively guaranteed the Insurance Company against a risk of loss of principal in the SPEs because the Insurance Company would receive fees in less than five years of closing the PAGIC transactions that exceeded the Insurance Company's capital investment.

## REGULATORY MATTERS.

16. The PAGIC transactions were reviewed by the Federal Reserve Bank of Cleveland and the Federal Reserve Board (the "Federal Reserve") as part of the Federal Reserve's regulatory oversight of PNC. The PAGIC transactions were also reviewed by the Office of the Comptroller of the Currency ("OCC") to evaluate the impact to the bank as part of the OCC's regulatory oversight of PNC's principal subsidiary, PNC Bank. As part of those agencies' review of the PAGIC transactions, PNC submitted closing binders on the PAGIC transactions to the Federal Reserve and the OCC. Included in those closing binders were guidance letters obtained from the National Accounting Firm opining that non-consolidation of the PAGIC entities was appropriate under GAAP.

17. In PAGIC I, which closed on June 28, 2001, the National Accounting Firm dated its guidance letter as June 21, 2001. Although PNC had a draft of the guidance letter from the National Accounting Firm before PAGIC I closed, PNC did not obtain a final, signed guidance letter from the National Accounting Firm until on or around July 18, 2001. PNC submitted closing binders on PAGIC I to the Federal Reserve and the OCC on or around September 7, 2001 and September 14, 2001, respectively. PNC and the National Accounting Firm did not disclose to the Federal Reserve or the OCC that the guidance letter for PAGIC I had been back-dated to reflect a date prior to the closing of that transaction.

18. In PAGIC II, which closed on September 27, 2001, the National Accounting Firm back-dated its guidance letter to September 21, 2001. PNC did not obtain a first draft of the guidance letter for PAGIC II from the National Accounting Firm until several months after the closing of PAGIC II.

19. In PAGIC III, which closed on November 30, 2001, the National Accounting Firm back-dated its guidance letter to November 29, 2001. The National Accounting Firm did not finalize the guidance letter on PAGIC III until on or around December 12, 2001.

20. On October 23, 2001, the Federal Reserve sent a letter to PNC expressing concern about the accounting treatment of the PAGIC I and PAGIC II transactions and requesting additional information from PNC on those transactions. On October 24, 2001, Examiners of the Federal Reserve met with PNC to discuss third quarter financial results and regulatory matters. At that meeting, PNC committed to the Federal Reserve to discuss the issues raised in the October 23, 2001 letter before completing any additional PAGIC transactions. PNC, however, subsequently failed to properly inform the Federal Reserve as to the status of a potential third PAGIC transaction. PNC decided in mid-November 2001 to accelerate the closing of PAGIC III from December 31, 2001 to November 30, 2001. PNC did not provide the Federal Reserve with prior or contemporaneous notice of the closing of PAGIC III, and did not inform the Federal Reserve until December 4, 2001 that PAGIC III had closed.

21. In its October 23, 2001 letter, the Federal Reserve requested that PNC "[p]rovide relevant cites in GAAP and other information (e.g., opinion letter from external accountants, etc.) that are available to support PNC's proposed accounting treatment." Drafts of PNC's proposed responses

included references to the fact that PNC had not yet obtained guidance letters from the National Accounting Firm for PAGIC II and PAGIC III. The final version of PNC's response, however, stated only that the National Accounting Firm's opinion on PAGIC II and PAGIC III was consistent with its opinion letter issued in connection with PAGIC I.

22. After submitting its written response to the Federal Reserve's October 23, 2001 letter, PNC submitted closing binders to the Federal Reserve for both the PAGIC II and PAGIC III transactions, including the back-dated guidance letters from the National Accounting Firm for those transactions. PNC had previously provided a copy of the Federal Reserve's October 23, 2001 letter to the National Accounting Firm and the National Accounting Firm actively participated in the review of PNC's response to the letter. The National Accounting Firm knew PNC intended to submit the guidance letters on the PAGIC transactions to the Federal Reserve as part of the Federal Reserve's investigation into the appropriate accounting treatment for the PAGIC transactions. Neither PNC nor the National Accounting Firm informed the Federal Reserve that the guidance letters for PAGIC II and III had been back-dated.

## PNC'S JANUARY 17, 2002 PRESS RELEASE

23. On January 3, 2002, PNC pre-released its earnings for the fourth quarter of 2001. In that press release, PNC announced that it had completed the strategic repositioning of its banking businesses that it had begun in 1998. The amount of nonperforming loans announced by PNC on January 3, 2002 did not include \$172 million in nonperforming loans transferred into the PAGIC entities. PNC also

announced on January 3, 2002 that it would release on January 17, 2002 its earnings for the fourth quarter and full-year 2001.

24. On January 11, 2002, in order to provide PNC with sufficient time to consolidate the PAGIC transactions on to PNC's financial statements before PNC's scheduled earnings release on January 17, 2002, the Federal Reserve informed PNC that the Federal Reserve had reached the conclusion that PNC's accounting treatment for the PAGIC transactions was incorrect under GAAP and that PNC must consolidate the PAGIC transactions in its regulatory reports for the second, third, and fourth quarters of 2001. The Federal Reserve also informed PNC that the Federal Reserve had discussed its decision to require consolidation with the SEC, including the SEC's Office of Chief Accountant.

25. On January 13, 2002, the National Accounting Firm recommended to PNC that PNC delay issuance of its earnings release scheduled for January 17, 2002 until PNC had an opportunity to assess fully the impact of consolidation on PNC's financial reports and to address the appropriate accounting treatment for the PAGIC transactions with the SEC's Office of Chief Accountant.

26. On January 15, 2002, in a meeting between representatives of the Federal Reserve and PNC, the Federal Reserve informed PNC, again, that PNC's accounting treatment for the PAGIC transactions was incorrect under GAAP and that PNC should consolidate the PAGIC transactions for financial reporting purposes. The Federal Reserve informed PNC that, consistent with federal banking laws, both regulatory accounting principles ("RAP") and GAAP required consolidation of the PAGIC entities.

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27. On January 17, 2002, PNC issued a press release announcing its results for the fourth quarter and year-end 2001. Notwithstanding the advice from the National Accounting Firm to delay the release, PNC did not consolidate the PAGIC transactions on its financial statements as reported in its press release issued on January 17, 2002. Instead, PNC stated earnings per share for 2001 were \$1.91, and that its fourth quarter loss would be (\$1.15) per share. PNC announced it had reduced its institutional loan portfolio through, among other things, "sales of institutional loans to subsidiaries of a third party financial institution." PNC announced that "venture capital assets were reduced to \$424 million through a sale to a subsidiary of the same institution." The press release presented a table setting forth PNC's nonperforming assets by type, including \$268 million in nonperforming assets as of December 31, 2001. In a footnote, PNC stated that "excluded from the above table and reflected below are . . . certain assets sold to subsidiaries of a third party financial institution. These assets will be included in nonperforming assets in PNC's bank holding company regulatory filings." None of the additional disclosures contained in the footnote or elsewhere in the release relating to the regulatory filings received any reported market or analyst attention in the period following the release and prior to the January 29, 2002 press release.

28. PNC's January 17, 2002 press release did not disclose that the financial information it set forth did not comply with GAAP, i.e., nonconsolidation and off-balance sheet treatment of the PAGIC transactions was inappropriate under GAAP because the Insurance Company did not maintain the minimum required capital investment in the SPEs, and did not share in the substantive risks and rewards of those SPEs.

29. The January 17, 2002 press release also implied that PNC could effectively obtain off-balance sheet treatment of nonperforming assets for financial reporting purposes (GAAP), but could not obtain off-balance sheet treatment of those assets for regulatory reporting purposes (RAP). In fact, PNC knew there was no distinction between RAP and GAAP. As a result, the January 17, 2002 press release did not disclose that \$172 million worth of troubled assets would have to be incorporated back onto PNC's balance sheet upon consolidation. The release also failed to acknowledge that the Federal Reserve had identified accounting defects in the PAGIC transactions.

30. The release also did not disclose that consolidation of the SPEs as required by GAAP might result in a material charge to PNC's year-end earnings for 2001. As of January 17, 2002, PNC hoped to convince the SEC, in essence, to overrule the Federal Reserve on the appropriate accounting treatment for the PAGIC transactions and PNC had asked that the National Accounting Firm set up a meeting among PNC, the National Accounting Firm and the SEC's Office of Chief Accountant to discuss the accounting treatment. PNC also held what turned out to be an incorrect view of the likely impact of consolidation (namely, that the PAGIC assets would come back on PNC's books as portfolio assets rather than in a "held for sale" category, which would not have a material impact on PNC's financial statements). PNC, however, knew before it issued the January 17, 2002 press release that consolidation of the PAGIC entities on PNC's financial statements could potentially result in a material charge to PNC's year-end earnings for 2001 if the PAGIC assets came back on PNC's books in a "held for sale" category.

31. There are other matters known to the parties that are not included in this



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PNCICLC, A PNC NON-BANK SUBSIDIARY, SIGNS AGREEMENT WITH DEPARTMENT OF JUSTICE  
 TO DEFER PROSECUTION RELATING TO 2001 PAGIC TRANSACTIONS

AGREEMENT BRINGS CLOSURE TO GOVERNMENTAL INVESTIGATIONS AND INQUIRIES  
 APPLICABLE TO PNC AND AFFILIATES STEMMING FROM THE 2001 PAGIC TRANSACTIONS

PITTSBURGH, June 2, 2003 -- The PNC Financial Services Group, Inc. (NYSE: PNC) today announced that one of its non-bank subsidiaries, PNC ICLC Corp., has entered into a deferred prosecution agreement with the U.S. Department of Justice relating to PNCICLC's actions in connection with the PAGIC transactions that were entered into in 2001. As previously disclosed, the PAGIC transactions were the subject of a July 2002 consent order entered into between PNC and the United States Securities and Exchange Commission and the subject of a separate written agreement that was entered into between PNC and the Federal Reserve. The agreement brings closure to the main governmental investigations and inquiries applicable to PNC and its affiliates stemming from the 2001 transactions. A copy of the agreement has been filed by PNC on a Current Report on Form 8-K and is available on the Company's website at [www.pnc.com](http://www.pnc.com) and on the SEC's website at [www.sec.gov](http://www.sec.gov).

Under the terms of the agreement entered into between PNCICLC and the Department of Justice, PNCICLC has agreed to establish a \$90 million restitution fund to satisfy shareholder claims stemming from the PAGIC transactions. The fund will be administered by former Federal Judge Arlin Adams. PNCICLC has also agreed to pay a \$25 million monetary penalty to the government.

The agreement was entered into by the Department of Justice in light of PNCICLC's exceptional remedial steps to date, and its willingness to acknowledge responsibility for its actions in connection with the PAGIC transactions through the undertakings set forth in the agreement and through its continued cooperation with the government regarding these matters. The agreement has also been designed to avoid the imposition of adverse collateral consequences relating to PNC's important banking, brokerage, asset management, fiduciary and processing businesses, which businesses had no improper involvement in any of the conduct associated with PNCICLC and the PAGIC transactions.

Under the agreement between PNCICLC and the Department of Justice, the department will file a complaint against the subsidiary, but will seek dismissal of that complaint after 12 months if PNCICLC complies with the agreement.

"PNC regrets its involvement in the PAGIC transactions," stated James E. Rohr, chairman and chief executive officer of PNC. "As described in the PNC Statement of Principles issued in August 2002, the PNC Board and PNC management are fully committed to maintaining the highest standards of conduct throughout the PNC organization, and PNC will not tolerate close-to-the-line opinions in accounting matters or otherwise. The PNC Board and management team have fully cooperated with all governmental investigations with respect to PAGIC and we have pledged our full continuing cooperation with the government in connection with its ongoing investigation of others."

"The agreement between PNCICLC and the Department of Justice brings an important closure to PNC's involvement in the PAGIC transactions," added George Davidson, a PNC director and chairman of the PNC Special Regulatory Affairs and Oversight Committee. "We have made substantial progress in implementing improved governance and risk management practices at PNC in the aftermath of PAGIC and in changing the corporate culture. Our regulators have acknowledged this progress and our Board remains united in its support of Mr. Rohr and his management team and the exceptional efforts they have made in this regard."

PNC will take a pre-tax charge to earnings of \$120 million in the second quarter of 2003 reflecting the agreement with the Department of Justice and related legal expenses.

The PNC Financial Services Group, Inc., headquartered in Pittsburgh, is one of the nation's largest financial services organizations, providing regional

community banking; wholesale banking, including corporate banking, real estate finance and asset-based lending; wealth management; asset management; and global fund services.

#### FORWARD-LOOKING STATEMENTS

This news release contains, and other statements that the Corporation may make may contain, forward-looking statements with respect to the Corporation's outlook or expectations for earnings, revenues, expenses, capital levels, asset quality or other future financial or business performance, strategies or expectations, or the impact of legal, regulatory or supervisory matters on the Corporation's business operations or performance. Forward-looking statements are typically identified by words or phrases such as "believe," "feel," "expect," "anticipate," "intend," "outlook," "estimate," "forecast," "project," "position," "target," "assume," "achievable," "potential," "strategy," "goal," "objective," "plan," "aspiration," "outcome," "continue," "remain," "maintain," "seek," "strive," "trend," and variations of such words and similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may," or similar expressions. The Corporation cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and the Corporation assumes no duty and does not undertake to update forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

The factors discussed elsewhere in this news release and the following factors, among others, could cause actual results to differ materially from those anticipated in forward-looking statements or from historical performance: (1) changes in political, economic or industry conditions, the interest rate

environment or financial and capital markets, which if adverse could result in: a deterioration in credit quality, increased credit losses, and increased funding of unfunded loan commitments and letters of credit; an adverse effect on the allowances for credit losses and unfunded loan commitments and letters of credit; a reduction in demand for credit or fee-based products and services; a reduction in net interest income, value of assets under management and assets serviced, value of private equity investments and of other debt and equity investments, value of loans held for sale or value of other on-balance sheet and off-balance sheet assets; or changes in the availability and terms of funding necessary to meet PNC's liquidity needs; (2) relative and absolute investment performance of assets under management; (3) the introduction, withdrawal, success and timing of business initiatives and strategies, decisions regarding further reductions in balance sheet leverage, the timing and pricing of any sales of loans held for sale, and PNC's inability to realize cost savings or revenue enhancements, or to implement integration plans relating to or resulting from mergers, acquisitions, restructurings and divestitures; (4) customer borrowing, repayment, investment and deposit practices and their acceptance of PNC's products and services; (5) the impact of increased competition; (6) how PNC chooses to redeploy available capital, including the extent and timing of any share repurchases and investments in PNC businesses; (7) the inability to manage risks inherent in PNC's business; (8) the unfavorable resolution of legal proceedings or government inquiries; the impact of increased litigation risk from recent regulatory and other governmental developments; and the impact of reputational risk created by recent regulatory and other governmental developments on such matters as business generation and retention, the ability to attract and retain management, liquidity and funding, (9) the denial of insurance coverage for claims made by PNC; (10) an increase in the number of customer or counterparty delinquencies, bankruptcies or defaults that could result in, among other things, increased credit and asset quality risk, a higher provision for credit losses and reduced profitability; (11) the impact, extent and timing of technological changes, the adequacy of intellectual property protection and costs associated with obtaining rights in intellectual property claimed by others; (12) actions of the Federal Reserve Board; (13) the impact of legislative and regulatory reforms and changes in accounting policies and principles; (14) the impact of the regulatory examination process, the Corporation's failure to satisfy the requirements of written agreements with regulatory and other governmental agencies, and regulators' future use of supervisory and enforcement tools; and (15) terrorist activities and international hostilities, including the situations surrounding Iraq and North Korea, which may adversely affect the general economy, financial and capital markets, specific industries, and the Corporation.

The Corporation's SEC reports, accessible on the SEC's website at [www.sec.gov](http://www.sec.gov) and on PNC's website at [www.pnc.com](http://www.pnc.com), contain additional information about the foregoing factors and identify additional factors that can affect the results anticipated in forward-looking statements.





QUESTIONS AND ANSWERS RELATING TO PNC'S RECENT PRESS RELEASE  
REGARDING THE DEFERRED PROSECUTION OF PNCICLC

## WHAT IS PAGIC?

The PAGIC transactions were a series of transactions that PNC engaged in during 2001 in connection with its efforts to manage the volatility and improve the quality of assets on its balance sheet. In three separate transactions executed during the second, third and fourth quarters of 2001, respectively, PNC transferred approximately \$592 million in loan assets (in PAGIC I and II collectively) and approximately \$170 million in venture capital assets (in PAGIC III) to newly formed special purpose entities that were created by a subsidiary of PNC together with a large insurance company for the purpose of obtaining off-balance sheet treatment for such assets.

## WHERE DID THE IDEA FOR PAGIC ORIGINATE FROM?

The PAGIC structure was designed and marketed by a large insurance company and a national accounting firm as an innovative structure for permitting off-balance sheet treatment of troubled assets. The National Accounting Firm was also PNC's external and internal auditor at the time.

## WHO IS PNCICLC?

PNCICLC is an indirect wholly-owned non-bank subsidiary of PNC that engaged in the structuring and execution of the PAGIC transactions together with the Insurance Company. PNCICLC engaged directly in the PAGIC I and PAGIC II transactions. The PAGIC III transaction was entered into by a separate indirect wholly-owned non-bank subsidiary of PNC, which has subsequently transferred all of its assets and liabilities relating to PAGIC III to PNCICLC. PNCICLC's assets presently include PNC's remaining interests in the assets contributed to the PAGIC entities, cash and cash equivalents and certain tax assets.

## WHAT WAS THE BASIC CONCEPT OF THE PAGIC STRUCTURE?

The PAGIC structure was designed to facilitate special purpose entity (SPE) treatment for a pool of assets, thus changing the character of such assets, in the case of loans, from loans to securities on a company's books and permitting changes in the valuation of such assets (either mark-to-market valuations, impairments or additional reserves) to be reflected as an adjustment to equity in the balance sheet (a "below-the-line" adjustment). This latter feature was based on the inclusion of a 30-year zero-coupon U.S. Treasury security within the pool of assets held by the special purpose entity.

The Insurance Company acquired securities representing a purported 3% interest in the SPE and giving the Insurance Company certain control rights over the SPE. The Insurance Company received a fixed annual fee for the first 5 years of operation from the SPE, payable in advance on the first day of the year, and a fee equal to 0.75% of assets thereafter, in PAGIC I, with similar fee structures in PAGIC II and PAGIC III.

## WHY DID THE PAGIC TRANSACTIONS FAIL TO SATISFY THE REQUIREMENTS FOR DECONSOLIDATION UNDER GAAP?

At the time PNCICLC entered into the PAGIC transactions, there were three main GAAP requirements for nonconsolidation and sales recognition by the sponsor or transferor: (1) the majority owner of the SPE must be an independent third party who has made a substantive capital investment in the SPE, (2) the independent third party must have control of the SPE, and (3) the majority owner must have substantive risk and rewards of ownership of the SPE.

As determined by the SEC in its July 2002 enforcement action, the PAGIC transactions did not satisfy the requirement that the majority owner (namely, the Insurance Company) make a substantive capital investment in the SPE. The SEC determined that the structure of the fees paid to the Insurance Company under the transaction documents had the substantive effect of making the Insurance Company's investment less than the minimum 3% investment required under the then applicable GAAP requirements. In addition, the Statement of Facts attached to the deferred prosecution agreement states that PNCICLC knew that the existence of a de facto "structuring fee" or "balance sheet rental fee" reduced the Insurance Company's capital investment below the minimally accepted 3% level under GAAP required for SPE treatment.

Also as determined by the SEC, the majority owner (namely, the Insurance Company) did not have substantive risk and rewards of ownership of the PAGIC SPEs. The SEC determined that the provisions of the agreements for the PAGIC transactions provided that the Insurance Company's investment was substantially

protected from loss by investment grade assets purchased with proceeds of its investments and that PNC and not the Insurance Company enjoyed the substantive benefit of improvements in the value of the PAGIC assets through its right to convert its preferred interests into common stock. In addition, the Statement of Facts attached to the deferred prosecution agreement states that PNCICLC and the Insurance Company knew that the PAGIC structures included financial terms that in substance resulted in PNC retaining substantive risks and rewards of changes in the underlying values of the assets held by the PAGIC entities.

#### WHAT ALLEGED WRONGS DID PNCICLC COMMIT?

The complaint filed by the United States in connection with the deferred prosecution agreement charges PNCICLC with conspiracy to commit securities fraud. The Statement of Facts attached to the deferred prosecution agreement sets forth the government's factual predicate for the complaint. In the Statement of Facts, the government has stated that PNCICLC had knowledge of certain deficiencies in the structure of the PAGIC transactions and that PNCICLC proceeded with the PAGIC transactions in concert with others despite such knowledge. The Statement of Facts does not preclude a finding that others outside of PNC had knowledge of these facts and share in a significant portion of the responsibility for the PAGIC matters. PNCICLC did not act alone in connection with the PAGIC transactions and PNC has agreed to cooperate fully with the government in connection with its ongoing investigation of others.

#### WHY IS A DEFERRED PROSECUTION BEING BROUGHT AGAINST PNCICLC AT THIS TIME?

The deferred prosecution agreement brings closure to the main governmental investigations and inquiries stemming from the 2001 PAGIC transactions. In July 2002, PNC entered into a consent

order with the SEC and separately entered into a written agreement with the Federal Reserve relating to the PAGIC matters and with the Office of the Comptroller of the Currency relating to certain supervisory matters involving PNC Bank. PNC has cooperated fully with the SEC, Federal Reserve and OCC pursuant to the terms of those agreements and has implemented extensive remedial actions to address deficiencies which the regulators (and PNC itself) have identified regarding PNC's regulatory relations, risk management, corporate governance and culture in the context of the PAGIC transactions and otherwise. The government has characterized PNC's remedial actions as "exceptional" and PNC's banking regulators have acknowledged PNC's exceptional progress by restoring PNC's well-managed status in near record time.

PNCICLC and the government have recognized that a further public acknowledgement of PNCICLC's responsibility for its conduct was appropriate in the context of the deferred prosecution agreement.

#### WHAT IS A DEFERRED PROSECUTION AGREEMENT?

Pursuant to the terms of the deferred prosecution agreement, the United States will file a complaint in the United States District Court for the Western District of Pennsylvania charging PNCICLC with conspiracy to commit securities fraud, in violation of Title 18, United States Code, Section 371. However, the Department of Justice will recommend to the Court that the prosecution of PNCICLC be deferred for a period of twelve months in light of PNCICLC's exceptional remedial actions to date and its willingness to acknowledge responsibility for its behavior, continue its cooperation with the Department of Justice and other governmental regulatory agencies, demonstrate its future good faith conduct and full compliance with the securities laws and generally accepted accounting principles and consent to the establishment of a restitution fund and the assessment of a monetary penalty as further described below.

The Department of Justice has further agreed that if PNCICLC is in full compliance with all of its obligations under the deferred prosecution agreement, the Department of Justice will seek dismissal with prejudice of the complaint within 30 days of the twelve month anniversary of the agreement and at such time the agreement shall be terminated.

Absent a breach of the agreement by PNCICLC, there will be no adjudication of wrongdoing against PNCICLC. The deferred prosecution agreement does not constitute an acknowledgement of guilt, but does reflect a recognition of responsibility by PNCICLC for its conduct and a commitment by PNCICLC to undertake a variety of remedial steps, such as the payment of restitution and monetary penalties, continued cooperation with the government in its ongoing investigations of others and demonstrations of future good faith conduct and full compliance with the securities laws and generally accepted accounting principles.

#### WHAT ARE THE CONSEQUENCES OF THE DEFERRED PROSECUTION AGREEMENT FOR PNCICLC?

Under the terms of the deferred prosecution agreement, PNCICLC accepts and acknowledges responsibility for its behavior in connection with the PAGIC transactions and agrees to cooperate fully with the Department of Justice in its

ongoing investigation of others. PNCICLC has agreed to pay a total of \$90 million to establish a fund for victim restitution, including for the settlement of any pending shareholder securities litigation, payable within 30 days of the date of the agreement. The fund will be administered by former Federal Judge Arlin Adams. PNCICLC has also agreed to pay a

monetary penalty of \$25 million to the United States Treasury within 10 days of the date of the agreement.

Any breach of the deferred prosecution agreement by PNCICLC would have serious consequences. PNCICLC intends to fully comply with all obligations under the deferred prosecution agreement.

#### WHAT COLLATERAL CONSEQUENCES ARE THERE FOR PNC AND ITS OTHER AFFILIATES?

The deferred prosecution agreement has been designed to avoid the imposition of adverse collateral consequences relating to PNC's important banking, brokerage, asset management, fiduciary and processing businesses, which businesses had no improper involvement in the conduct associated with PNCICLC and the PAGIC transactions. While the deferred prosecution agreement has been entered into by PNCICLC with the objective of avoiding material adverse financial consequences for PNC or its affiliates beyond the funding responsibilities related to the restitution fund and the monetary penalty called for under the agreement, PNC may incur additional expenses and collateral costs associated with PNCICLC's entry into the agreement, the impact of which can not be fully assessed at this time.

In addition, as previously disclosed, there is a putative class action lawsuit pending against PNC relating to the PAGIC transactions. There can be no assurance as to the impact or effect that PNCICLC's entry into the deferred prosecution agreement may have on the outcome of this lawsuit or related claims. PNC believes that it has substantial defenses against such claims, including through the assertion of claims against other third parties. The \$90 million that PNCICLC has committed to fund for victim restitution under the deferred prosecution agreement will be available to satisfy PNC shareholder claims including for the settlement of the pending shareholder securities law litigation.

#### ARE OTHER PNC AFFILIATES EXPOSED TO ADDITIONAL GOVERNMENTAL ACTIONS?

Absent a breach by PNCICLC of its commitments and obligations under the deferred prosecution agreement or by PNC of its related commitments of cooperation with the government's ongoing investigations of others, the Department of Justice, Criminal Division, Fraud Section has committed that it will not bring further actions against PNC or its affiliates relating to the subject matters of its ongoing investigations as to others. The SEC has also indicated that its ongoing investigation continues as to others. While PNC and PNC Bank remain subject to the regular ongoing supervision of their banking regulators and remain subject to the current written agreements that exist with such regulators, PNC believes that it has satisfied all material regulatory concerns relating to the PAGIC matters in the course of its conduct to date under the written agreements and does not expect there to be any additional supervisory actions brought by such regulators against PNC relating to the PAGIC matters.

PNC and its affiliates are also subject to regulation and supervision by a broad range of state and federal governmental agencies, and, while PNC is aware of no additional pending investigations or inquiries relating to the PAGIC matters before any such governmental bodies at the present time, other than the Department of Labor investigation referenced in PNC's prior SEC filings, there can be no assurances that such additional inquiries will not occur as a result of the deferred prosecution agreement or otherwise. PNC does not expect, however, that any such inquiries or investigations

would result in additional material adverse consequences for PNC or its affiliates in light of the comprehensive remedial actions that PNC and PNCICLC have already taken in response to the PAGIC matters.

#### WHAT IS EXPECTED IN CONNECTION WITH THE ONGOING INVESTIGATIONS OF OTHERS?

PNCICLC did not act alone in connection with the PAGIC transactions, and PNCICLC and PNC have each agreed to cooperate fully with the government in connection with its ongoing investigation of others. It is premature at this stage for PNC to comment on what course the government's ongoing investigations of others may take. The scope of PNCICLC's commitment is set forth in the deferred prosecution agreement and PNC has made an equally broad commitment of ongoing cooperation. PNC believes that certain non-PNC affiliated parties share a large part of the responsibility for the actions taken in connection with the PAGIC transactions, and PNC has preserved its rights to pursue claims relating to the PAGIC matters against other third party actors. No determinations have yet been made concerning what actions if any PNC might bring against such third party actors.

WHAT DOES THE DEFERRED PROSECUTION AGREEMENT MEAN BY ITS REFERENCE TO "EXTENSIVE REMEDIAL ACTIONS"?

Over the last 18 months, the entire PNC organization has taken a number of steps to enhance its corporate governance and risk management practices. Among the key steps are the following:

- o PNC has added new board members who provide significant financial and industry expertise.
- o PNC has added a number of talented and experienced executives to our senior leadership team, including a new Vice Chairman and Chief Financial Officer, two other new Vice Chairmen, a new Chief Risk Officer, a new Chief Regulatory Officer and a new Chief Compliance Officer.
- o PNC has adopted a Statement of Principles and strengthened its Code of Ethics. All 24,000 employees have completed ethics training.
- o PNC has adopted comprehensive new policies and procedures in the areas of corporate governance, risk management and regulatory relations.
- o PNC has created management committees to address risks associated with significant transactions, products, services, and capital commitments.

Third parties have also recognized these efforts:

- o The Federal Reserve Bank and the Office of Comptroller of the Currency have returned PNC to "well-managed" status.
- o Institutional Shareholder Services, a leading advisory service for institutional stockholders, this spring ranked PNC as one of the top performing bank holding companies in the area of corporate governance and one of the most improved since the prior year.