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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

{x} QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007

or

{ } TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number 001-09718

The PNC Financial Services Group, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1435979**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One PNC Plaza,
249 Fifth Avenue,
Pittsburgh, Pennsylvania 15222-2707
(Address of principal executive offices)
(Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer X Accelerated filer __ Non-accelerated filer __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes__ No X

As of April 30, 2007, there were 344,919,068 shares of the registrant's common stock ($5 par value) outstanding.

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The PNC Financial Services Group, Inc.
Cross-Reference Index to First Quarter 2007 Form 10-Q

CONSOLIDATED FINANCIAL HIGHLIGHTS

THE PNC FINANCIAL SERVICES GROUP, INC.

Dollars in millions, except per share data Unaudited	Three months ended March 31 2007	 2006
FINANCIAL PERFORMANCE (a)		
Revenue		
Net interest income, taxable-equivalent basis (b)	**$ 629**	$ 563
Noninterest income	**991**	1,185
Total revenue	**$ 1,620**	$ 1,748
Noninterest expense	**$ 944**	$ 1,162
Net income	**$ 459**	$ 354
Per common share		
Diluted earnings	**$ 1.46**	$ 1.19
Cash dividends declared (c)	**$ .55**	$ .50
SELECTED RATIOS		
Net interest margin	**2.95%**	2.95%
Noninterest income to total revenue (d)	**61**	68
Efficiency (e)	**58**	67
Return on		
Average common shareholders' equity	**15.59%**	16.67%
Average assets	**1.73**	1.56

See page 34 for a glossary of certain terms used in this Report.

(a) The Executive Summary and Consolidated Income Statement Review—Noninterest Income-Summary portions of the Financial Review section of this Report provide information regarding items impacting the comparability of the periods presented.

(b) The interest income earned on certain assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of yields and margins for all earning assets, we also provide revenue on a taxable-equivalent basis by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under GAAP in the Consolidated Income Statement.

The following is a reconciliation of net interest income as reported in the Consolidated Income Statement to net interest income on a taxable-equivalent basis (in millions):

	Three months ended March 31 2007	 2006
Net interest income, GAAP basis	**$ 623**	$ 556
Taxable-equivalent adjustment	**6**	7
Net interest income, taxable-equivalent basis	**$ 629**	$ 563

(c) On April 5, 2007, our Board of Directors approved a quarterly cash dividend payable on April 24, 2007 of $.63 per common share, an increase of 15% from the previous dividend paid in the first quarter of 2007.

(d) Calculated as noninterest income divided by the sum of net interest income (GAAP basis) and noninterest income. Noninterest income for the first quarter 2006 included the impact of BlackRock on a consolidated basis, primarily consisting of asset management fees. First quarter 2007 noninterest income reflected income from our equity investment in BlackRock included in the "Asset management" line item.

(e) Calculated as noninterest expense divided by the sum of net interest income (GAAP basis) and noninterest income.

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Unaudited	March 31 2007	December 31 2006	March 31 2006
BALANCE SHEET DATA (dollars in millions, except per share data) (a)			
Assets	**$122,563**	$ 101,820	$93,257
Loans, net of unearned income	**62,925**	50,105	49,521
Allowance for loan and lease losses	**690**	560	597
Securities	**26,475**	23,191	21,529
Loans held for sale	**2,382**	2,366	2,266
Goodwill and other intangibles	**8,668**	4,043	4,482
Equity investments (b)	**5,408**	5,330	1,387
Deposits	**77,367**	66,301	60,899
Borrowed funds	**20,456**	15,028	16,440
Shareholders' equity	**14,739**	10,788	8,781
Common shareholders' equity	**14,732**	10,781	8,774
Book value per common share	**42.63**	36.80	29.70
Common shares outstanding (millions)	**346**	293	295
Loans to deposits	**81%**	76%	81%
ASSETS ADMINISTERED (billions)			
Managed (c)	**$ 76**	$ 54	$ 504
Nondiscretionary	**111**	86	87
FUND ASSETS SERVICED (billions)			
Accounting/administration net assets	**$ 822**	$ 837	$ 750
Custody assets	**435**	427	383
CAPITAL RATIOS			
Tier 1 risk-based (d)	**8.6%**	10.4%	8.8%
Total risk-based (d)	**12.2**	13.5	12.5
Leverage (d)	**8.7**	9.3	7.6
Tangible common equity	**5.8**	7.4	5.2
Common shareholders' equity to assets	**12.0**	10.6	9.4
ASSET QUALITY RATIOS			
Nonperforming loans to total loans	**.28%**	.29%	.37%
Nonperforming assets to total loans and foreclosed assets	**.32**	.34	.42
Nonperforming assets to total assets	**.17**	.17	.22
Net charge-offs to average loans (for the three months ended)	**.27**	.36	.15
Allowance for loan and lease losses to loans	**1.10**	1.12	1.21
Allowance for loan and lease losses to nonperforming loans	**388**	381	328

(a) Amounts at March 31, 2007 reflect the impact of our March 2, 2007 acquisition of Mercantile Bankshares Corporation ("Mercantile").
(b) Amounts at March 31, 2007 and December 31, 2006 include our equity investment in BlackRock, Inc. ("BlackRock").
(c) Amounts at March 31, 2007 and December 31, 2006 do not include BlackRock's assets under management as we deconsolidated BlackRock effective September 29, 2006.
(d) The regulatory minimums are 4.0% for Tier 1, 8.0% for Total, and 3.0% for Leverage ratios. The well-capitalized levels are 6.0% for Tier 1, 10.0% for Total, and 5.0% for Leverage ratios.

FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Report and with Items 6, 7, 8 and 9A of our 2006 Annual Report on Form 10-K ("2006 Form 10-K"). We have reclassified certain prior period amounts to conform with the current period presentation. For information regarding certain business and regulatory risks, see the Risk Management section in this Financial Review and Items 1A and 7 of our 2006 Form 10-K. Also, see the Cautionary Statement Regarding Forward-Looking Information and Critical Accounting Policies And Judgments sections in this Financial Review for certain other factors that could cause actual results or future events to differ, perhaps materially, from those anticipated in the forward-looking statements included in this Report or from historical performance. See Note 14 Segment Reporting in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a generally accepted accounting principles ("GAAP") basis.

EXECUTIVE SUMMARY

THE PNC FINANCIAL SERVICES GROUP, INC.

PNC is one of the largest diversified financial services companies in the United States based on assets, with businesses engaged in retail banking, corporate and institutional banking, asset management and global fund processing services. We provide many of our products and services nationally and others in our primary geographic markets located in Pennsylvania; New Jersey; Washington, DC; Maryland; Virginia; Ohio; Kentucky and Delaware. We also provide certain global fund processing services internationally.

KEY STRATEGIC GOALS

Our strategy to enhance shareholder value centers on driving positive operating leverage by achieving growth in revenue from our diverse business mix that exceeds growth in expenses as a result of disciplined cost management. In each of our business segments, the primary drivers of revenue growth are the acquisition, expansion and retention of customer relationships. We strive to expand our customer base by providing convenient banking options, leading technological systems and a broad range of fee-based products and services. We also intend to grow revenue through appropriate and targeted acquisitions and, in certain businesses, by expanding into new geographical markets.

In recent years, we have maintained a moderate risk profile characterized by strong credit quality and limited exposure to earnings volatility resulting from interest rate fluctuations and the shape of the interest rate yield curve. Our actions have created a balance sheet reflecting a strong capital position and investment flexibility to adjust, where appropriate, to changing interest rates and market conditions. We continue to invest capital in our businesses while returning a portion to shareholders through dividends and share repurchases.

MERCANTILE BANKSHARES ACQUISITION

We acquired Mercantile effective March 2, 2007 for approximately 53 million shares of PNC common stock and $2.1 billion in cash. Total consideration paid was approximately $5.9 billion in stock and cash.

Mercantile has added banking and investment and wealth management services through 235 branches in Maryland, Virginia, the District of Columbia, Delaware and Southeastern Pennsylvania. This transaction has significantly expanded our presence in the mid-Atlantic region, particularly within the attractive Baltimore and Washington, DC markets.

The integration of Mercantile is on track and we are optimistic about the opportunities within our new region and customer base. We refer you to our Form 8-K filed March 8, 2007 for additional information on this transaction.

KEY FACTORS AFFECTING FINANCIAL PERFORMANCE

Our financial performance is substantially affected by several external factors outside of our control, including:

- General economic conditions,
- Loan demand and utilization of credit commitments,
- Movement of customer deposits from lower to higher rate accounts or to investment alternatives,
- The level of interest rates, and the shape of the interest rate yield curve,
- The performance of the capital markets, and
- Customer demand for other products and services.

In addition to changes in general economic conditions, including the direction, timing and magnitude of movement in interest rates and the performance of the capital markets, our success in the remainder of 2007 will depend, among other things, upon:

- Further success in the acquisition, growth and retention of customers,
- The successful integration of Mercantile,
- Revenue growth,
- A sustained focus on expense management and creating positive operating leverage,
- Maintaining strong overall asset quality, and
- Prudent risk and capital management.

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SUMMARY FINANCIAL RESULTS

In millions, except per share data	Three months ended Mar. 31, 2007	Mar. 31, 2006
Net income	**$ 459**	$ 354
Diluted earnings per share	**$ 1.46**	$ 1.19
Return on		
Average common shareholders' equity	**15.59%**	16.67%
Average assets	**1.73%**	1.56%

Earnings for the first quarter of 2007 included the after-tax impact of the following items:

- A gain of $53 million, or $.17 per diluted share, recognized in connection with the transfer of BlackRock shares to satisfy a portion of our 2002 BlackRock LTIP shares obligation,
- A loss of $20 million, or $.06 per diluted share, from the net mark-to-market adjustment on our remaining BlackRock long-term incentive plan ("LTIP") shares obligation, and
- Acquisition integration costs related to the Mercantile acquisition and the 2006 BlackRock/MLIM transaction totaling $8 million, or $.03 per diluted share.

Our first quarter 2007 results included the following accomplishments consistent with our strategy:

- We closed on the acquisition of Mercantile, increasing total assets to a record $123 billion.
- Our business segments each grew earnings over the prior year first quarter. The rates of growth were 6% for Retail Banking, 29% for Corporate & Institutional Banking, 6% for BlackRock and 15% for PFPC.
- We created positive operating leverage compared with the first quarter of 2006.
- First quarter 2007 net interest income grew 12% compared with the first quarter of 2006. The net interest margin improved to 2.95% from 2.88% for the fourth quarter of 2006 and was unchanged from the first quarter of 2006.
- Average loans increased $5.0 billion, or 10%, compared with the first quarter of 2006, largely due to the partial first quarter 2007 impact of Mercantile as well as growth in commercial loans.
- Average deposits for the first quarter of 2007 increased $8.7 billion, or 14%, compared with the first quarter of 2006 due to growth in interest- and noninterest-bearing deposits and to the partial quarter impact of Mercantile.
- Asset quality remained very strong. Nonperforming assets to total assets were .17% at March 31, 2007 compared with .22% at March 31, 2006.

BLACKROCK/MLIM TRANSACTION

As further described in our 2006 Form 10-K, on September 29, 2006 Merrill Lynch contributed its investment management business ("MLIM") to BlackRock in exchange for 65 million shares of newly issued BlackRock common and preferred stock.

For the three months ended March 31, 2006, our Consolidated Income Statement included our former 69% ownership interest in BlackRock. However, our Consolidated Balance Sheet as of March 31, 2007 and December 31, 2006 reflected the September 29, 2006 deconsolidation of BlackRock's balance sheet amounts and recognized our approximate 34% ownership interest in BlackRock as an investment accounted for under the equity method. This accounting has resulted in a reduction in certain revenue and noninterest expense categories on our Consolidated Income Statement as our share of BlackRock's net income is now reported within asset management noninterest income. In addition, beginning with fourth quarter 2006, we recognize gain or loss each quarter-end on our then-remaining liability to provide shares of BlackRock common stock to help fund BlackRock LTIP programs as that liability is marked to market based on changes in BlackRock's common stock price. As in the first quarter of 2007, we will also recognize gains or losses on the future transfer of shares for payouts under such LTIP programs.

BALANCE SHEET HIGHLIGHTS

Total assets were $122.6 billion at March 31, 2007 compared with $101.8 billion at December 31, 2006. The increase compared with December 31, 2006 was primarily due to the addition of approximately $21 billion of assets related to Mercantile.

Total average assets were $107.4 billion for the first quarter of 2007 compared with $92.1 billion for the first quarter of 2006. This increase was primarily attributable to an $8.8 billion increase in average interest-earning assets and a $6.5 billion increase in average other noninterest-earning assets. An increase of $5.0 billion in loans, a $2.5 billion increase in securities, and a $1.6 billion increase in federal funds sold and resale agreements were the primary factors for the increase in average interest-earning assets.

The increase in average other noninterest-earning assets for the first quarter of 2007 reflected our equity investment in BlackRock, which averaged $3.8 billion for the first quarter of 2007 and which had been consolidated for the first quarter of 2006, and an increase in average goodwill of $1.4 billion related to the Mercantile acquisition.

Average total loans were $54.1 billion for the first quarter of 2007 and $49.1 billion in the first quarter of 2006. The increase in average total loans included the partial effect of the Mercantile acquisition during the quarter, and higher commercial loans. The increase in average total loans included growth in commercial real estate loans of approximately $2.5

billion and growth in commercial loans of approximately $1.9 billion. Loans represented 63% of average interest-earning assets for the first quarter of 2007 and 64% for the first quarter 2006.

Average securities totaled $23.4 billion for the first three months of 2007 and $20.9 billion for the first three months of 2006. The partial quarter impact of Mercantile contributed to the increase in average securities for 2007. By primary classification, the increase in average securities reflected a $5.4 billion increase in mortgage-backed and asset-backed securities, which was partially offset by a $3.1 billion decline in US Treasury and government agencies securities. Securities comprised 27% of average interest-earning assets for both the first quarter 2007 and the first quarter 2006.

Average total deposits were $69.7 billion for the first quarter of 2007, an increase of $8.7 billion over the first quarter of 2006. Average deposits grew from the prior year quarter primarily as a result of an increase in money market, noninterest-bearing demand deposits, retail certificates of deposit and the partial quarter impact of the Mercantile acquisition.

Average total deposits represented 65% of average total assets for the first quarter of 2007 and 66% for the first quarter of 2006. Average transaction deposits were $47.0 billion for the first quarter of 2007 compared with $40.8 billion for the first quarter of 2006.

Average borrowed funds were $16.8 billion for the first quarter of 2007 and $15.8 billion for the first quarter of 2006.

Shareholders' equity totaled $14.7 billion at March 31, 2007, compared with $10.8 billion at December 31, 2006. The increase resulted primarily from the Mercantile acquisition completed in March 2007. See the Consolidated Balance Sheet Review section of this Financial Review for additional information.

BUSINESS SEGMENT HIGHLIGHTS

Total business segment earnings increased 13%, to $416 million, for the first quarter of 2007 compared with the first quarter of 2006. We refer you to page 15 of this Report for a Results of Businesses – Summary table. Highlights of results for the first quarter 2007 in comparison to the prior year period follow. Further analysis of business segment results for the first quarter 2007 is provided on pages 16 through 23.

We provide a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a GAAP basis in Note 14 Segment Reporting in the Notes To Consolidated Financial Statements in this Report.

Retail Banking

Retail Banking earned $201 million for the first quarter of 2007 compared with $190 million for the same period in 2006. The 6% increase over the first quarter of 2006 was driven by the Mercantile acquisition, strong market related fees, and continued customer and balance sheet growth, partially offset by an increase in the provision for credit losses.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $132 million in the first quarter of 2007 compared with $102 million in the first quarter of 2006. The 29% increase compared with the first quarter of 2006 was largely the result of a lower provision for credit losses, due to improving asset quality, and positive operating leverage.

BlackRock

Our BlackRock business segment earned $52 million for the first quarter of 2007 and $49 million for the first quarter of 2006. The higher earnings reflected our approximate 34% ownership interest in a larger BlackRock entity for the first quarter of 2007 compared with the first quarter of 2006.

PFPC

PFPC earned $31 million for the first quarter of 2007 compared with $27 million in the year-earlier period. The 15% earnings increase from the first quarter of 2006 reflected new business, organic growth and market appreciation, partly offset by client deconversions. Certain tax benefits also contributed to the increase in earnings compared with the first three months of 2006.

Other

"Other" earnings for the first three months of 2007 totaled $43 million, while "Other" for the first three months of 2006 was a net loss of $14 million. The increase in "Other" in the comparison was primarily due to the impact of the $33 million after-tax net gain recognized during the first quarter of 2007 related to BlackRock LTIP activity, higher equity management gains in 2007 and a portion of the earnings contribution from Mercantile asset and liability management activities.

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CONSOLIDATED INCOME STATEMENT REVIEW

NET INTEREST INCOME AND NET INTEREST MARGIN

	Three months ended	
Dollars in millions	Mar. 31, 2007	Mar. 31, 2006
Taxable-equivalent net interest income	**$ 629**	$ 563
Net interest margin	**2.95%**	2.95%

We provide a reconciliation of net interest income as reported under GAAP to net interest income presented on a taxable-equivalent basis in the Consolidated Financial Highlights section on page 1 of this Report.

Changes in net interest income and margin result from the interaction of the volume and composition of interest-earning assets and related yields, interest-bearing liabilities and related rates paid, and noninterest-bearing sources of funding. See Statistical Information-Average Consolidated Balance Sheet And Net Interest Analysis included on pages 65 and 66 of this Report for additional information.

The 12% increase in taxable-equivalent net interest income for the first quarter of 2007 compared with the first quarter of 2006 was consistent with the $8.8 billion, or 12%, increase in average interest-earning assets over these periods. The reasons driving the higher interest-earning assets in this comparison are further discussed in the Balance Sheet Highlights portion of the Executive Summary section of this Report.

The net interest margin was 2.95% for both the first quarters of 2007 and 2006. The following factors offset each other in the comparison:

- The yield on interest-earning assets increased 59 basis points. Loans, the single largest component, increased 54 basis points.
- The impact of noninterest-bearing sources of funding increased 9 basis points for the first quarter of 2007 due to higher rates.
- These factors were offset by an increase in the rate paid on interest-bearing liabilities of 68 basis points. The rate paid on interest-bearing deposits, the single large component, increased 71 basis points.

During the first quarter of 2007, the average federal funds rate was 5.26% compared with 4.46% for the first quarter of 2006.

We believe that net interest margins for our industry will continue to be challenged if the yield curve remains flat or inverted, as competition for loans and deposits remains intense, as customers continue to migrate from lower rate to higher rate deposits or other products, and as the benefit of adding or repricing investment securities is diminished. However, we expect that taxable-equivalent net interest income for full year 2007 will grow in the mid-20% range compared with full year 2006 and the net interest margin will improve. These expected increases are primarily due to the Mercantile acquisition as well as projected earning asset growth, funding composition and pricing, and interest rate changes.

PROVISION FOR CREDIT LOSSES

The provision for credit losses decreased $14 million, to $8 million, in the first quarter of 2007 compared with the first quarter of 2006. The decrease in the quarterly comparison was primarily the result of improving overall asset quality.

We do not expect to sustain asset quality at its current level. However, based on the assets we currently hold and current business trends and activities, we believe that overall asset quality will remain strong by historical standards for the near term. We anticipate that the provision will be higher for the second quarter of 2007 compared with the first quarter of 2007. To the extent actual outcomes differ from our estimates, additional provision for credit losses may be required that would reduce future earnings. See the Credit Risk Management portion of the Risk Management section of this Financial Review for additional information regarding factors that impact the provision for credit losses.

NONINTEREST INCOME

Summary

Noninterest income was $991 million for the first quarter of 2007 compared with $1.185 billion for the first quarter of 2006. In 2007, we refined our accounting and reporting of PFPC's distribution fee revenue and related expense amounts. Due to this change, amounts for these items for the first quarter of 2007 are lower than as reported in conjunction with our first quarter 2007 earnings release. These amounts, which offset each other entirely and which have no impact on earnings, were previously shown on a gross basis within the fund servicing fee component of noninterest income and within other noninterest expense. This change was made on a prospective basis, effective January 1, 2007.

Total noninterest income for the first quarter of 2007 and first quarter 2006 included the following items:

- First quarter 2007 included a net gain related to our equity investment in BlackRock of $52 million, representing an $82 million gain recognized in connection with our transfer of BlackRock shares to satisfy a portion of our 2002 LTIP shares obligation, partially offset by a net mark-to-market adjustment totaling $30 million on our remaining BlackRock LTIP shares obligation, and
- First quarter of 2006 noninterest income included the impact of BlackRock on a consolidated basis in the amount of $406 million. Had BlackRock been on the equity method for the first quarter of 2006, BlackRock's reported noninterest income would have been $52 million for that quarter, or lower by $354 million.

Apart from the impact of these items, noninterest income increased $108 million, or 13%, compared with the first quarter of 2006 largely as a result of organic growth and the acquisition of Mercantile.

Additional Analysis

Asset management fees totaled $165 million in the first quarter of 2007, a decrease of $296 million compared with the first quarter of 2006. Our equity income from BlackRock was included in asset management fees for the first quarter of 2007, while asset management fees in the prior year quarter reflected the impact of BlackRock's revenue on a consolidated basis.

Assets managed at March 31, 2007 totaled $76 billion compared with $504 billion at March 31, 2006. BlackRock's assets under management, which were no longer included in assets managed by us at March 31, 2007 due to our deconsolidation of BlackRock effective September 29, 2006, were included in the March 31, 2006 totals. We refer you to the Retail Banking section of the Business Segments Review section of this Report for further discussion of our assets under management.

Fund servicing fees of $203 million for the first quarter of 2007 represented an $18 million decrease from the prior year period. Included in these amounts were out-of-pocket revenue amounts at PFPC totaling $14 million for the first three months of 2007 and distribution/out-of-pocket revenue amounts of $37 million for the first three months of 2006. These revenue amounts are passed through to PFPC's customers, and therefore their impact was offset by expenses in the same amounts each year.

PFPC provided fund accounting/administration services for $822 billion of net fund investment assets and provided custody services for $435 billion of fund investment assets at March 31, 2007, compared with $750 billion and $383 billion, respectively, at March 31, 2006. These increases were the result of new business attained, organic growth from current customers and market appreciation.

Service charges on deposits grew $4 million, to $77 million, in the first three months of 2007 compared with the first three months of 2006. This increase can be attributed primarily to the partial quarter impact of Mercantile and to customer growth.

Brokerage fees totaled $66 million in the first quarter of 2007 and $59 million in the first quarter of 2006. The increase was primarily due to higher annuity income and mutual fund related revenues, including a favorable impact from products related to the fee-based fund advisory business.

Consumer services fees grew $2 million, to $91 million, for the first three months of 2007 compared with the first three months of 2006. This increase reflected the partial quarter impact of Mercantile, higher debit card revenues resulting from higher transaction volumes, and revenue from the credit card business that began in the latter part of 2006. These factors were partially offset by lower ATM surcharge revenue in the 2007 period compared with the prior year period as a result of changing customer behavior and a strategic decision to reduce the out-of-footprint ATM network.

Corporate services revenue totaling $159 million in the first quarter of 2007 represented a $24 million increase over the first quarter of 2006. Higher revenue from various sources, including treasury management and mergers and acquisitions advisory and related services, contributed to this increase.

Equity management (private equity) net gains on portfolio investments totaled $32 million for the first three months of 2007 compared with $7 million for the first three months of 2006. Based on the nature of private equity activities, net gains or losses may be volatile from period to period.

Noninterest revenue from trading activities, more than one-half of which is customer-related, was $52 million for the first quarter of 2007 compared with $57 million for the first quarter of 2006. We provide additional information on our trading activities under Market Risk Management – Trading Risk in the Risk Management section of this Financial Review.

Other noninterest income of $97 million for the first three months of 2007 represented a $10 million increase compared with the first three months of 2006. Other noninterest income typically fluctuates from period to period depending on the nature and magnitude of transactions completed.

Due to the BlackRock/MLIM transaction, which resulted in a $2.1 billion pretax gain in 2006, we expect that total noninterest income will decline significantly for full year 2007 compared with full year 2006. Changes in noninterest income compared with the prior year also will be impacted by the deconsolidation of BlackRock and balance sheet repositioning actions in 2006, and our BlackRock LTIP obligation. Our remaining noninterest income sources are expected to increase, in aggregate, by a low teens percentage for full year 2007 compared with 2006 as a result of organic growth and the Mercantile acquisition.

PRODUCT REVENUE

In addition to credit products to commercial customers, Corporate & Institutional Banking offers treasury management and capital markets-related products and services, commercial loan servicing and equipment leasing products that are marketed by several businesses across PNC.

Treasury management revenue, which includes fees as well as net interest income from customer deposit balances, increased 9% to $110 million for the first quarter of 2007 from $101 million for the first quarter of 2006. The higher revenue reflected continued expansion and client utilization of commercial payment card services, strong revenue growth in various electronic payment and information services, and a steady increase in business-to-business processing volumes.

Revenue from capital markets-related products and services was $67 million for the first three months of 2007 compared with $64 million in the first three months of 2006, primarily driven by increased revenues from mergers and acquisitions advisory and related services.

Midland Loan Services offers servicing, real estate advisory and technology solutions for the commercial real estate finance industry. Midland's revenue, which includes servicing fees and net interest income from servicing portfolio deposit balances, totaled $54 million for first quarter of 2007 and $42 million for first quarter of 2006. The 29% revenue growth was primarily driven by growth in the commercial mortgage servicing portfolio and related services.

As a component of our advisory services to clients, we provide a select set of insurance products to fulfill specific customer financial needs. Primary insurance offerings include:

- Annuities,
- Life,
- Credit life,
- Health,
- Disability, and
- Commercial lines coverage.

Client segments served by these insurance products include those in Retail Banking and Corporate & Institutional Banking. Insurance products are sold by licensed PNC insurance agents and through licensed third-party arrangements. Revenue from these products was $18 million in the first quarter of 2007 and $17 million in the first quarter of 2006.

PNC, through subsidiary companies Alpine Indemnity Limited and PNC Insurance Corp., participates as a direct writer for its general liability, automobile liability, workers' compensation, property and terrorism insurance programs.

In the normal course of business, Alpine Indemnity Limited and PNC Insurance Corp. maintain insurance reserves for reported claims and for claims incurred but not reported based on actuarial assessments. We believe these reserves were adequate at March 31, 2007.

NONINTEREST EXPENSE

Total noninterest expense was $944 million for the first quarter of 2007 and $1.162 billion for the first quarter of 2006.

As noted above under Noninterest Income, in 2007 we refined our accounting and reporting of PFPC's distribution fee revenue and related expense amounts. This change was made on a prospective basis, effective January 1, 2007.

Noninterest expense for the first quarter 2007 and first quarter 2006 included the following:

- Integration costs of $11 million in the first quarter of 2007 related to our acquisition of Mercantile; and
- First quarter 2006 noninterest expense included $291 million of expenses related to BlackRock, which was still consolidated during that time. In addition, noninterest expense for the first quarter 2006 included $6 million of BlackRock/MLIM transaction integration costs.

Apart from the impact of these items, noninterest expense increased $68 million, or 8%, compared with the first quarter of 2006 largely as a result of increased compensation expenses, investments in growth initiatives and the acquisition of Mercantile.

We expect total noninterest expense to decline for full year 2007 compared with full year 2006 due to the impact of the deconsolidation of BlackRock. Apart from this impact, we expect noninterest expense to grow by a low teens percentage for full year 2007 compared with 2006 primarily as a result of the Mercantile acquisition. In addition, we expect to continue to incur pretax integration costs related to Mercantile that are currently estimated to be $40 million for the remainder of 2007.

PERIOD-END EMPLOYEES

	March 31, 2007	December 31, 2006	March 31, 2006
Full-time	24,635	21,455	23,642
Part-time	3,060	2,328	2,003
Total	27,695	23,783	25,645

Of the numbers at March 31, 2007, approximately 3,000 full-time and approximately 700 part-time employees were added as a result of our acquisition of Mercantile. BlackRock employees were included in these numbers at March 31, 2006.

EFFECTIVE TAX RATE

Our effective tax rate for the first three months of 2007 was 30.7% compared with 32.5% for the first three months of 2006. The lower effective rate for first quarter of 2007 reflected the deconsolidation of BlackRock effective September 29, 2006 and certain tax adjustments. We expect our effective tax rate to increase to approximately 32% for the remainder of 2007 resulting from the Mercantile acquisition.

CONSOLIDATED BALANCE SHEET REVIEW

SUMMARIZED BALANCE SHEET DATA

In millions	March 31 2007	December 31 2006
Assets		
Loans, net of unearned income	**$ 62,925**	$ 50,105
Securities available for sale	**26,475**	23,191
Loans held for sale	**2,382**	2,366
Equity investments	**5,408**	5,330
Goodwill and other intangible assets	**8,668**	4,043
Other	**16,705**	16,785
Total assets	**$122,563**	$ 101,820
Liabilities		
Funding sources	**$ 97,823**	$ 81,329
Other	**8,634**	8,818
Total liabilities	**106,457**	90,147
Minority and noncontrolling interests in consolidated entities	**1,367**	885
Total shareholders' equity	**14,739**	10,788
Total liabilities, minority and noncontrolling interests, and shareholders' equity	**$122,563**	$ 101,820

Our Consolidated Balance Sheet is presented in Part I, Item 1 on page 38 of this Report.

Our Consolidated Balance Sheet at March 31, 2007 reflects the addition of approximately $21 billion of assets resulting from our Mercantile acquisition.

Various seasonal and other factors impact our period-end balances whereas average balances (discussed under the Balance Sheet Highlights section of this Financial Review above and included in the Statistical Information section of this Report on pages 63 and 64) are more indicative of underlying business trends.

An analysis of changes in certain balance sheet categories follows.

LOANS, NET OF UNEARNED INCOME

Loans increased $12.8 billion, to $62.9 billion, at March 31, 2007 compared with the balance at December 31, 2006. Our acquisition of Mercantile added $12.4 billion of loans including $5.8 billion of commercial real estate, $2.7 billion of commercial, $2.3 billion of residential mortgage and $1.6 billion of consumer loans.

Details Of Loans

In millions	March 31 2007	December 31 2006
Commercial		
Retail/wholesale	**$ 5,916**	$ 5,301
Manufacturing	**4,416**	4,189
Other service providers	**2,791**	2,186
Real estate related	**3,555**	2,825
Financial services	**1,499**	1,324
Health care	**949**	707
Other	**4,396**	4,052
Total commercial	**$23,522**	$ 20,584
Commercial real estate		
Real estate projects	**8,769**	2,716
Mortgage	**602**	816
Total commercial real estate	**9,371**	3,532
Equipment lease financing	**3,527**	3,556
Total commercial lending	**36,420**	27,672
Consumer		
Home equity	**14,263**	13,749
Automobile	**1,956**	1,135
Other	**1,769**	1,631
Total consumer	**17,988**	16,515
Residential mortgage	**9,158**	6,337
Other	**364**	376
Unearned income	**(1,005)**	(795)
Total, net of unearned income	**$62,925**	$ 50,105

Our total loan portfolio continued to be diversified among numerous industries and types of businesses. The loans that we hold are also concentrated in, and diversified across, our principal geographic markets.

Commercial lending outstandings in the table above are the largest category and are the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan and lease losses. We have allocated approximately $477 million, or 69%, of the total allowance for loan and lease losses at March 31, 2007 to these loans. This allocation also considers other relevant factors such as:

- Actual versus estimated losses,
- Regional and national economic conditions,
- Business segment and portfolio concentrations,
- Industry conditions,
- The impact of government regulations, and
- Risk of potential estimation or judgmental errors, including the accuracy of risk ratings.

Net Unfunded Credit Commitments

In millions	March 31 2007	December 31 2006
Commercial	**$33,613**	$ 31,009
Consumer	**11,525**	10,495
Commercial real estate	**3,855**	2,752
Other	**270**	579
Total	**$49,263**	$ 44,835

Unfunded commitments are concentrated in our primary geographic markets. Net unfunded commitments at March 31, 2007 include $5.0 billion related to our acquisition of Mercantile. Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. Commercial commitments are reported net of participations, assignments and syndications, primarily to financial institutions, totaling $8.5 billion at March 31, 2007 and $8.3 billion at December 31, 2006.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $6.0 billion at March 31, 2007 and $6.0 billion at December 31, 2006 and are included in the preceding table primarily within the "Commercial" and "Consumer" categories.

In addition to credit commitments, our net outstanding standby letters of credit totaled $4.8 billion at March 31, 2007 and $4.4 billion at December 31, 2006. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

Leases and Related Tax and Accounting Matters

The equipment lease portfolio totaled $3.5 billion at March 31, 2007. Aggregate residual value at risk on the lease portfolio at March 31, 2007 was $1.1 billion. We have taken steps to mitigate $.6 billion of this residual risk, including residual value insurance coverage with third parties, third party guarantees, and other actions. The portfolio included approximately $1.7 billion of cross-border leases at March 31, 2007. Cross-border leases are leveraged leases of equipment located in foreign countries, primarily in western Europe and Australia. We have not entered into cross-border lease transactions since 2003.

Upon completing an examination of our 1998-2000 and 2001-2003 consolidated federal income tax returns, the IRS provided us with examination reports which propose increases in our tax liability, principally arising from adjustments to the timing of tax deductions from our cross-border lease transactions.

While the situation with respect to these proposed adjustments remains unresolved, we believe our reserves for these exposures were appropriate at March 31, 2007.

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. FAS 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction* ("FSP 13-2"). FSP 13-2 became effective January 1, 2007 and will require a recalculation of the timing of income recognition for actual or projected changes in the timing of tax benefits for leveraged leases. Any cumulative adjustment must be recognized through retained earnings upon adoption of FSP 13-2. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report and in Item 8 of our 2006 Form 10-K for additional information. Effective January 1, 2007, we recalculated our leases and recorded a cumulative adjustment to beginning retained earnings of $149 million, after-tax, as required by FSP 13-2. This adjustment was based on our best estimate as to the timing and amount of ultimate settlement of this exposure. Any immediate or future reductions in earnings from our adoption of FSP 13-2 would be recovered in subsequent years.

The adjustment includes amounts related to three lease-to-service contract transactions that we were party to that were structured as partnerships for tax purposes. The partnership tax returns, depending on the particular partnership, have either been examined or are under examination by the IRS. We do not believe that our exposure from these transactions is material to our consolidated results of operations or financial position.

Additional information on cross-border lease transactions is included under "Leases and Related Tax and Accounting Matters" in the Consolidated Balance Sheet Review section of Item 7 of our 2006 Form 10-K.

SECURITIES

Details Of Securities (a)

In millions	Amortized Cost	Fair Value
March 31, 2007		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
Residential mortgage-backed	**$19,594**	**$19,546**
Commercial mortgage-backed	**3,884**	**3,882**
Asset-backed	**2,049**	**2,043**
US Treasury and government agencies	**414**	**411**
State and municipal	**206**	**205**
Other debt	**36**	**36**
Corporate stocks and other	**352**	**352**
Total securities available for sale	**$26,535**	**$26,475**
December 31, 2006		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
Residential mortgage-backed	$17,325	$17,208
Commercial mortgage-backed	3,231	3,219
Asset-backed	1,615	1,609
US Treasury and government agencies	611	608
State and municipal	140	139
Other debt	90	87
Corporate stocks and other	321	321
Total securities available for sale	$23,333	$23,191

(a) Securities held to maturity at March 31, 2007 and December 31, 2006 were less than $.5 million.

Securities represented 22% of total assets at March 31, 2007 and 23% of total assets at December 31, 2006. Our acquisition of Mercantile added approximately $3 billion of securities, of which approximately $1 billion we classified as trading and sold and the remainder of which we classified as securities available for sale.

We evaluate our portfolio of securities available for sale in light of changing market conditions and other factors and, where appropriate, take steps intended to improve our overall positioning.

At March 31, 2007, securities available for sale included a net unrealized loss of $60 million, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2006 was a net unrealized loss of $142 million. Net unrealized gains and losses in the securities available for sale portfolio are included in shareholders' equity as accumulated other comprehensive income (loss), net of tax.

The fair value of securities available for sale generally decreases when market interest rates increase and vice versa. Consequently, increases in interest rates after March 31, 2007, could adversely impact the fair value of securities available for sale compared with March 31, 2007.

The expected weighted-average life of securities available for sale (excluding corporate stocks and other) was 3 years and 8 months at March 31, 2007 and December 31, 2006.

We estimate that at March 31, 2007 the effective duration of securities available for sale is 2.6 years for an immediate 50 basis points parallel increase in interest rates and 2.2 years for an immediate 50 basis points parallel decrease in interest rates. These estimates are unchanged from those at December 31, 2006.

LOANS HELD FOR SALE

Education loans held for sale totaled $1.5 billion at March 31, 2007 and $1.3 billion at December 31, 2006 and represented the majority of our loans held for sale at each date. We classify substantially all of our education loans as loans held for sale. Generally, we sell education loans when the loans are placed into repayment status. Gains on sales of education loans are reflected in the other noninterest income line item in our Consolidated Income Statement and in the results for the Retail Banking business segment.

FUNDING AND CAPITAL SOURCES

Details of Funding Sources

In millions	**March 31 2007**	December 31 2006
Deposits		
Money market	**$ 31,040**	$ 28,580
Demand	**21,121**	16,833
Retail certificates of deposit	**17,714**	14,725
Savings	**3,010**	1,864
Other time	**2,902**	1,326
Time deposits in foreign offices	**1,580**	2,973
Total deposits	**77,367**	66,301
Borrowed funds		
Federal funds purchased	**5,638**	2,711
Repurchase agreements	**2,586**	2,051
Bank notes and senior debt	**4,551**	3,633
Subordinated debt	**4,628**	3,962
Other	**3,053**	2,671
Total borrowed funds	**20,456**	15,028
Total	**$ 97,823**	$ 81,329

Total funding sources increased $16.5 billion at March 31, 2007 compared with the balance at December 31, 2006, as total deposits increased $11.1 billion and total borrowed funds increased $5.4 billion. Our acquisition of Mercantile added $12.5 billion of deposits and $2.1 billion of borrowed funds.

Capital

We manage our capital position by making adjustments to our balance sheet size and composition, issuing debt, equity or hybrid instruments, executing treasury stock transactions, maintaining dividend policies and retaining earnings.

Total shareholders' equity increased $4.0 billion, to $14.7 billion, at March 31, 2007 compared with December 31, 2006.

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This increase reflected a $2.9 billion reduction in treasury stock and a $.9 billion increase in capital surplus, largely due to the Mercantile acquisition.

Common shares outstanding at March 31, 2007 were 346 million compared with 293 million at December 31, 2006. The increase in shares outstanding during the first quarter of 2007 reflected the issuance of approximately 53 million shares in connection with the Mercantile acquisition.

We purchased 1.4 million common shares under our common stock repurchase program during the first three months of 2007. Our current program, which permits us to purchase up to 20 million shares on the open market or in privately negotiated transactions, will remain in effect until fully utilized or until modified, superseded or terminated. As of March 31, 2007, remaining availability for purchases under this program was 13.1 million shares. The extent and timing of additional share repurchases under this program will depend on a number of factors including, among others, market and general economic conditions, economic and regulatory capital considerations, alternative uses of capital, regulatory limitations resulting from merger activity, and the potential impact on our credit rating. We expect to continue to be active in share repurchases.

Risk-Based Capital

Dollars in millions	**March 31 2007**	December 31 2006
Capital components		
Shareholders' equity		
Common	**$14,732**	$10,781
Preferred	**7**	7
Trust preferred capital securities	**811**	965
Minority interest	**984**	494
Goodwill and other intangibles	**(8,170)**	(3,566)
Eligible deferred income taxes on intangible assets	**127**	26
Pension, other postretirement benefit plan adjustments	**142**	148
Net unrealized securities losses, after-tax	**38**	91
Net unrealized (gains) losses on cash flow hedge derivatives, after-tax	**(4)**	13
Equity investments in nonfinancial companies	**(37)**	(30)
Other, net	**(4)**	(5)
Tier 1 risk-based capital	**8,626**	8,924
Subordinated debt	**2,805**	1,954
Eligible allowance for credit losses	**811**	681
Total risk-based capital	**$12,242**	$11,559
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	**$100,588**	$85,539
Adjusted average total assets	**99,377**	95,590
Capital ratios		
Tier 1 risk-based	**8.6%**	10.4%
Total risk-based	**12.2**	13.5
Leverage	**8.7**	9.3
Tangible capital		
Shareholders equity	**$14,732**	$10,781
Goodwill and other intangibles	**(8,170)**	(3,566)
Eligible deferred taxes	**127**	26
Tangible capital	**$6,689**	$7,241
Total assets excluding goodwill and other intangible assets, net of eligible deferred income taxes	**$114,520**	$98,280
Tangible common equity	**5.8%**	7.4%

The access to, and cost of, funding new business initiatives including acquisitions, the ability to engage in expanded business activities, the ability to pay dividends, the level of deposit insurance costs, and the level and nature of regulatory oversight depend, in part, on a financial institution's capital strength. At March 31, 2007, each of our banking subsidiaries was considered "well-capitalized" based on regulatory capital ratio requirements, as indicated in the Capital Ratios section of Consolidated Financial Highlights on page 2 of this Report. We believe our bank subsidiaries will continue to meet these requirements during the remainder of 2007.

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OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

We engage in a variety of activities that involve unconsolidated entities or that are otherwise not reflected in our Consolidated Balance Sheet that are generally referred to as "off-balance sheet arrangements." The following sections of this Report provide further information on these types of activities:

- Commitments, including contractual obligations and other commitments, included within the Risk Management section of this Financial Review, and
- Note 15 Commitments And Guarantees in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report.

The following provides a summary of variable interest entities ("VIEs"), including those in which we hold a significant variable interest but have not consolidated and those that we have consolidated into our financial statements as of March 31, 2007 and December 31, 2006. Additional information on our partnership interests in low income housing projects is included in our 2006 Form 10-K under this same heading in Part I, Item 7 and Note 3 Variable Interest Entities in the Notes To Consolidated Financial Statements included in Part II, Item 8 of that report.

Non-Consolidated VIEs - Significant Variable Interests

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss
March 31, 2007			
Market Street	**$3,820**	**$3,819**	**$6,149**(a)
Collateralized debt obligations	**540**	**449**	**8**
Partnership interests in low income housing projects	**33**	**30**	**8**
Total	**$4,393**	**$4,298**	**$6,165**
December 31, 2006			
Market Street	$4,020	$4,020	$6,117(a)
Collateralized debt obligations	815	570	22
Partnership interests in low income housing projects	33	30	8
Total	$4,868	$4,620	$6,147

(a) PNC's risk of loss consists of off-balance sheet liquidity commitments to Market Street of $5.6 billion and other credit enhancements of $.5 billion at March 31, 2007. The comparable amounts at December 31, 2006 were $5.6 billion and $.6 billion, respectively.

Market Street

Market Street Funding LLC ("Market Street"), is a multi-seller asset-backed commercial paper conduit that is owned by an independent third party. Market Street's activities are limited to the purchasing of assets or making of loans secured by interests primarily in pools of receivables from US corporations that desire access to the commercial paper market. Market Street funds the purchases or loans by issuing commercial paper which has been rated A1/P1 by Standard & Poor's and Moody's, respectively, and is supported by pool-specific credit enhancement, liquidity facilities and program-level credit enhancement.

PNC Bank, National Association ("PNC Bank, N.A.") provides certain administrative services, a portion of the program-level credit enhancement and the majority of liquidity facilities to Market Street in exchange for fees negotiated based on market rates. All of Market Street's assets at March 31, 2007 and December 31, 2006 collateralize the commercial paper obligations. PNC views its credit exposure for the Market Street transactions as limited. Facilities requiring PNC to fund for defaulted assets totaled $890 million at March 31, 2007. For 84% of the liquidity facilities at March 31, 2007, PNC is not required to fund if the assets are in default. PNC may be liable for funding under liquidity facilities for events such as borrower bankruptcies, collateral deficiencies or covenant violations. Additionally, PNC's obligations under the liquidity facilities are secondary to the risk of first loss provided by the borrower or another third party in the form of deal-specific credit enhancement – for example, by the over collateralization of the assets. Deal-specific credit enhancement that supports the commercial paper issued by Market Street is generally structured to cover a multiple of the expected historical losses for the pool of assets and is sized to generally meet rating agency standards for comparably structured transactions. Credit enhancement is provided in part by PNC Bank, N.A. in the form of a cash collateral account that is funded by a loan facility that expires March 23, 2012. See Note 15 Commitments And Guarantees included in Part I, Item 1 of this Report for additional information. Neither creditors nor equity investors in Market Street have any recourse to our general credit. PNC recognized program administrator fees and commitment fees related to PNC's portion of the liquidity facilities of $2.9 million and $1 million, respectively, for the quarter ended March 31, 2007.

As more fully described in our 2006 Form 10-K, Market Street was restructured as a limited liability company in October 2005 and entered into a subordinated Note Purchase Agreement ("Note") with an unrelated third party.

The Note provides first loss coverage whereby the investor absorbs losses up to the amount of the Note, which was $6.0 million as of March 31, 2007. Proceeds from the issuance of the Note are held by Market Street in a first loss reserve account that will be used to reimburse any losses incurred by Market Street, PNC Bank, N.A. or other providers under the liquidity facilities and the credit enhancement arrangements.

As a result of the Note issuance, we reevaluated the design of Market Street, its capital structure and relationships among the variable interest holders under the provisions of FASB Interpretation No. 46, (Revised 2003) "Consolidation of

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Variable Interest Entities ("FIN 46R"). Based on this analysis, we determined that we were no longer the primary beneficiary as defined by FIN 46R and deconsolidated Market Street from our Consolidated Balance Sheet effective October 17, 2005. There have been no events or changes in the contractual terms of the Note since that date that would change this conclusion.

The aggregate assets and liabilities of VIEs that we have consolidated in our financial statements are as follows:

Consolidated VIEs – PNC Is Primary Beneficiary

In millions	Aggregate Assets	Aggregate Liabilities
Partnership interests in low income housing projects		
March 31, 2007	**$ 780**	**$ 780**
December 31, 2006	$ 834	$ 834

Investment Company Accounting – Deferred Application
We also have subsidiaries that invest in and act as the investment manager for private equity funds organized as limited partnerships as part of our equity management activities. The funds invest in private equity investments to generate capital appreciation and profits. As permitted by FIN 46R, we have deferred applying the provisions of the interpretation for these entities pending further action by the FASB. These entities are not consolidated into our financial statements as of March 31, 2007 or December 31, 2006. Information on these entities follows:

In millions	Aggregate Assets	Aggregate Equity	PNC Risk of Loss
Private Equity Funds			
March 31, 2007	**$ 110**	**$ 110**	**$ 102**
December 31, 2006	$ 102	$ 102	$ 104

PNC's risk of loss in the table above includes both the value of our equity investments and any unfunded commitments to the respective entities. These equity investments are included in our private equity portfolio discussed under Market Risk Management – Equity and Other Investment Risk in this Financial Review.

Perpetual Trust Securities
We issue certain hybrid capital vehicles that qualify as capital for regulatory and rating agency purposes.

In December 2006, one of our indirect subsidiaries, PNC REIT Corp., sold $500 million of 6.517% Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities (the "Trust Securities") of PNC Preferred Funding Trust I ("Trust I"), in a private placement. PNC REIT Corp. had previously acquired the Trust Securities from the trust in exchange for an equivalent amount of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Securities (the "LLC Preferred Securities"), of PNC Preferred Funding LLC (the "LLC"), held by PNC REIT Corp. The LLC's initial material assets consist of indirect interests in mortgages and mortgage-related assets previously owned by PNC REIT Corp. Our 2006 Form 10-K includes additional information regarding the Perpetual Trust Securities, including descriptions of replacement capital and dividend restriction covenants.

In March 2007, PNC Preferred Funding LLC sold $500 million of 6.113% Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities of PNC Preferred Funding Trust II ("Trust II"), in a private placement. In connection with the private placement, Trust II acquired $500 million of LLC Preferred Securities.

PNC REIT Corp. owns 100% of the LLC's common voting securities. As a result, the LLC is an indirect subsidiary of PNC and is consolidated on our Consolidated Balance Sheet. Trust I and Trust II's investment in the LLC Preferred Securities is characterized as a minority interest on our Consolidated Balance Sheet since we are not the primary beneficiary of Trust I and Trust II. This minority interest totaled approximately $981 million at March 31, 2007.

Each Trust II Security is automatically exchangeable into a share of Series I Non-Cumulative Perpetual Preferred Stock of PNC (the "Series I Preferred Stock") under certain conditions relating to the capitalization or the financial condition of PNC Bank, N.A. and upon the direction of the Office of the Comptroller of the Currency.

Simultaneously with the closing of the Trust II Securities sale, we entered into a replacement capital covenant (the "Covenant") for the benefit of holders of a specified series of our long-term indebtedness (the "Covered Debt"). As of March 31, 2007, Covered Debt consists of our $200 million Floating Rate Junior Subordinated Notes issued on June 9, 1998. We agreed in the Covenant that until March 29, 2017, neither we nor our subsidiaries would purchase or redeem the Trust Securities, the LLC Preferred Securities or the Series I Preferred Stock (collectively, the "Covenant Securities") unless: (i) we have received the prior approval of the Federal Reserve Board, if such approval is then required by the Federal Reserve Board and (ii) during the 180-day period prior to the date of purchase, PNC, PNC Bank, N.A. or PNC Bank, N.A.'s subsidiaries, as applicable, have received proceeds from the sale of Qualifying Securities in the amounts specified in the Covenant (which amounts will vary based on the type of securities sold). "Qualifying Securities" means debt and equity securities having terms and provisions specified in the Covenant and that, generally described, are intended to contribute to our capital base in a manner that is similar to the contribution to our capital base made by the Covenant Securities. We filed a copy of the Covenant with the SEC as Exhibit 99.1 to PNC's Form 8-K filed on March 30, 2007.

We have also entered into an Exchange Agreement with Trust II in which we have agreed that if full dividends are not paid in a dividend period on the Trust II Securities and the LLC Preferred Securities held by Trust II, PNC will not declare or pay dividends with respect to, or redeem, purchase or acquire, any of its equity capital securities during the next succeeding dividend period, other than: (i) purchases, redemptions or other acquisitions of shares of capital stock of PNC in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers, directors or consultants, (ii) purchases of shares of common stock of PNC pursuant to a contractually binding requirement to buy stock existing prior to the commencement of the extension period, including under a contractually binding stock repurchase plan, (iii) any dividend in connection with the implementation of a shareholders' rights plan, or the redemption or repurchase of any rights under any such plan, (iv) as a result of an exchange or conversion of any class or series of PNC's capital stock for any other class or series of PNC's capital stock, (v) the purchase of fractional interests in shares of PNC capital stock pursuant to the conversion or exchange provisions of such stock or the security being converted or exchanged or (vi) any stock dividends paid by PNC where the dividend stock is the same stock as that on which the dividend is being paid. We filed a copy of the Exchange Agreement with the SEC as Exhibit 4.16 to PNC's Form 8-K filed on March 30, 2007.

BUSINESS SEGMENTS REVIEW

We have four major businesses engaged in providing banking, asset management and global fund processing products and services. Business segment results, including inter-segment revenues, and a description of each business are included in Note 14 Segment Reporting included in the Notes To Consolidated Financial Statements under Part I, Item 1 of this Report.

Results of individual businesses are presented based on our management accounting practices and our management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of individual businesses are not necessarily comparable with similar information for any other company. We refine our methodologies from time to time as our management accounting practices are enhanced and our businesses and management structure change. Financial results are presented, to the extent practicable, as if each business, with the exception of our BlackRock segment, operated on a stand-alone basis. As permitted under GAAP, we have aggregated the business results for certain operating segments for financial reporting purposes.

Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing methodology that incorporates product maturities, duration and other factors. Capital is intended to cover unexpected losses and is assigned to the banking and processing businesses using our risk-based economic capital model. We have assigned to Retail Banking capital equal to 6% of funds to reflect the capital required for well-capitalized banks and to approximate market comparables for this business. The capital assigned for PFPC reflects its legal entity shareholders' equity.

BlackRock business segment results for the three months ended March 31, 2006 reflected our majority ownership in BlackRock during that period. Subsequent to the September 29, 2006 BlackRock/MLIM transaction closing, which had the effect of reducing our ownership interest to approximately 34%, our investment in BlackRock has been accounted for under the equity method but continues to be a separate reportable business segment of PNC.

We have allocated the allowances for loan and lease losses and unfunded loan commitments and letters of credit based on our assessment of risk inherent in the loan portfolios. Our allocation of the costs incurred by operations and other support areas not directly aligned with the businesses is primarily based on the use of services.

Total business segment financial results differ from total consolidated results. The impact of these differences is reflected in the "Other" category. "Other" includes residual activities that do not meet the criteria for disclosure as a separate reportable business, such as gains or losses related to BlackRock transactions including LTIP distributions and obligations, Mercantile and BlackRock/MLIM acquisition integration costs, asset and liability management activities, net securities gains or losses, certain trading activities, equity management activities and minority interest in income of BlackRock for the first quarter of 2006, differences between business segment performance reporting and financial statement reporting (GAAP), intercompany eliminations, and most corporate overhead.

Employee data as reported by each business segment in the tables that follow reflects staff directly employed by the respective business and excludes corporate and shared services employees.

Results Of Businesses - Summary
(Unaudited)

	Earnings		Revenue (a)		Average Assets (b)	
Three months ended March 31 - dollars in millions	**2007**	2006	**2007**	2006	**2007**	2006
Retail Banking	**$201**	$190	**$ 839**	$ 753	**$ 34,449**	$29,369
Corporate & Institutional Banking	**132**	102	**370**	335	**26,498**	23,788
BlackRock (c) (d)	**52**	49	**68**	410	**3,870**	1,841
PFPC (e)	**31**	27	**200**	196	**2,378**	2,385
Total business segments	**416**	368	**1,477**	1,694	**67,195**	57,383
Other (c)	**43**	(14)	**143**	54	**40,227**	34,746
Total consolidated	**$459**	$354	**$1,620**	$1,748	**$107,422**	$92,129

(a) Business segment revenue is presented on a taxable-equivalent basis. A reconciliation of total consolidated revenue on a book (GAAP) basis to total consolidated revenue on a taxable-equivalent basis follows:

Three months ended March 31 - (in millions)	**2007**	2006
Total consolidated revenue, book (GAAP) basis	**$1,614**	$1,741
Taxable-equivalent adjustment	**6**	7
Total consolidated revenue, taxable-equivalent basis	**$1,620**	$1,748

(b) Period-end balances for BlackRock and PFPC. BlackRock was an equity investment at March 31, 2007 and was consolidated at March 31, 2006.

(c) For our segment reporting presentation, our share of pretax BlackRock/MLIM transaction integration costs totaling $2 million and $6 million for the three months ended March 31, 2007 and March 31, 2006 have been reclassified from BlackRock to "Other." "Other" for the first three months of 2007 also includes $11 million of pretax Mercantile acquisition integration costs.

(d) For the first quarter of 2007, revenue represents our equity income from BlackRock. For the first quarter of 2006, revenue represents the sum of total operating revenue and nonoperating income.

(e) PFPC revenue represents the sum of servicing revenue and nonoperating income (expense) less debt financing costs. Prior period servicing revenue amounts have been reclassified to conform with the current period presentation.

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RETAIL BANKING

Three months ended March 31 Taxable-equivalent basis Dollars in millions	2007	2006
INCOME STATEMENT		
Net interest income	**$452**	$408
Noninterest income		
Asset management	**100**	87
Service charges on deposits	**75**	71
Brokerage	**63**	58
Consumer services	**88**	86
Other	**61**	43
Total noninterest income	**387**	345
Total revenue	**839**	753
Provision for credit losses	**23**	9
Noninterest expense	**496**	440
Pretax earnings	**320**	304
Income taxes	**119**	114
Earnings	**$201**	$190
AVERAGE BALANCE SHEET		
Loans		
Consumer		
Home equity	**$13,881**	$13,778
Indirect	**1,480**	987
Other consumer	**1,490**	1,248
Total consumer	**16,851**	16,013
Commercial	**8,201**	5,433
Floor plan	**952**	970
Residential mortgage	**1,781**	1,648
Other	**233**	236
Total loans	**28,018**	24,300
Goodwill and other intangible assets	**2,942**	1,582
Loans held for sale	**1,562**	1,880
Other assets	**1,927**	1,607
Total assets	**$34,449**	$29,369
Deposits		
Noninterest-bearing demand	**$8,871**	$7,777
Interest-bearing demand	**8,354**	8,025
Money market	**15,669**	14,644
Total transaction deposits	**32,894**	30,446
Savings	**2,243**	2,183
Certificates of deposit	**15,738**	13,115
Total deposits	**50,875**	45,744
Other liabilities	**708**	560
Capital	**3,287**	2,943
Total funds	**$54,870**	$49,247
PERFORMANCE RATIOS		
Return on average capital	**25%**	26%
Noninterest income to total revenue	**46**	46
Efficiency	**59**	58
OTHER INFORMATION, INCLUDING MERCANTILE (a) (b)		
Other statistics:		
Full-time employees	**11,645**	9,725
Part-time employees	**2,417**	1,373
ATMs	**3,862**	3,763
Branches (c)	**1,077**	846
ASSETS UNDER ADMINISTRATION (in billions) (d)		
Assets under management		
Personal	**$54**	$40
Institutional	**22**	10
Total	**$76**	$50
Asset Type		
Equity	**$41**	$32
Fixed income	**20**	12
Liquidity/other	**15**	6
Total	**$76**	$50

At March 31 Dollars in millions, except where noted	2007	2006
OTHER INFORMATION, INCLUDING MERCANTILE (a) (b)		
Nondiscretionary assets under administration		
Personal	**$31**	$28
Institutional	**80**	59
Total	**$111**	$87
Asset Type		
Equity	**$42**	$33
Fixed income	**28**	26
Liquidity/other	**41**	28
Total	**$111**	$87
OTHER INFORMATION, NOT INCLUDING MERCANTILE (a) (e)		
Credit-related statistics:		
Nonperforming assets (f)	**$101**	$93
Net charge-offs	**$26**	$14
Net charge-off ratio	**.43%**	.23%
Home equity portfolio credit statistics:		
% of first lien positions	**43%**	45%
Weighted average loan-to-value ratios	**70%**	68%
Weighted average FICO scores	**726**	727
Loans 90 days past due	**.25%**	.22%
Checking-related statistics:		
Retail Banking checking relationships	**1,962,000**	1,950,000
Consumer DDA households using online banking	**960,000**	880,000
% of consumer DDA households using online banking	**54%**	50%
Consumer DDA households using online bill payment	**450,000**	253,000
% of consumer DDA households using online bill payment	**25%**	14%
Small business loans and managed deposits:		
Small business loans	**$5,218**	$4,652
Managed deposits:		
On-balance sheet		
Noninterest-bearing demand	**$4,236**	$4,357
Interest-bearing demand	**1,627**	1,454
Money market	**2,629**	2,705
Certificates of deposit	**746**	553
Off-balance sheet (g)		
Small business sweep checking	**1,833**	1,454
Total managed deposits	**11,071**	10,523
Brokerage statistics:		
Margin loans	**$166**	$205
Financial consultants (h)	**757**	783
Full service brokerage offices	**99**	100
Brokerage account assets (billions)	**$46**	$43
Other statistics:		
Gains on sales of education loans (i)	**$3**	$4

(a) Presented as of March 31 except for net charge-offs, net charge-off ratio, gains on sales of education loans, and small business loans and managed deposits, which are for the three months ended.
(b) Amounts include the impact of Mercantile, which we acquired effective March 2, 2007.
(c) Excludes certain satellite branches that provide limited products and service hours.
(d) Excludes brokerage account assets.
(e) Amounts do not include the impact of Mercantile, which we acquired effective March 2, 2007.
(f) Includes nonperforming loans of $93 million at March 31, 2007 and $84 million at March 31, 2006.
(g) Represents small business balances. These balances are swept into liquidity products managed by other PNC business segments, the majority of which are off-balance sheet.
(h) Financial consultants provide services in full service brokerage offices and PNC traditional branches.
(i) Included in "Noninterest income-Other."

Retail Banking's earnings were $201 million for the first quarter of 2007 compared with $190 million for the same period in 2006. The 6% increase over the first quarter of 2006 was driven by the Mercantile acquisition, strong market-related fees, and continued customer and balance sheet growth, partially offset by an increase in the provision for credit losses.

Highlights of Retail Banking's performance during the first quarter of 2007 include the following:

- The acquisition of Mercantile added approximately $10.3 billion of loans and $12.0 billion in deposits to Retail Banking, as of March 31, 2007. Other salient points related to the acquisition include the following:
  - Added 235 branches and 256 ATMs,
  - Significantly increased our presence in Maryland,
  - Added to our presence in Virginia and the Washington, DC area,
  - Expanded our wealth management business with the addition of $22 billion in assets under management, and
  - Significantly increased the size of our small business banking franchise.
- In September 2006 we launched our own PNC-branded credit card product. As of March 31, 2007, more than 89,000 cards have been issued and we have $186 million in receivable balances. The results to date have exceeded our expectations.
- Consumer and small business checking relationships increased 12,000 compared with March 31, 2006 and increased 8,000 since December 31, 2006, not including the impact of Mercantile. The low-value account closures resulting from One PNC pricing initiatives appear to have run their course. The new checking account product line has increased the average balance of new accounts by approximately 20%.
- Our wealth management and brokerage businesses have benefited from the recent market conditions, as follows:
  - Excluding the $22 billion of assets under management related to our acquisition of Mercantile, assets under management increased $4 billion compared with the first quarter of 2006,
  - Brokerage assets increased $3 billion or 7% from March 31, 2006, and
  - Asset management and brokerage fees increased $18 million or 12% over the first quarter of 2006.
- Recent investments in our on-line capabilities are paying dividends:
  - Since March 31, 2006, consumer-related checking households using online banking increased 9% and checking households using online bill payment increased 78%, and
  - Based on benchmarking reports of a study performed by the Change Sciences Group of consumer on-line experiences on the websites of 38 leading national and regional banks, we have moved from the 36th rated site (May 2006) to the 7th rated site (March 2007), the largest movement within the benchmarking group.
- Customer service and customer retention have been and continue to be our focus. During the first quarter of 2007 we partnered with the Gallup organization to evaluate customer and employee satisfaction at the branch level.
- In addition to Mercantile, we opened 6 new branches and consolidated 16 branches in the first quarter as we continue to work to optimize our network by opening new branches in high growth areas, relocating branches to areas of higher opportunity, and consolidating branches in areas of declining market opportunity. We relocated 2 branches during the first quarter of 2007.

Total revenue for the first quarter of 2007 was $839 million compared with $753 million for 2006. Taxable-equivalent net interest income of $452 million increased $44 million, or 11%, compared with 2006 due to an 11% increase in average deposits and a 15% increase in average loan balances. Net interest income growth has been somewhat mitigated by declining spreads on the loan portfolio. In the current rate environment, we expect the spread we receive on both loans and deposits to be under pressure.

Noninterest income increased $42 million, or 12%, compared with the prior year first quarter primarily driven by increased asset management fees, brokerage fees, and service charges on deposits and consumer services. This growth can be attributed primarily to the following:

- Mercantile acquisition,
- Comparatively favorable equity markets,
- Increased assets under management,
- Increased brokerage account assets and activities,
- Higher gains on asset sales,
- Increased third party loan servicing activities, and
- Customer growth.

The provision for credit losses increased $14 million when compared with the first quarter of 2006. The increased provision is primarily a result of growth within the commercial loan portfolio and charge-offs returning to a more normal level. Charge-offs over the last couple of years have been low compared to historical averages.

Noninterest expense for the first quarter of 2007 totaled $496 million, an increase of $56 million, or 13%, compared with 2006. Expense increases were primarily attributable to the Mercantile acquisition, continued growth of the company's branch network, expansion of the private client group, investments in various initiatives such as the new simplified checking account product line and new PNC-branded credit card, and an increase in volume-related expenses tied to noninterest income.

The new simplified checking account product line is expected to continue to increase checking account households and average balances per account. Features of the new product line could negatively impact growth rates on service charges on deposits fee income and noninterest expenses.

Full-time employees at March 31, 2007 totaled 11,645, an increase of 1,920 from March 31, 2006. Excluding the impact of the Mercantile acquisition, full-time employees declined by 100 since March 31, 2006. Part-time employees have increased by 1,044 since March 31, 2006. The increase in part-time employees is a result of the Mercantile acquisition and various customer service enhancement and efficiency initiatives. These initiatives include utilizing more part-time customer-facing employees during peak business hours versus full-time employees for the entire day.

Growing core checking deposits as a lower-cost funding source and as the cornerstone product to build customer relationships is the primary objective of our deposit strategy. Average total deposits increased $5.1 billion, or 11%, compared with the first quarter of 2006. The deposit growth was driven by the Mercantile acquisition, the recapture of consumer certificate of deposit balances as interest rates have risen, and increases in the number of checking relationships.

In the current rate environment, we expect the rate of growth in demand deposit balances to be equal to or less than the rate of overall growth for customer checking relationships. Additionally, we continue to expect to see customers shift their funds from lower yielding interest-bearing deposits to higher yielding deposits or investment products, and to pay off loans. The shift has been evident during the past year and has impacted the level of average demand deposits in that period.

- Certificates of deposits increased $2.6 billion and money market deposits increased $1.0 billion. These increases were attributable to the Mercantile acquisition and the current interest rate environment attracting customers back into these products.
- Average demand deposit growth of $1.4 billion, or 9%, was almost solely due to the Mercantile acquisition as the core growth was impacted by customers shifting funds into higher yielding deposits, small business sweep checking products, and investment products.
- Small business and consumer-related checking relationships retention remained strong and stable. Consumer-related checking relationship retention has benefited from improved penetration rates of debit cards, online banking and online bill payment.

Currently, we are focused on a relationship-based lending strategy to target specific customer sectors (homeowners, small businesses and auto dealerships) while seeking to maintain a moderate risk profile in the loan portfolio.

- Average commercial loans grew $2.8 billion, or 51%, compared with the first quarter of 2006. The increase is attributable to the Mercantile acquisition and organic loan growth on the strength of increased loan demand from existing small business customers and the acquisition of new relationships through our sales efforts.
- Average home equity loans grew by $103 million, or 1%, compared with the first quarter of 2006. Consumer loan demand has slowed as a result of the current rate environment.
- Average indirect loans grew $493 million, or 50%, compared with the first quarter of 2006. The increase is attributable to the Mercantile acquisition and growth in our core portfolio that has benefited from increased sales and marketing efforts.
- Average residential mortgage loans increased $133 million, or 8%, primarily due to the addition of loans from the Mercantile acquisition. Payoffs in our existing portfolio, which will continue throughout 2007, partially offset the impact of the additional loans acquired. Additionally, our transfer of residential mortgages to held for sale and subsequent sale of those loans at the end of September 2006 reduced the size of this loan portfolio from the first quarter of 2006.

Assets under management of $76 billion at March 31, 2007 increased $26 billion compared with the balance at March 31, 2006. Asset growth included $22 billion from the Mercantile acquisition and PNC portfolio growth of $4 billion as a result of the effects of comparatively higher equity markets and a breakeven position in client net asset flows. Client net asset flows are the result of investment additions from new and existing clients offset by ordinary course distributions from trust and investment management accounts and account closures.

Nondiscretionary assets under administration of $111 billion at March 31, 2007 increased $24 billion compared with the balance at March 31, 2006. The growth included $23 billion from the Mercantile acquisition and PNC portfolio growth of $1 billion due primarily to the effect of comparatively higher equity markets.

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CORPORATE & INSTITUTIONAL BANKING

(Unaudited)

Three months ended March 31 Taxable-equivalent basis Dollars in millions except as noted	2007	2006
INCOME STATEMENT		
Net interest income	**$183**	$170
Noninterest income		
Corporate service fees	**127**	113
Other	**60**	52
Noninterest income	**187**	165
Total revenue	**370**	335
Provision for (recoveries of) credit losses	**(16)**	12
Noninterest expense	**193**	175
Pretax earnings	**193**	148
Income taxes	**61**	46
Earnings	**$132**	$102
AVERAGE BALANCE SHEET		
Loans		
Corporate (a)	**$8,909**	$8,410
Commercial real estate	**3,253**	2,643
Commercial – real estate related	**2,733**	2,454
Asset-based lending	**4,513**	4,252
Total loans	**19,408**	17,759
Goodwill and other intangible assets	**1,544**	1,314
Loans held for sale	**1,302**	866
Other assets	**4,244**	3,849
Total assets	**$26,498**	$23,788
Deposits		
Noninterest-bearing demand	**$7,083**	$6,697
Money market	**4,530**	2,110
Other	**926**	777
Total deposits	**12,539**	9,584
Other liabilities	**2,850**	2,557
Capital	**2,064**	1,802
Total funds	**$17,453**	$13,943

(a) Includeslease financing.

Three months ended March 31 Taxable-equivalent basis Dollars in millions except as noted	2007	2006
PERFORMANCE RATIOS		
Return on average capital	**26%**	23%
Noninterest income to total revenue	**51**	49
Efficiency	**52**	52
COMMERCIAL MORTGAGE SERVICING PORTFOLIO (in billions)		
Beginning of period	**$200**	$136
Acquisitions/additions	**16**	13
Repayments/transfers	**(10)**	(9)
End of period	**$206**	$140
OTHER INFORMATION		
Consolidated revenue from: (a)		
Treasury Management	**$110**	$101
Capital Markets	**$67**	$64
Midland Loan Services	**$54**	$42
Total loans (b)	**$21,193**	$18,163
Nonperforming assets (b) (c)	**$64**	$111
Net charge-offs	**$7**	$4
Full-time employees (b)	**2,038**	1,892
Net gains on commercial mortgage loan sales	**$15**	$7
Net carrying amount of commercial mortgage servicing rights (b)	**$487**	$353

(a) Represents consolidated PNC amounts.
(b) At March 31.
(c) Includes nonperforming loans of $51 million at March 31, 2007 and $97 million at March 31, 2006.

Corporate & Institutional Banking earned $132 million in the first quarter of 2007 compared with $102 million in the first quarter of 2006. The increase compared with the first quarter of 2006 was largely the result of a lower provision for credit losses due to improving asset quality and increases in total revenue partly offset by an increase in noninterest expense.

Highlights of the first three months of 2007 for Corporate & Institutional Banking included:

- Average loan balances increased $1.6 billion from the prior year first quarter. Growth in all loan categories resulted from the Mercantile acquisition and continuing customer demand. Competitive pressures for risk-adjusted returns have increased due to larger amounts of liquidity in the credit markets, which has resulted in shrinking loan spreads and slowing loan growth. We expect this trend to continue through 2007 as we seek to maintain our moderate risk profile.
- Asset quality continued to be strong with nonperforming assets declining $47 million, or 42%, at March 31, 2007 compared with March 31, 2006 and consistent with levels of $63 million at December 31, 2006. The provision for credit losses declined $28 million in the comparison of the first quarters of 2007 and 2006. Consistent with our strategy to maintain a moderate risk profile, these changes reflect actions we took to reduce our credit exposure. In addition, the continued improvement in asset quality reflected in PNC and industry experience led to a reduction in default factors used to determine required reserves.

- Average deposit balances for the first three months of 2007 increased $3.0 billion, or 31%, compared with the first three months of 2006. The increase was primarily the result of corporate deposits in money market accounts and noninterest-bearing deposit growth related to our commercial mortgage servicing portfolio.
- Total revenue increased $35 million, or 10%, for the first three months of 2007 compared with the first three months of 2006. The increase was driven by higher corporate service fees from mergers and acquisitions advisory services, treasury management products and services and commercial mortgage servicing. In addition, other noninterest income increased due to higher gains on sale of loans. Net interest income increased in the comparison due primarily to the higher level of noninterest-bearing deposits.

Commercial mortgage servicing revenue, which includes fees and net interest income, totaled $54 million for the first three months of 2007. The 29% revenue growth over the first three months of 2006 was primarily driven by growth in the commercial mortgage servicing portfolio, which increased to $206 billion. The associated increase in deposits has increased the net interest income portion of Midland Loan Services' total revenue.

- Noninterest expense increased 10% compared with the first quarter of 2006 consistent with the growth in total revenue. This reflects the continued investment in various growth and fee-based initiatives, customer growth, and increase in the commercial mortgage servicing portfolio.

See the additional revenue discussion regarding treasury management and capital markets-related products and services and commercial loan servicing on page 7.

BLACKROCK

Our BlackRock business segment earned $52 million for the first quarter of 2007 and $49 million for the first quarter of 2006. For this PNC business segment presentation, our share of MLIM transaction integration costs for both periods has been reclassified from BlackRock to "Other." In addition, these business segment earnings for the first three months of 2006 have been reduced by minority interest in income of BlackRock, excluding MLIM transaction integration costs, totaling $23 million. Also, these business segment earnings are net of additional PNC income taxes recorded on PNC's share of BlackRock's earnings.

We have modified the presentation of historical BlackRock business segment results as described above to conform with the current business segment reporting presentation in this Financial Review.

PNC's investment in BlackRock was $3.8 billion at March 31, 2007 compared with $3.9 billion at December 31, 2006. Based upon BlackRock's closing market price of $156.31 per common share at March 31, 2007, the market value of our investment in BlackRock was approximately $6.7 billion at that date. As such, an additional $2.9 billion of value was not recognized in our investment account at that date.

BLACKROCK/MLIM TRANSACTION

As further described in our 2006 Form 10-K, on September 29, 2006 Merrill Lynch contributed its investment management business ("MLIM") to BlackRock in exchange for 65 million shares of newly issued BlackRock common and preferred stock.

For the three months ended March 31, 2006, our Consolidated Income Statement included our former 69% ownership interest in BlackRock. However, our Consolidated Balance Sheet as of March 31, 2007 and December 31, 2006 reflected the September 29, 2006 deconsolidation of BlackRock's balance sheet amounts and recognized our approximate 34% ownership interest in BlackRock as an investment accounted for under the equity method. This accounting has resulted in a reduction in certain revenue and noninterest expense categories on our Consolidated Income Statement as our share of BlackRock's net income is now reported within asset management noninterest income.

BLACKROCK LTIP PROGRAMS

As further described in our 2006 Form 10-K, BlackRock adopted the 2002 LTIP program to help attract and retain qualified professionals. We agreed to transfer 4 million of the shares of BlackRock common stock then held by us to fund the 2002 and future programs approved by BlackRock's board of directors, subject to certain conditions and limitations. Prior to 2006, BlackRock granted awards under the 2002 LTIP program of approximately $230 million, of which approximately $210 million were paid on January 30, 2007. The awards were funded by approximately 17% in cash from BlackRock and the remainder in BlackRock common stock transferred by PNC and distributed to LTIP participants (approximately 1 million shares).

We recognized a pretax gain of $82 million in the first quarter of 2007 from the transfer of BlackRock shares to satisfy the majority of our 2002 LTIP obligation. The gain was reflected in noninterest income and reflected the excess of market value over book value of approximately 1 million shares transferred in January 2007.

PNC's noninterest income in the first quarter of 2007 also included a $30 million pretax charge related to our commitment to fund additional BlackRock LTIP programs. This charge represents the mark-to-market of our remaining BlackRock LTIP obligation as of March 31, 2007.

BlackRock granted additional restricted stock unit awards in January 2007, all of which are subject to achieving earnings performance goals prior to the vesting date of September 29, 2011. Of the shares of BlackRock common stock that we have agreed to transfer to help fund their LTIP programs, approximately 1.6 million shares of the remaining 3.0 million share obligation have been committed to fund the restricted stock unit awards vesting in 2011 and the amount remaining would then be available for future awards. While we may continue to see volatility in earnings as we mark to market our LTIP shares obligation each quarter-end, we will not be able to recognize additional gains, if applicable, for the difference between the market value and the book value of the committed BlackRock common shares until the shares are distributed to LTIP participants.

PFPC

(Unaudited)

Three months ended March 31 Dollars in millions except as noted	2007	2006
INCOME STATEMENT		
Servicing revenue (a)	**$208**	$205
Operating expense (a)	**153**	151
Operating income	**55**	54
Debt financing	**10**	10
Nonoperating income (b)	**2**	1
Pretax earnings	**47**	45
Income taxes	**16**	18
Earnings	**$31**	$27
PERIOD-END BALANCE SHEET		
Goodwill and other intangible assets	**$1,008**	$1,022
Other assets	**1,370**	1,363
Total assets	**$2,378**	$2,385
Debt financing	**$760**	$890
Other liabilities	**1,091**	1,094
Shareholder's equity	**527**	401
Total funds	**$2,378**	$2,385
PERFORMANCE RATIOS		
Return on average equity	**25%**	28%
Operating margin (c)	**26**	26
SERVICING STATISTICS (at March 31)		
Accounting/administration net fund assets (in billions)		
Domestic	**$731**	$665
Offshore	**91**	85
Total	**$822**	$750
Asset type (in billions)		
Money market	**$280**	$238
Equity	**352**	338
Fixed income	**111**	107
Other (d)	**79**	67
Total	**$822**	$750
Custody fund assets (in billions)	**$435**	$383
Shareholder accounts (in millions)		
Transfer agency	**18**	20
Subaccounting	**50**	45
Total	**68**	65
OTHER INFORMATION		
Full-time employees (at March 31)	**4,400**	4,291

(a) Certain out-of-pocket expense items which are then client billable are included in both servicing revenue and operating expense above, but offset each other entirely and therefore have no net effect on operating income. Distribution revenue and expenses which relate to 12b-1 fees that PFPC receives from certain fund clients for the payment of marketing, sales and service expenses also entirely offset each other, but are netted for presentation purposes above. Prior period amounts have been reclassified to conform with the current period presentation.
(b) Net of nonoperating expense.
(c) Total operating income divided by total servicing revenue.
(d) Includes alternative investment net assets serviced.

PFPC earned $31 million for the first quarter of 2007 compared with $27 million in the year-earlier period. The earnings increase from the first quarter of 2006 reflected new business, organic growth and market appreciation, partly offset by client deconversions. Certain tax benefits also contributed to the increase in earnings compared with the first three months of 2006.

Highlights of PFPC's performance in the first quarter of 2007 included:

- Securities lending revenue increased 43% as loan outstandings grew by 91%.
- Managed accounts revenue increased 19% due to a 59% increase in assets serviced.
- Domestic alternative investment service revenues were up 16% fueled by a 13% increase in assets serviced.

Servicing revenue for the first quarter of 2007 increased by $3 million to $208 million over the first quarter of 2006. Revenue increases related to managed account services, alternative investment services, and securities lending benefited from new business and existing asset growth. These increases were partially offset by a decline in offshore revenue due to the loss of a major client during 2006.

Operating expense increased $2 million, or 1%, to $153 million, in the first three months of 2007 compared with the first three months of 2006. The majority of this increase is attributable to increased headcount and technology costs to support new business achieved over the past year.

Nonoperating income benefited from grants received in a foreign jurisdiction for employment expansion as the firm's offshore operations continue to grow.

Total assets serviced by PFPC amounted to $2.2 trillion at March 31, 2007 compared with $1.9 trillion at March 31, 2006.

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CRITICAL ACCOUNTING POLICIES AND JUDGMENTS

Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report and in Part II, Item 8 of our 2006 Form 10-K describe the most significant accounting policies that we use. Certain of these policies require us to make estimates and strategic or economic assumptions that may prove to be inaccurate or subject to variations that may significantly affect our reported results and financial position for the period or in future periods.

We must use estimates, assumptions, and judgments when financial assets and liabilities are required to be recorded at, or adjusted to reflect, fair value. Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Fair values and the information used to record valuation adjustments for certain assets and liabilities are based on either quoted market prices or are provided by other independent third-party sources, when available. When such third-party information is not available, we estimate fair value primarily by using cash flow and other financial modeling techniques. Changes in underlying factors, assumptions, or estimates in any of these areas could materially impact our future financial condition and results of operations.

We discuss the following critical accounting policies and judgments under this same heading in Item 7 of our 2006 Form 10-K:

- Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit
- Private Equity Asset Valuation
- Lease Residuals
- Goodwill
- Revenue recognition
- Income taxes

Additional discussion and information on the application of these policies is found in other portions of this Financial Review and in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report. In particular, see Note 1 Accounting Policies and Note 11 Income Taxes in the Notes To Consolidated Financial Statements regarding our first quarter 2007 adoption of FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109."*

STATUS OF QUALIFIED DEFINED BENEFIT PENSION PLAN

We have a noncontributory, qualified defined benefit pension plan ("plan" or "pension plan") covering eligible employees. Benefits are derived from a cash balance formula based on compensation levels, age and length of service. Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants. Plan assets are currently approximately 60% invested in equity investments with most of the remainder invested in fixed income instruments. Plan fiduciaries determine and review the plan's investment policy.

We calculate the expense associated with the pension plan in accordance with SFAS 87, *"Employers' Accounting for Pensions,"* and we use assumptions and methods that are compatible with the requirements of SFAS 87, including a policy of reflecting trust assets at their fair market value. On an annual basis, we review the actuarial assumptions related to the pension plan, including the discount rate, rate of compensation increase and the expected return on plan assets. Neither the discount rate nor the compensation increase assumptions significantly affect pension expense.

The expected long-term return on assets assumption does significantly affect pension expense. The expected long-term return on plan assets for determining net periodic pension cost for 2007 was 8.25%, unchanged from 2006. Under current accounting rules, the difference between expected long-term returns and actual returns is accumulated and amortized to pension expense over future periods. Each one percentage point difference in actual return compared with our expected return causes expense in subsequent years to change by up to $4 million as the impact is amortized into results of operations.

The table below reflects the estimated effects on pension expense of certain changes in assumptions, using 2007 estimated expense as a baseline.

Change in Assumption	Estimated Increase to 2007 Pension Expense (In millions)
.5% decrease in discount rate	$2
.5% decrease in expected long-term return on assets	$10
.5% increase in compensation rate	$2

We currently estimate a pretax pension benefit of $33 million in 2007 compared with a pretax benefit of $12 million in 2006. The primary reason for this change is 2006 investment returns in excess of the expected long-term return assumption. Actual pension benefit recognized for the first quarter of 2007 was $8 million.

In September 2006, the FASB issued SFAS 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132 (R)*." This statement affects the accounting and reporting for our qualified pension plan, our nonqualified retirement plans, our postretirement welfare benefit plans, and our postemployment benefit plans. SFAS 158 requires recognition on the balance sheet of the overfunded or underfunded position of these plans as the difference between the fair value of plan assets and the related benefit obligations. To the extent that a plan's net funded status differs from the amounts currently recognized on the balance sheet, the difference, net of tax, will be recorded as a part of accumulated other comprehensive income (loss) ("AOCI") within the shareholders' equity section of the balance sheet. This guidance also requires the recognition of any unrecognized actuarial gains and losses and unrecognized prior services costs to AOCI, net of tax. Post-adoption changes in unrecognized actuarial gains and losses as well as unrecognized prior service costs will be recognized in other comprehensive income, net of tax. SFAS 158 was effective for PNC as of December 31, 2006, with no restatements permitted for prior year-end reporting periods, and resulted in an adjustment for all unamortized net actuarial losses and prior service costs of $132 million after tax. See Note 1 Accounting Policies of our 2006 Form 10-K for further information regarding our adoption of this pronouncement.

Our pension plan contribution requirements are not particularly sensitive to actuarial assumptions. Investment performance has the most impact on contribution requirements and will drive the amount of permitted contributions in future years. Also, current law, including the provisions of the Pension Protection Act of 2006, sets limits as to both minimum and maximum contributions to the plan. In any event, any large near-term contributions to the plan will be at our discretion, as we expect that the minimum required contributions under the law will be minimal or zero for several years.

See Note 8 Certain Employee Benefit And Stock-Based Compensation Plans in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report regarding a defined pension plan related to Mercantile that we plan to integrate into the PNC plan as of December 31, 2007.

We maintain other defined benefit plans that have a less significant effect on financial results, including various nonqualified supplemental retirement plans for certain employees.

RISK MANAGEMENT

We encounter risk as part of the normal course of our business and we design risk management processes to help manage these risks. The Risk Management section included in Item 7 of our 2006 Form 10-K provides a general overview of the risk measurement, control strategies and monitoring aspects of our corporate-level risk management processes. Additionally, our 2006 Form 10-K provides an analysis of the risk management processes for what we view as our primary areas of risk: credit, operational, market and liquidity, as well as a discussion of our use of financial derivatives as part of our overall asset and liability risk management process. In appropriate places within that section, historical performance is also addressed. The following information in this Risk Management section updates our 2006 Form 10-K disclosures in these areas.

CREDIT RISK MANAGEMENT

Credit risk represents the possibility that a customer, counterparty or issuer may not perform in accordance with contractual terms. Credit risk is inherent in the financial services business and results from extending credit to customers, purchasing securities, and entering into financial derivative transactions. Credit risk is one of the most common risks in banking and is one of our most significant risks.

Nonperforming, Past Due And Potential Problem Assets

See Note 4 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report and included here by reference for details of the types of nonperforming assets that we held at March 31, 2007 and December 31, 2006. In addition, certain performing assets have interest payments that are past due or have the potential for future repayment problems.

Total nonperforming assets at March 31, 2007 increased $33 million, to $204 million, compared with December 31, 2006. Our acquisition of Mercantile added $35 million of nonperforming assets at March 31, 2007.

Foreclosed lease assets of $12 million at both March 31, 2007 and December 31, 2006 primarily represent our repossession of collateral related to a single airline industry credit. This repossessed collateral is currently being leased.

The amount of nonperforming loans that was current as to principal and interest was $60 million at March 31, 2007 and $59 million at December 31, 2006. While we believe that overall asset quality will remain strong for the near term, the current level of asset quality is very strong by historical standards and may not be sustainable for the foreseeable future, particularly in the event of deteriorating economic conditions or higher interest rates.

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Nonperforming Assets By Business

In millions	March 31 2007	Dec. 31 2006
Retail Banking	**$ 101**	$ 106
Corporate & Institutional Banking	**64**	63
Other (a)	**39**	2
Total nonperforming assets	**$ 204**	$ 171

(a) Amountat March 31, 2007 includes $35 million related to Mercantile.

Change In Nonperforming Assets

In millions	2007	2006
January 1	**$171**	$215
Transferred from accrual	**76**	50
Acquisition – Mercantile	**35**	
Returned to performing	**(4)**	(3)
Principal activity including payoffs	**(49)**	(35)
Asset sales	**(3)**	(5)
Charge-offs and valuation adjustments	**(22)**	(16)
March 31	**$204**	$206

Accruing Loans Past Due 90 Days Or More

	Amount		Percent of Total Outstandings	
Dollars in millions	Mar. 31 2007	Dec. 31 2006	Mar. 31 2007	Dec. 31 2006
Commercial	**$ 8**	$ 9	**.03%**	.04%
Commercial real estate	**4**	5	**.04**	.14
Consumer	**25**	28	**.14**	.17
Residential mortgage	**7**	7	**.08**	.11
Other	**2**	1	**.55**	.27
Total loans	**$ 46**	$ 50	**.07%**	.10%

Loans that are not included in nonperforming or past due categories but cause us to be uncertain about the borrower's ability to comply with existing repayment terms over the next six months totaled $48 million at March 31, 2007 compared with $41 million at December 31, 2006. Approximately 52% of these loans are in the Corporate & Institutional Banking portfolio.

Allowances For Loan And Lease Losses And Unfunded Loan Commitments And Letters Of Credit

We maintain an allowance for loan and lease losses to absorb losses from the loan portfolio. We determine the allowance based on quarterly assessments of the probable estimated losses inherent in the loan portfolio. While we make allocations to specific loans and pools of loans, the total reserve is available for all loan and lease losses.

We refer you to Note 4 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report regarding changes in the allowance for loan and lease losses and changes in the allowance for unfunded loan commitments and letters of credit for additional information which is included herein by reference.

Allocation Of Allowance For Loan And Lease Losses

	March 31, 2007		December 31, 2006	
Dollars in millions	Allowance	Loans to Total Loans	Allowance	Loans to Total Loans
Commercial	**$ 477**	**37.3%**	$ 443	40.9%
Commercial real estate	**110**	**14.9**	30	7.0
Consumer	**41**	**28.7**	28	33.1
Residential mortgage	**14**	**14.5**	7	12.7
Lease financing	**45**	**4.0**	48	5.6
Other	**3**	**.6**	4	.7
Total	**$ 690**	**100.0%**	$ 560	100.0%

In addition to the allowance for loan and lease losses, we maintain an allowance for unfunded loan commitments and letters of credit. We report this allowance as a liability on our Consolidated Balance Sheet. We determine this amount using estimates of the probability of the ultimate funding and losses related to those credit exposures. This methodology is similar to the one we use for determining the adequacy of our allowance for loan and lease losses.

The provision for credit losses for the first three months of 2007 and the evaluation of the allowances for loan and lease losses and unfunded loan commitments and letters of credit as of March 31, 2007 reflected loan growth, changes in loan portfolio composition, the impact of refinements to our reserve methodology, and changes in asset quality. The provision includes amounts for probable losses on loans and credit exposure related to unfunded loan commitments and letters of credit.

We do not expect to sustain asset quality at its current level. However, based on the assets we currently hold and current business trends and activities, we believe that overall asset quality will remain strong by historical standards for at least the near term. This outlook, combined with expected loan growth, may result in an increase in the allowance for loan and lease losses in future periods.

The allowance as a percent of nonperforming loans was 388% and as a percent of total loans was 1.10% at March 31, 2007. The comparable percentages at December 31, 2006 were 381% and 1.12%.

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Charge-Offs And Recoveries

Three months ended March 31 Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans
2007				
Commercial	**$ 31**	**$ 7**	**$ 24**	**.45%**
Consumer	**17**	**5**	**12**	**.29**
Total	**$ 48**	**$ 12**	**$ 36**	**.27**
2006				
Commercial	$ 16	$ 6	$ 10	.21%
Consumer	12	4	8	.20
Total	$ 28	$ 10	$ 18	.15

We establish reserves to provide coverage for probable losses not considered in the specific, pool and consumer reserve methodologies, such as, but not limited to, industry concentrations and conditions; credit quality trends; recent loss experience in particular sectors of the portfolio; ability and depth of lending management; changes in risk selection and underwriting standards and the timing of available information. The amount of reserves for these qualitative factors is assigned to loan categories and to business segments primarily based on the relative specific and pool allocation amounts. The amount of reserve allocated for qualitative factors represented 7.0% of the total allowance and .08% of total loans, net of unearned income, at March 31, 2007.

CREDIT DEFAULT SWAPS

Credit default swaps provide, for a fee, an assumption by a third party of a portion of the credit risk related to the underlying financial instruments. We use these contracts to mitigate credit risk associated with commercial lending activities as well as proprietary derivative and convertible bond trading. Credit default swaps are included in the Free-Standing Derivatives table in the Financial Derivatives section of this Risk Management discussion. Net gains or losses from credit default swaps are reflected in the Trading line item on our Consolidated Income Statement and were not significant in the first three months of 2007 or 2006.

MARKET RISK MANAGEMENT OVERVIEW

Market risk is the risk of a loss in earnings or economic value due to adverse movements in market factors such as interest rates, credit spreads, foreign exchange rates, and equity prices.

MARKET RISK MANAGEMENT – INTEREST RATE RISK

Interest rate risk results primarily from our traditional banking activities of gathering deposits and extending loans. Many factors, including economic and financial conditions, movements in interest rates, and consumer preferences, affect the difference between the interest that we earn on assets and the interest that we pay on liabilities and the level of our non-interest bearing funding sources. Due to the repricing term mismatches and embedded options inherent in certain of these products, changes in market interest rates not only affect expected near-term earnings, but also the economic values of these assets and liabilities.

PNC's Asset and Liability Management group centrally manages interest rate risk within limits and guidelines set forth in our risk management policies approved by the Asset and Liability Committee and the Risk Committee of the Board.

Sensitivity estimates and market interest rate benchmarks for the first quarter of 2007 and 2006 follow:

Interest Sensitivity Analysis

	First Quarter 2007	First Quarter 2006
Net Interest Income Sensitivity Simulation		
Effect on net interest income in first year from gradual interest rate change over following 12 months of:		
100 basis point increase	**(2.6)%**	(.3)%
100 basis point decrease	**2.2%**	.1%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	**(5.8)%**	(1.4)%
100 basis point decrease	**3.3%**	(.4)%
Duration of Equity Model		
Base case duration of equity (in years):	**2.0**	1.0
Key Period-End Interest Rates		
One-month LIBOR	**5.32%**	4.83%
Three-year swap	**4.95%**	5.26%

In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. The following Net Interest Income Sensitivity To Alternate Rate Scenarios table reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist's most likely rate forecast, (ii) implied market forward rates, and (iii) a Two-Ten Inversion (a 200 basis point inversion between two-year and ten-year rates superimposed on current base rates) scenario. We are inherently sensitive to a flatter or inverted yield curve.

Net Interest Income Sensitivity To Alternate Rate Scenarios (First Quarter 2007)

	PNC Economist	Market Forward	Two-Ten Inversion
First year sensitivity	1.5%	1.6%	(7.2)%
Second year sensitivity	6.6%	4.5%	(6.8)%

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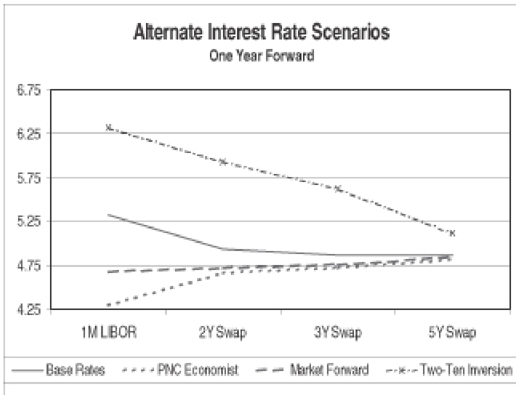
All changes in forecasted net interest income are relative to results in a base rate scenario where current market rates are assumed to remain unchanged over the forecast horizon.

When forecasting net interest income, we make assumptions about interest rates and the shape of the yield curve, the volume and characteristics of new business, and the behavior of existing on- and off-balance sheet positions. These assumptions determine the future level of simulated net interest income in the base interest rate scenario and the other interest rate scenarios presented in the following table. These simulations assume that as assets and liabilities mature, they are replaced or repriced at market rates.

The graph below presents the yield curves for the base rate scenario and each of the alternative scenarios one year forward.



Our risk position has become increasingly liability sensitive in part due to the continued flat yield curve and in part due to our balance sheet management strategies. We believe that we have the deposit funding base and balance sheet flexibility to adjust, where appropriate, to changing interest rates and market conditions.

Market Risk Management – Trading Risk

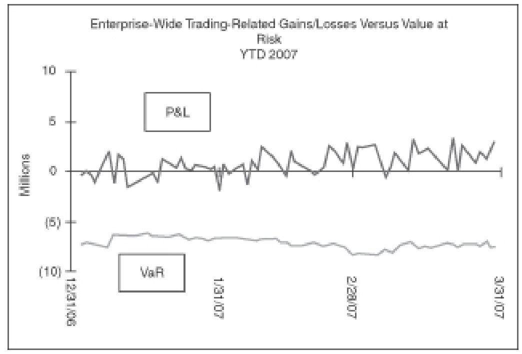
Our trading activities primarily include customer-driven trading in fixed income securities, equities, derivatives, and foreign exchange contracts. They also include the underwriting of fixed income and equity securities and proprietary trading.

We use value-at-risk ("VaR") as the primary means to measure and monitor market risk in trading activities. The Risk Committee of the Board establishes an enterprise-wide VaR limit on our trading activities.

During the first quarter of 2007, our VaR ranged between $6.1 million and $8.4 million, averaging $7.2 million.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process known as backtesting. The backtesting process consists of comparing actual observations of trading-related gains or losses against the VaR levels that were calculated at the close of the prior day. We would expect a maximum of two to three instances a year in which actual losses exceeded the prior day VaR measure. During the first three months of 2007, there were no such instances at the enterprise-wide level.

The following graph shows a comparison of enterprise-wide trading-related gains and losses against prior day VaR for the period.



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Total trading revenue for the first quarter of 2007 and 2006 was as follows:

Three months ended March 31 – in millions	2007	2006
Noninterest income	**$52**	$57
Total trading revenue	**$52**	$57
Securities underwriting and trading (a)	**$ 9**	$14
Foreign exchange	**14**	14
Financial derivatives	**29**	29
Total trading revenue	**$52**	$57

(a) Includes changes in fair value for certain loans accounted for at fair value.

Average trading assets and liabilities consisted of the following:

Three months ended March 31 - in millions	2007	2006
Trading assets		
Securities (a)	**$1,569**	$1,797
Resale agreements (b)	**820**	321
Financial derivatives (c)	**1,115**	908
Loans at fair value (c)	**193**	
Total trading assets	**$3,697**	$3,026
Trading liabilities		
Securities sold short (d)	**$1,264**	$ 663
Repurchase agreements and other borrowings (e)	**363**	886
Financial derivatives (f)	**1,126**	901
Borrowings at fair value (f)	**39**	
Total trading liabilities	**$2,792**	$2,450

(a) Included in Interest-earning assets-Other on the Average Consolidated Balance Sheetand Net Interest Analysis.
(b) Included in Federal funds sold and resale agreements.
(c) Included in Noninterest-earning assets-Other.
(d) Included in Borrowed funds – Other.
(e) Included in Borrowed funds—Repurchase agreements and Other.
(f) Included in Accrued expenses and other liabilities.

MARKET RISK MANAGEMENT – EQUITY AND OTHER INVESTMENT RISK

Equity investment risk is the risk of potential losses associated with investing in both private and public equity markets.

BlackRock

PNC owns approximately 43 million shares of BlackRock common stock, accounted for under the equity method. Our total investment in BlackRock was $3.8 billion at March 31, 2007 compared with $3.9 billion at December 31, 2006. The market value of our investment in BlackRock was $6.7 billion at March 31, 2007. The primary risk measurement, similar to other equity investments, is economic capital.

Low Income Housing Projects

Included in our equity investments are limited partnerships that sponsor affordable housing projects. At March 31, 2007 these investments, consisting of partnerships accounted for under the equity method as well as equity investments held by consolidated partnerships, totaled $728 million. The comparable amount at December 31, 2006 was $708 million. PNC's equity investment at risk was $154 million at March 31, 2007 compared with $134 million at year-end 2006. We also had commitments to make additional equity investments in affordable housing limited partnerships of $56 million at March 31, 2007 compared with $71 million at December 31, 2006.

Private Equity

The private equity portfolio is comprised of equity and mezzanine investments that vary by industry, stage and type of investment. At March 31, 2007, private equity investments carried at estimated fair value totaled $512 million compared with $463 million at December 31, 2006. As of March 31, 2007, approximately 44% of the amount was invested directly in a variety of companies and approximately 56% was invested in various limited partnerships. Our unfunded commitments related to private equity totaled $291 million at March 31, 2007 compared with $283 million at December 31, 2006. Our acquisition of Mercantile added $26 million and $30 million of private equity investments and private equity unfunded commitments, respectively.

Other Investments

We also make investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. The economic values could be driven by either the fixed-income market or the equity markets, or both. At March 31, 2007, other investments totaled $387 million compared with $269 million at December 31, 2006. Approximately $85 million of other investments were acquired in connection with the Mercantile transaction. Our unfunded commitments related to other investments totaled $60 million at March 31, 2007 compared with $16 million at December 31, 2006. The amounts of other investments and related unfunded commitments at March 31, 2007 included those related to Steel City Capital Funding LLC ("Steel City"), as further described below.

On March 1, 2007, we entered into a joint venture with a third party to form Steel City for purposes of purchasing and originating second lien loans and turnaround loans. Our primary reason for pursuing this venture was to leverage our strengths of origination and servicing, provide an additional product to our customers, and allow for us to moderate the risks associated with this asset class. Additionally, we will earn fees for portfolio management services. Steel City is a limited liability company in which various PNC subsidiaries will initially hold an approximate 31% equity ownership. Our initial capital contribution to Steel City was approximately $33 million with a commitment to fund an additional $45 million. The third party investor contributed initial capital of $74 million with a commitment to fund an additional $101 million. We evaluated the accounting for this transaction under FIN 46R and other appropriate generally accepted accounting principles and determined that our aggregate investment will be accounted for under the equity method as described under Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in this Report. This transaction did not have a material impact on our consolidated results of operations.

One of our subsidiaries will act as manager of Steel City. In this capacity it will perform loan origination and servicing activities and administer day-to-day operations for Steel City and will be compensated for those services through a monthly management fee. The manager also will receive certain performance-based fees. In addition, one of our subsidiaries is providing Steel City with a line of credit for purposes of short-term working capital needs at current market rates.

PNC Bank, N.A., sold $107 million of loans at fair value to Steel City at the inception of the entity. All the loans sold to Steel City were classified as performing loans. This transfer was treated as a sale for accounting purposes.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk of potential loss if we were unable to meet our funding requirements at a reasonable cost. We manage liquidity risk to help ensure that we can obtain cost-effective funding to meet current and future obligations under both normal "business as usual" and stressful circumstances.

Our largest source of liquidity on a consolidated basis is the deposit base that comes from our retail and wholesale banking activities. Other borrowed funds come from a diverse mix of short and long-term funding sources. Liquid assets and unused borrowing capacity from a number of sources are also available to maintain our liquidity position.

Liquid assets consist of short-term investments (federal funds sold, resale agreements and other short-term investments, including trading securities) and securities available for sale. At March 31, 2007, our liquid assets totaled $31.1 billion, with $23.3 billion pledged as collateral for borrowings, trust, and other commitments.

Bank Level Liquidity

PNC Bank, N.A. is a member of the FHLB-Pittsburgh. Certain Mercantile banks are members of the FHLB-Atlanta. As such, these banks have access to advances from the FHLB secured generally by residential mortgages. PNC Bank, N.A. can also borrow from the Federal Reserve Bank of Cleveland's discount window to meet short-term liquidity requirements. These borrowings are secured by securities and commercial loans. Additionally, Mercantile banks can borrow from the Federal Reserve Bank of Richmond's discount window. At March 31, 2007, we maintained significant unused borrowing capacity from FHLB-Pittsburgh and the Federal Reserve Bank of Cleveland's discount window under current collateral requirements.

We can also obtain funding through alternative forms of borrowing, including federal funds purchased, repurchase agreements, and short-term and long-term debt issuances. In July 2004, PNC Bank, N.A. established a program to offer up to $20 billion in senior and subordinated unsecured debt obligations with maturities of more than nine months. Through March 31, 2007, PNC Bank, N.A. had issued $2.9 billion of debt under this program. In April 2007, we issued $500 million of 18-month floating rate senior notes under this program that are due October 3, 2008. Interest will be reset monthly to 1-month LIBOR less six basis points and will be paid monthly. These notes are not redeemable by PNC Bank, N.A., or at the option of the holder prior to maturity.

PNC Bank, N.A. established a program in December 2004 to offer up to $3.0 billion of its commercial paper. As of March 31, 2007, $514 million of commercial paper was outstanding under this program.

Parent Company Liquidity

Our parent company's routine funding needs consist primarily of dividends to PNC shareholders, share repurchases, debt service, the funding of non-bank affiliates, and acquisitions.

Parent company liquidity guidelines are designed to help ensure that sufficient liquidity is available to meet these requirements over the succeeding 12-month period. In managing parent company liquidity we consider funding sources, such as expected dividends to be received from PNC Bank, N.A. and potential debt issuance, and discretionary funding uses, the most significant of which is the external dividend to be paid on PNC's stock.

The principal source of parent company cash flow is the dividends it receives from PNC Bank, N.A., which may be impacted by the following:

- Capital needs,
- Laws and regulations,
- Corporate policies,
- Contractual restrictions, and
- Other factors.

Also, there are statutory and regulatory limitations on the ability of national banks to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. Dividends may also be impacted by the bank's capital needs and by contractual restrictions. The amount available for dividend payments to the parent company by PNC Bank, N.A. without prior regulatory approval was approximately $585 million at March 31, 2007.

In addition to dividends from PNC Bank, N.A., other sources of parent company liquidity include cash and short-term investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. As of March 31, 2007, the parent company had approximately $1.1 billion in funds available from its cash and

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short-term investments. As of March 31, 2007 there were $650 million of parent company contractual obligations with maturities of less than one year, including all of the underlying Capital Securities, totaling $300 million, related to PNC Institutional Capital Trust B, which we have elected to redeem as of May 15, 2007.

We can also generate liquidity for the parent company and PNC's non-bank subsidiaries through the issuance of securities in public or private markets.

In July 2006, PNC Funding Corp established a program to offer up to $3.0 billion of commercial paper to provide the parent company with additional liquidity. As of March 31, 2007, there were no issuances outstanding under this program.

During February 2007, in connection with our acquisition of Mercantile, we issued $1.9 billion of debt to fund a substantial portion of the cash portion of this transaction, comprised of the following:

- $775 million of floating rate senior notes due January 2012,
- $500 million of floating rate senior notes due January 2014, and
- $600 million of fixed rate subordinated notes due February 2017.

Our 2006 Form 10-K includes further details on the February 2007 debt issuances.

In March 2007, we redeemed all of the underlying Capital Securities related to the following trusts, totaling $216 million:

- UNB Capital Trust I ($16 million), and
- Riggs Capital Trust II ($200 million).

Commitments

The following tables set forth contractual obligations and various other commitments representing required and potential cash outflows as of March 31, 2007.

Contractual Obligations

March 31, 2007 - in millions	Total
Remaining contractual maturities of time deposits	**$22,196**
Borrowed funds	**20,456**
Minimum annual rentals on noncancellable leases	**1,136**
Nonqualified pension and postretirement benefits	**317**
Purchase obligations (a)	**293**
Total contractual cash obligations (b)	**$44,398**

(a) Includes purchase obligations for goods and services covered by noncancellable contracts and contracts including cancellation fees.

(b) Excludes amounts related to our adoption of FIN 48 due to the uncertainty in terms of timing and amount of future cash outflows. Note 11 Income Taxes in our Notes To Consolidated Financial Statements includes additional information regarding our adoption of FIN 48 in the first quarter of 2007.

Other Commitments (a)

March 31, 2007 - in millions	Total Amounts Committed
Credit commitments	**$ 49,263**
Standby letters of credit	**4,798**
Other commitments (b)	**407**
Total commitments	**$ 54,468**

(a) Other commitments are funding commitments that could potentially require performance in the event of demands by third parties or contingent events. Loan commitments are reported net of participations, assignments and syndications.

(b) Includes private equity funding commitments related to equity management, low income housing projects and other investments.

Financial Derivatives

We use a variety of financial derivatives as part of the overall asset and liability risk management process to help manage interest rate, market and credit risk inherent in our business activities. Substantially all such instruments are used to manage risk related to changes in interest rates. Interest rate and total return swaps, interest rate caps and floors and futures contracts are the primary instruments we use for interest rate risk management.

Financial derivatives involve, to varying degrees, interest rate, market and credit risk. For interest rate swaps and total return swaps, options and futures contracts, only periodic cash payments and, with respect to options, premiums, are exchanged. Therefore, cash requirements and exposure to credit risk are significantly less than the notional amount on these instruments. Further information on our financial derivatives, including the credit risk amounts of these derivatives as of March 31, 2007 and December 31, 2006, is presented in Note 1 Accounting Policies and Note 9 Financial Derivatives in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

Not all elements of interest rate, market and credit risk are addressed through the use of financial or other derivatives, and such instruments may be ineffective for their intended purposes due to unanticipated market characteristics, among other reasons.

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The following tables provide the notional or contractual amounts and estimated net fair value of financial derivatives used for risk management and designated as accounting hedges or free-standing derivatives at March 31, 2007 and December 31, 2006. Weighted-average interest rates presented are based on contractual terms, if fixed, or the implied forward yield curve at each respective date, if floating.

Financial Derivatives - 2007

March 31, 2007 - dollars in millions	Notional/ Contract Amount	Estimated Net Fair Value	Weighted Average Maturity	Weighted-Average Interest Rates Paid	Weighted-Average Interest Rates Received
Accounting Hedges					
Interest rate risk management					
Asset rate conversion					
Interest rate swaps (a)					
Receive fixed	**$8,559**	**$77**	**3 yrs. 11 mos.**	**5.35%**	**5.60%**
Interest rate floors (b)	**6**		**4 yrs.**	**NM**	**NM**
Total asset rate conversion	**8,565**	**77**			
Liability rate conversion					
Interest rate swaps (a)					
Receive fixed	**5,195**	**11**	**6 yrs. 11 mos.**	**5.08**	**5.41**
Total liability rate conversion	**5,195**	**11**			
Total interest rate risk management	**13,760**	**88**			
Commercial mortgage banking risk management					
Pay fixed interest rate swaps (a)	**487**	**(6)**	**9 yrs. 7 mos.**	**5.29**	**5.09**
Total commercial mortgage banking risk management	**487**	**(6)**			
Total accounting hedges (c)	**$14,247**	**$82**			
Free-Standing Derivatives					
Customer-related					
Interest rate					
Swaps	**$49,930**	**$18**	**5 yrs. 3 mos.**	**4.95%**	**4.96%**
Caps/floors					
Sold	**2,222**	**(3)**	**7 yrs. 7 mos.**	**NM**	**NM**
Purchased	**1,322**	**3**	**5 yrs. 6 mos.**	**NM**	**NM**
Futures	**3,202**		**9 mos.**	**NM**	**NM**
Foreign exchange	**5,778**	**1**	**5 mos.**	**NM**	**NM**
Equity	**2,228**	**(70)**	**1 yr. 7 mos.**	**NM**	**NM**
Swaptions	**4,452**	**13**	**11 yrs. 6 mos.**	**NM**	**NM**
Other	**20**		**10 yrs. 3 mos.**	**NM**	**NM**
Total customer-related	**69,154**	**(38)**			
Other risk management and proprietary					
Interest rate					
Swaps	**21,640**	**(12)**	**5 yrs. 8 mos.**	**4.42%**	**4.88%**
Caps/floors					
Sold	**7,250**	**(51)**	**2 yrs. 8 mos.**	**NM**	**NM**
Purchased	**8,760**	**64**	**2 yrs. 7 mos.**	**NM**	**NM**
Futures	**29,881**		**1 yr. 7 mos.**	**NM**	**NM**
Foreign exchange	**1,537**		**3 yrs. 6 mos.**	**NM**	**NM**
Credit derivatives	**3,673**	**(3)**	**6 yrs. 7 mos.**	**NM**	**NM**
Risk participation agreements	**830**		**5 yrs. 2 mos.**	**NM**	**NM**
Commitments related to mortgage-related assets	**6,024**	**1**	**1 mo.**	**NM**	**NM**
Options					
Futures	**53,548**	**(1)**	**7 mos.**	**NM**	**NM**
Swaptions	**27,611**	**40**	**6 yrs. 5 mos.**	**NM**	**NM**
Total other risk management and proprietary	**160,754**	**38**			
Total free-standing derivatives	**$229,908**	**$—**			

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 65% were based on 1-month LIBOR, 26% on 3-month LIBOR and 9% on Prime Rate.
(b) Interest rate floors have a weighted-average strike of 3.21%.
(c) Fair value amounts include net accrued interest receivable of $79 million.
NM Not meaningful

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Financial Derivatives - 2006

December 31, 2006 - dollars in millions	Notional/ Contract Amount	Estimated Net Fair Value	Weighted Average Maturity	Weighted-Average Interest Rates Paid	Weighted-Average Interest Rates Received
Accounting Hedges					
Interest rate risk management					
Asset rate conversion					
Interest rate swaps (a)					
Receive fixed	$7,815	$62	3 yrs. 9 mos.	5.30%	5.43%
Interest rate floors (b)	6		4 yrs. 3 mos.	NM	NM
Total asset rate conversion	7,821	62			
Liability rate conversion					
Interest rate swaps (a)					
Receive fixed	4,245	6	6 yrs. 11 mos.	5.15	5.43
Total liability rate conversion	4,245	6			
Total interest rate risk management	12,066	68			
Commercial mortgage banking risk management					
Pay fixed interest rate swaps (a)	745	(7)	9 yrs. 11 mos.	5.25	5.09
Total commercial mortgage banking risk management	745	(7)			
Total accounting hedges (c)	$12,811	$61			
Free-Standing Derivatives					
Customer-related					
Interest rate					
Swaps	$48,816	$9	4 yrs. 11 mos.	5.00%	5.01%
Caps/floors					
Sold	1,967	(3)	7 yrs. 4 mos.	NM	NM
Purchased	897	3	7 yrs. 2 mos.	NM	NM
Futures	2,973	2	9 mos.	NM	NM
Foreign exchange	5,245		6 mos.	NM	NM
Equity	2,393	(63)	1 yr. 6 mos.	NM	NM
Swaptions	8,685	16	6 yrs. 10 mos.	NM	NM
Other	20		10 yrs. 6 mos.	NM	NM
Total customer-related	70,996	(36)			
Other risk management and proprietary					
Interest rate					
Swaps	19,631	4	7 yrs. 8 mos.	4.81%	4.97%
Caps/floors					
Sold	6,500	(50)	2 yrs. 11 mos.	NM	NM
Purchased	7,010	59	3 yrs.	NM	NM
Futures	13,955	(3)	1 yr. 4 mos.	NM	NM
Foreign exchange	1,958		5 yrs. 2 mos.	NM	NM
Credit derivatives	3,626	(11)	7 yrs.	NM	NM
Risk participation agreements	786		5 yrs. 5 mos.	NM	NM
Commitments related to mortgage-related assets	2,723	10	2 mos.	NM	NM
Options					
Futures	63,033	(2)	8 mos.	NM	NM
Swaptions	25,951	54	6 yrs. 10 mos.	NM	NM
Total other risk management and proprietary	145,173	61			
Total free-standing derivatives	$216,169	$25			

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 67% were based on 1-month LIBOR, 27% on 3-month LIBOR and 6% on Prime Rate.
(b) Interest rate floors have a weighted-average strike of 3.21%.
(c) Fair value amounts include net accrued interest receivable of $94 million.
NM Not meaningful

INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES

As of March 31, 2007, we performed an evaluation under the supervision and with the participation of our management, including the Chairman and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and of changes in our internal control over financial reporting.

Based on that evaluation, our management, including the Chairman and Chief Executive Officer and the Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of March 31, 2007, and that there has been no change in internal control over financial reporting that occurred during the first quarter of 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

GLOSSARY OF TERMS

Accounting/administration net fund assets - Net domestic and foreign fund investment assets for which we provide accounting and administration services. We do not include these assets on our Consolidated Balance Sheet.

Adjusted average total assets - Primarily comprised of total average quarterly (or annual) assets plus (less) unrealized losses (gains) on available-for-sale debt securities, less goodwill and certain other intangible assets (net of eligible deferred taxes).

Annualized - Adjusted to reflect a full year of activity.

Assets under management - Assets over which we have sole or shared investment authority for our customers/clients. We do not include these assets on our Consolidated Balance Sheet.

Basis point - One hundredth of a percentage point.

Charge-off - Process of removing a loan or portion of a loan from our balance sheet because it is considered uncollectible. We also record a charge-off when a loan is transferred to held for sale by reducing the carrying amount by the allowance for loan losses associated with such loan or if the market value is less than its carrying amount.

Common shareholders' equity to total assets- Common shareholders' equity divided by total assets. Common shareholders' equity equals total shareholders' equity less the liquidation value of preferred stock.

Credit derivatives - Contractual agreements that provide protection against a credit event of one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency and failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

Credit spread - The difference in yield between debt issues of similar maturity. The excess of yield attributable to credit spread is often used as a measure of relative creditworthiness, with a reduction in the credit spread reflecting an improvement in the borrower's perceived creditworthiness.

Custody assets - Investment assets held on behalf of clients under safekeeping arrangements. We do not include these assets on our Consolidated Balance Sheet. Investment assets held in custody at other institutions on our behalf are included in the appropriate asset categories on the Consolidated Balance Sheet as if physically held by us.

Derivatives - Financial contracts whose value is derived from publicly traded securities, interest rates, currency exchange rates or market indices. Derivatives cover a wide assortment of financial contracts, including forward contracts, futures, options and swaps.

Duration of equity - An estimate of the rate sensitivity of our economic value of equity. A negative duration of equity is associated with asset sensitivity (*i.e.,* positioned for rising interest rates), while a positive value implies liability sensitivity (*i.e.,* positioned for declining interest rates). For example, if the duration of equity is +1.5 years, the economic value of equity declines by 1.5% for each 100 basis point increase in interest rates.

Earning assets - Assets that generate income, which include: federal funds sold; resale agreements; other short-term investments, including trading securities; loans held for sale; loans, net of unearned income; securities; and certain other assets.

Economic capital - Represents the amount of resources that a business segment should hold to guard against potentially large losses that could cause insolvency. It is based on a measurement of economic risk, as opposed to risk as defined by regulatory bodies. The economic capital measurement process involves converting a risk distribution to the capital that is required to support the risk, consistent with our target credit rating. As such, economic risk serves as a "common currency" of risk that allows us to compare different risks on a similar basis.

Economic value of equity ("EVE") - The present value of the expected cash flows of our existing assets less the present value of the expected cash flows of our existing liabilities, plus the present value of the net cash flows of our existing off-balance sheet positions.

Effective duration - A measurement, expressed in years, that, when multiplied by a change in interest rates, would approximate the percentage change in value of on- and off- balance sheet positions.

Efficiency - Noninterest expense divided by the sum of net interest income (GAAP basis) and noninterest income.

Foreign exchange contracts - Contracts that provide for the future receipt and delivery of foreign currency at previously agreed-upon terms.

Funds transfer pricing - A management accounting methodology designed to recognize the net interest income effects of sources and uses of funds provided by the assets and liabilities of a business segment. We assign these balances LIBOR-based funding rates at origination that represent the interest cost for us to raise/invest funds with similar maturity and repricing structures.

Futures and forward contracts - Contracts in which the buyer agrees to purchase and the seller agrees to deliver a specific financial instrument at a predetermined price or yield. May be settled either in cash or by delivery of the underlying financial instrument.

GAAP - Accounting principles generally accepted in the United States of America.

Interest rate floors and caps - Interest rate protection instruments that involve payment from the protection seller to the protection buyer of an interest differential, which represents the difference between a short-term rate (e.g., three-month LIBOR) and an agreed-upon rate (the strike rate) applied to a notional principal amount.

Interest rate swap contracts - Contracts that are entered into primarily as an asset/liability management strategy to reduce interest rate risk. Interest rate swap contracts are exchanges of interest rate payments, such as fixed-rate payments for floating-rate payments, based on notional principal amounts.

Intrinsic value - The amount by which the fair value of an underlying stock exceeds the exercise price of an option on that stock.

Leverage ratio - Tier 1 risk-based capital divided by adjusted average total assets.

Net interest margin - Annualized taxable-equivalent net interest income divided by average earning assets.

Nondiscretionary assets under administration - Assets we hold for our customers/clients in a non-discretionary, custodial capacity. We do not include these assets on our Consolidated Balance Sheet.

Noninterest income to total revenue - Noninterest income divided by the sum of net interest income (GAAP basis) and noninterest income.

Nonperforming assets - Nonperforming assets include nonaccrual loans, troubled debt restructured loans, foreclosed assets and other assets. We do not accrue interest income on assets classified as nonperforming.

Nonperforming loans - Nonperforming loans include loans to commercial, commercial real estate, equipment lease financing, consumer, and residential mortgage customers as well as troubled debt restructured loans. Nonperforming loans do not include loans held for sale or foreclosed and other assets. We do not accrue interest income on loans classified as nonperforming.

Notional amount - A number of currency units, shares, or other units specified in a derivatives contract.

Operating leverage - The period to period percentage change in total revenue (GAAP basis) less the percentage change in noninterest expense. A positive percentage indicates that revenue growth exceeded expense growth (*i.e.,* positive operating leverage) while a negative percentage implies expense growth exceeded revenue growth (*i.e.,* negative operating leverage).

Options - Contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to either purchase or sell the associated financial instrument at a set price during a period or at a specified date in the future.

Recovery - Cash proceeds received on a loan that we had previously charged off. We credit the amount received to the allowance for loan and lease losses.

Return on average capital - Annualized net income divided by average capital.

Return on average assets - Annualized net income divided by average assets.

Return on average common equity- - Annualized net income divided by average common shareholders' equity.

Risk-weighted assets - Primarily computed by the assignment of specific risk-weights (as defined by The Board of Governors of the Federal Reserve System) to assets and off-balance sheet instruments.

Securitization - The process of legally transforming financial assets into securities.

Swaptions - Contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to enter into an interest rate swap agreement during a period or at a specified date in the future.

Tangible common equity ratio - Period-end common shareholders' equity less goodwill and other intangible assets (net of eligible deferred taxes), and excluding mortgage servicing rights, divided by period-end assets less goodwill and other intangible assets (net of eligible deferred taxes), and excluding mortgage servicing rights.

Taxable-equivalent interest - The interest income earned on certain assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of yields and margins for all interest-earning assets, we also provide revenue on a taxable-equivalent basis by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on other taxable investments. This adjustment is not permitted under GAAP on the Consolidated Income Statement.

Tier 1 risk-based capital - Tier 1 risk-based capital equals: total shareholders' equity, plus trust preferred capital securities, plus certain minority interests that are held by others; less goodwill and certain other intangible assets (net of eligible deferred taxes), less equity investments in nonfinancial companies and less net unrealized holding losses on available-for-sale equity securities. Net unrealized holding gains on available-for-sale equity securities, net unrealized holding gains (losses) on available-for-sale debt securities and net unrealized holding gains (losses) on cash flow hedge derivatives are excluded from total shareholders' equity for tier 1 risk-based capital purposes.

Tier 1 risk-based capital ratio - Tier 1 risk-based capital divided by period-end risk-weighted assets.

Total fund assets serviced - Total domestic and offshore fund investment assets for which we provide related processing services. We do not include these assets on our Consolidated Balance Sheet.

Total return swap - A non-traditional swap where one party agrees to pay the other the "total return" of a defined underlying asset (e.g., a loan), usually in return for receiving a stream of LIBOR-based cash flows. The total returns of the asset, including interest and any default shortfall, are passed through to the counterparty. The counterparty is therefore assuming the credit and economic risk of the underlying asset.

Total risk-based capital - Tier 1 risk-based capital plus qualifying subordinated debt and trust preferred securities, other minority interest not qualified as tier 1, and the allowance for loan and lease losses, subject to certain limitations.

Total risk-based capital ratio - Total risk-based capital divided by period-end risk-weighted assets.

Transaction deposits - The sum of money market and interest-bearing demand deposits and demand and other noninterest-bearing deposits.

Value-at-risk ("VaR") - A statistically-based measure of risk which describes the amount of potential loss which may be incurred due to severe and adverse market movements. The measure is of the maximum loss which should not be exceeded on 99 out of 100 days.

Yield curve - A graph showing the relationship between the yields on financial instruments or market indices of the same credit quality with different maturities. For example, a "normal" or "positive" yield curve exists when long-term bonds have higher yields than short-term bonds. A "flat" yield curve exists when yields are the same for short-term and long-term bonds. A "steep" yield curve exists when yields on long-term bonds are significantly higher than on short-term bonds. An "inverted" or "negative" yield curve exists when short-term bonds have higher yields than long-term bonds.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

We make statements in this Report, and we may from time to time make other statements, regarding our outlook or expectations for earnings, revenues, expenses and/or other matters regarding or affecting PNC that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "intend," "outlook," "estimate," "forecast," "project" and other similar words and expressions.

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. We do not assume any duty and do not undertake to update our forward-looking statements. Actual results or future events could differ, possibly materially, from those that we anticipated in our forward-looking statements, and future results could differ materially from our historical performance.

Our forward-looking statements are subject to the following principal risks and uncertainties. We provide greater detail regarding some of these factors in our 2006 Form 10-K, including in the Risk Factors and Risk Management sections of that report. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.

- Our business and operating results are affected by business and economic conditions generally or specifically in the principal markets in which we do business. We are affected by changes in our customers' and counterparties' financial performance, as well as changes in customer preferences and behavior, including as a result of changing business and economic conditions.

- The value of our assets and liabilities, as well as our overall financial performance, are also affected by changes in interest rates or in valuations in the debt and equity markets. Actions by the Federal Reserve and other government agencies, including those that impact money supply and market interest rates, can affect our activities and financial results.
- Our operating results are affected by our liability to provide shares of BlackRock common stock to help fund BlackRock long-term incentive plan (“LTIP”) programs, as our LTIP liability is adjusted quarterly (“marked-to-market”) based on changes in BlackRock’s common stock price and the number of remaining committed shares, and we recognize gain or loss on such shares at such times as shares are transferred for payouts under the LTIP programs.
- Competition can have an impact on customer acquisition, growth and retention, as well as on our credit spreads and product pricing, which can affect market share, deposits and revenues.
- Our ability to implement our business initiatives and strategies could affect our financial performance over the next several years.
- Our ability to grow successfully through acquisitions is impacted by a number of risks and uncertainties related both to the acquisition transactions themselves and to the integration of the acquired businesses into PNC after closing. These uncertainties continue to be present with respect to the integration of Mercantile Bankshares Corporation.
- Legal and regulatory developments could have an impact on our ability to operate our businesses or our financial condition or results of operations or our competitive position or reputation. Reputational impacts, in turn, could affect matters such as business generation and retention, our ability to attract and retain management, liquidity and funding. These legal and regulatory developments could include: (a) the unfavorable resolution of legal proceedings or regulatory and other governmental inquiries; (b) increased litigation risk from recent regulatory and other governmental developments; (c) the results of the regulatory examination process, our failure to satisfy the requirements of agreements with governmental agencies, and regulators’ future use of supervisory and enforcement tools; (d) legislative and regulatory reforms, including changes to laws and regulations involving tax, pension, and the protection of confidential customer information; and (e) changes in accounting policies and principles.
- Our business and operating results are affected by our ability to identify and effectively manage risks inherent in our businesses, including, where appropriate, through the effective use of third-party insurance and capital management techniques.
- Our ability to anticipate and respond to technological changes can have an impact on our ability to respond to customer needs and to meet competitive demands.
- The adequacy of our intellectual property protection, and the extent of any costs associated with obtaining rights in intellectual property claimed by others, can impact our business and operating results.
- Our business and operating results can also be affected by widespread natural disasters, terrorist activities or international hostilities, either as a result of the impact on the economy and financial and capital markets generally or on us or on our customers, suppliers or other counterparties specifically.
- Also, risks and uncertainties that could affect the results anticipated in forward-looking statements or from historical performance relating to our equity interest in BlackRock, Inc. are discussed in more detail in BlackRock’s 2006 Form 10-K, including in the Risk Factors section, and in BlackRock’s other filings with the SEC, accessible on the SEC’s website and on or through BlackRock’s website at www.blackrock.com.

We grow our business from time to time by acquiring other financial services companies. Acquisitions in general present us with risks other than those presented by the nature of the business acquired. In particular, acquisitions may be substantially more expensive to complete (including as a result of costs incurred in connection with the integration of the acquired company) and the anticipated benefits (including anticipated cost savings and strategic gains) may be significantly harder or take longer to achieve than expected. In some cases, acquisitions involve our entry into new businesses or new geographic or other markets, and these situations also present risks resulting from our inexperience in these new areas. As a regulated financial institution, our pursuit of attractive acquisition opportunities could be negatively impacted due to regulatory delays or other regulatory issues. Regulatory and/or legal issues related to the pre-acquisition operations of an acquired business may cause reputational harm to PNC following the acquisition and integration of the acquired business into ours and may result in additional future costs arising as a result of those issues. Post-closing acquisition risk continues to apply to Mercantile as we complete the integration.

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CONSOLIDATED INCOME STATEMENT

THE PNC FINANCIAL SERVICES GROUP, INC.

Three months ended March 31 - in millions, except per share data *Unaudited*	**2007**	2006
Interest Income		
Loans	**$896**	$747
Securities available for sale	**310**	243
Other	**109**	76
Total interest income	**1,315**	1,066
Interest Expense		
Deposits	**468**	327
Borrowed funds	**224**	183
Total interest expense	**692**	510
Net interest income	**623**	556
Provision for credit losses	**8**	22
Net interest income less provision for credit losses	**615**	534
Noninterest Income		
Asset management	**165**	461
Fund servicing	**203**	221
Service charges on deposits	**77**	73
Brokerage	**66**	59
Consumer services	**91**	89
Corporate services	**159**	135
Equity management gains	**32**	7
Net securities losses	**(3)**	(4)
Trading	**52**	57
Net gains related to BlackRock	**52**	
Other	**97**	87
Total noninterest income	**991**	1,185
Noninterest Expense		
Compensation	**418**	555
Employee benefits	**72**	87
Net occupancy	**87**	79
Equipment	**71**	77
Marketing	**21**	20
Other	**275**	344
Total noninterest expense	**944**	1,162
Income before minority interest and income taxes	**662**	557
Minority interest in income of BlackRock		22
Income taxes	**203**	181
Net income	**$459**	$354
Earnings Per Common Share		
Basic	**$1.49**	$1.21
Diluted	**$1.46**	$1.19
Average Common Shares Outstanding		
Basic	**308**	292
Diluted	**312**	296

See accompanying Notes To Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEET

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except par value *Unaudited*	**March 31 2007**	December 31 2006
Assets		
Cash and due from banks	**$3,234**	$3,523
Federal funds sold and resale agreements	**1,604**	1,763
Other short-term investments, including trading securities	**3,041**	3,130
Loans held for sale	**2,382**	2,366
Securities available for sale	**26,475**	23,191
Loans, net of unearned income of $1,005 and $795	**62,925**	50,105
Allowance for loan and lease losses	**(690)**	(560)
Net loans	**62,235**	49,545
Goodwill	**7,739**	3,402
Other intangible assets	**929**	641
Equity investments	**5,408**	5,330
Other	**9,516**	8,929
Total assets	**$122,563**	$101,820
Liabilities		
Deposits		
Noninterest-bearing	**$18,191**	$16,070
Interest-bearing	**59,176**	50,231
Total deposits	**77,367**	66,301
Borrowed funds		
Federal funds purchased	**5,638**	2,711
Repurchase agreements	**2,586**	2,051
Bank notes and senior debt	**4,551**	3,633
Subordinated debt	**4,628**	3,962
Other	**3,053**	2,671
Total borrowed funds	**20,456**	15,028
Allowance for unfunded loan commitments and letters of credit	**121**	120
Accrued expenses	**3,864**	3,970
Other	**4,649**	4,728
Total liabilities	**106,457**	90,147
Minority and noncontrolling interests in consolidated entities	**1,367**	885
Shareholders' Equity		
Preferred stock (a)		
Common stock - $5 par value		
Authorized 800 shares, issued 353 shares	**1,764**	1,764
Capital surplus	**2,520**	1,651
Retained earnings	**11,134**	10,985
Accumulated other comprehensive loss	**(162)**	(235)
Common stock held in treasury at cost: 7 and 60 shares	**(517)**	(3,377)
Total shareholders' equity	**14,739**	10,788
Total liabilities, minority and noncontrolling interests, and shareholders' equity	**$122,563**	$101,820

(a) Less than $.5 million at each date.

See accompanying Notes To Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

Three months ended March 31 - in millions *Unaudited*	**2007**	2006
Operating Activities		
Net income	**$459**	$354
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	**8**	22
Depreciation, amortization and accretion	**77**	93
Deferred income taxes	**45**	37
Net gains related to BlackRock	**(52)**	
Undistributed earnings of BlackRock	**(37)**	
Excess tax benefits from share-based payment arrangements	**(8)**	(14)
Loans held for sale	**(27)**	206
Other short-term investments, including trading securities	**703**	9
Other assets	**435**	(201)
Accrued expenses and other liabilities	**(486)**	441
Other	**(66)**	(2)
Net cash provided by operating activities	**1,051**	945
Investing Activities		
Repayment of securities	**1,167**	872
Sales		
Securities	**3,425**	1,257
Loans	**162**	9
Purchases		
Securities	**(6,218)**	(2,790)
Loans	**(784)**	(322)
Net change in		
Loans	**(216)**	(149)
Federal funds sold and resale agreements	**(30)**	(161)
Net cash paid for acquisitions	**(1,890)**	(5)
Other	**(129)**	(42)
Net cash used by investing activities	**(4,513)**	(1,331)
Financing Activities		
Net change in		
Noninterest-bearing deposits	**(839)**	(738)
Interest-bearing deposits	**(515)**	1,362
Federal funds purchased	**2,720**	(972)
Repurchase agreements	**(198)**	1,201
Other short-term borrowed funds	**697**	(251)
Sales/issuances		
Bank notes and senior debt	**1,273**	4
Subordinated debt	**595**	
Other long-term borrowed funds	**62**	195
Treasury stock	**92**	155
Perpetual trust securities	**490**	
Repayments/maturities		
Bank notes and senior debt	**(575)**	(500)
Subordinated debt	**(228)**	
Other long-term borrowed funds	**(100)**	(171)
Excess tax benefits from share-based payment arrangements	**8**	14
Acquisition of treasury stock	**(148)**	(78)
Cash dividends paid	**(161)**	(147)
Net cash provided by financing activities	**3,173**	74
Net Increase (Decrease) In Cash And Due From Banks	**(289)**	(312)
Cash and due from banks at beginning of period	**3,523**	3,518
Cash and due from banks at end of period	**$3,234**	$3,206
Cash Paid For		
Interest	**$598**	$511
Income taxes	**139**	55
Non-cash Items		
Issuance of common stock for Mercantile acquisition	**3,787**	
Net increase (decrease) in investment in BlackRock	**(109)**	
Transfer from loans to loans held for sale, net	**120**	51
Impact of FSP 13-2 on investing activities	**228**	

See accompanying Notes To Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

THE PNC FINANCIAL SERVICES GROUP, INC.

BUSINESS

We are one of the largest diversified financial services companies in the United States based on assets, with businesses engaged in:

- Retail banking,
- Corporate and institutional banking,
- Asset management, and
- Global fund processing services.

We provide many of our products and services nationally and others in our primary geographic markets located in Pennsylvania; New Jersey; Washington, DC; Maryland; Virginia; Ohio; Kentucky; and Delaware. We also provide certain global fund processing services internationally. We are subject to intense competition from other financial services companies and are subject to regulation by various domestic and international authorities.

NOTE 1 ACCOUNTING POLICIES

BASIS OF FINANCIAL STATEMENT PRESENTATION

Our consolidated financial statements include the accounts of the parent company and its subsidiaries, most of which are wholly owned, and certain partnership interests and variable interest entities. See Note 2 Acquisitions in our 2006 Annual Report on Form 10-K ("2006 Form 10-K") regarding the deconsolidation of BlackRock, Inc. ("BlackRock") from PNC's Consolidated Balance Sheet effective September 29, 2006. Our investment in BlackRock has been accounted for under the equity method of accounting since that date. We prepared these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles" or "GAAP"). We have eliminated intercompany accounts and transactions. We have also reclassified certain prior year amounts to conform with the 2007 presentation. These reclassifications did not have a material impact on our consolidated financial condition or results of operations.

In our opinion, the unaudited interim consolidated financial statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods.

When preparing these unaudited interim consolidated financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2006 Form 10-K.

SPECIAL PURPOSE ENTITIES

Special purpose entities are broadly defined as legal entities structured for a particular purpose. We use special purpose entities in various legal forms to conduct normal business activities. Special purpose entities that meet the criteria for a Qualifying Special Purpose Entity ("QSPE") as defined in Statement of Financial Accounting Standards No. ("SFAS") 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," are not required to be consolidated. We review special purpose entities that are not QSPEs for consolidation under the guidance contained in Financial Accounting Standards Board ("FASB") Interpretation No. 46 (Revised 2003), "Consolidation of Variable Interest Entities" ("FIN 46R") and Accounting Research Bulletin No. 51, "Consolidated Financial Statements," as appropriate.

In general, a variable interest entity ("VIE") is a special purpose entity formed as a corporation, partnership, limited liability corporation, or any other legal structure used to conduct activities or hold assets that either:

- Does not have equity investors with voting rights that can directly or indirectly make decisions about the entity's activities through those voting rights or similar rights, or
- Has equity investors that do not provide enough equity for the entity to finance its activities.

A VIE often holds financial assets, including loans or receivables, real estate or other property.

We consolidate a VIE if we are considered to be its primary beneficiary. The primary beneficiary is subject to absorbing the majority of the expected losses from the VIE's activities, is entitled to receive a majority of the entity's residual returns, or both. Upon consolidation of a VIE, we generally record all of the VIE's assets, liabilities and noncontrolling interests at fair value, with future changes based upon consolidation accounting principles. See Note 6 Variable Interest Entities for more information about non-consolidated VIEs in which we hold a significant interest.

BUSINESS COMBINATIONS

We record the net assets of companies that we acquire at their estimated fair value at the date of acquisition and we include the results of operations of the acquired business in our consolidated income statement from the date of acquisition. We recognize as goodwill the excess of the purchase price over the estimated fair value of the net assets acquired.

USE OF ESTIMATES

We prepare the consolidated financial statements using financial information available at the time, which requires us to make estimates and assumptions that affect the amounts reported. Actual results may differ from these estimates and the differences may be material to the consolidated financial statements.

REVENUE RECOGNITION

We earn net interest income and noninterest income from various sources, including:

- Lending,
- Securities portfolio,
- Asset management and fund servicing,
- Customer deposits,
- Loan servicing,
- Brokerage services, and
- Securities and derivatives trading activities, including foreign exchange.

We also earn revenue from selling loans and securities, and we recognize income or loss from certain private equity activities. We earn fees and commissions from:

- Issuing loan commitments, standby letters of credit and financial guarantees,
- Selling various insurance products,
- Providing treasury management services,
- Providing merger and acquisition advisory and related services, and
- Participating in certain capital markets transactions.

Revenue earned on interest-earning assets is recognized based on the effective yield of the financial instrument.

We recognize asset management and fund servicing fees primarily as the services are performed. Asset management fees are generally based on a percentage of the fair value of the assets under management and performance fees are generally based on a percentage of the returns on such assets. Certain performance fees are earned upon attaining specified investment return thresholds and are recorded as earned. Beginning in the fourth quarter of 2006, asset management fees also includes our ownership share of the earnings of BlackRock under the equity method of accounting.

Fund servicing fees are primarily based on a percentage of the fair value of the fund assets and the number of shareholder accounts we service.

Service charges on deposit accounts are recognized as charged. Brokerage fees and gains on the sale of securities and certain derivatives are recognized on a trade-date basis.

We record private equity income or loss based on changes in the valuation of the underlying investments or when we dispose of our interest. Dividend income from private equity investments is generally recognized when received.

We recognize revenue from loan servicing; securities, derivatives and foreign exchange trading; and securities underwriting activities as they are earned based on contractual terms, as transactions occur or as services are provided. We recognize revenue from the sale of loans upon cash settlement of the transaction.

In certain circumstances, revenue is reported net of associated expenses in accordance with GAAP.

INVESTMENTS

We have interests in various types of investments. The accounting for these investments is dependent on a number of factors including, but not limited to, items such as:

- Marketability of the investment,
- Ownership interest,
- Our plans for the investment, and
- The nature of the investment.

Investment in BlackRock

We deconsolidated the assets and liabilities of BlackRock from our Consolidated Balance Sheet effective September 29, 2006 and now account for our investment in BlackRock under the equity method of accounting. Under the equity method, our investment in the equity of BlackRock is reflected on our Consolidated Balance Sheet in the caption equity investments, while our equity in earnings of BlackRock is reported on our Consolidated Income Statement in the caption asset management.

We mark to market our obligation related to the BlackRock long-term incentive plan (“LTIP”) programs. As we transfer shares for payouts under such LTIP programs from time to time, we recognize gain or loss on those shares. These items are shown on a net basis on our Consolidated Income Statement in net gains related to BlackRock. Our obligation to the LTIP and the resulting accounting are described in more detail in our 2006 Form 10-K.

Private Equity Investments

We report private equity investments, which include direct investments in companies, interests in limited partnerships, and affiliated partnership interests, at estimated fair values. These estimates are based on available information and may not necessarily represent amounts that we will ultimately realize through distribution, sale or liquidation of the investments. The valuation procedures applied to direct investments include techniques such as multiples of cash flow of the entity, independent appraisals of the entity or the pricing used to value the entity in a recent financing transaction. We value affiliated partnership interests based on the underlying investments of the partnership using procedures consistent with those applied to direct investments. We generally value limited partnership investments based on the financial statements we receive from the general partner. We include all private equity investments on the Consolidated Balance Sheet in equity investments. Changes in the fair value of these assets are recognized in noninterest income.

We consolidate private equity funds when we are the sole general partner in a limited partnership and have determined that we have control of the partnership. The portion we do not own is reflected in the caption minority and noncontrolling interests in consolidated entities on the Consolidated Balance Sheet.

Equity Securities and Partnership Interests

We account for equity investments other than BlackRock and private equity investments under one of the following methods:

- Marketable equity securities are recorded on a trade-date basis and are accounted for based on the securities' quoted market prices from a national securities exchange. Dividend income on these securities is recognized in net interest income. Those purchased with the intention of recognizing short-term profits are classified as trading and included in other short-term investments. Both realized and unrealized gains and losses on trading securities are included in noninterest income. Marketable equity securities not classified as trading are designated as securities available for sale with unrealized gains and losses, net of income taxes, reflected in accumulated other comprehensive income (loss). Any unrealized losses that we have determined to be other-than-temporary are recognized in the current period earnings.
- Nonmarketable equity securities are recorded using the cost method of accounting since we do not have significant influence over the investee. Under this method, there is no change to the cost basis unless there is an other-than-temporary decline in value. If the decline is determined to be other than temporary, we write down the cost basis of the investment to a new cost basis that represents realizable value. The amount of the write-down is accounted for as a loss included in noninterest income. Distributions received from income on cost method investments are included in interest income or noninterest income depending on the type of investment. We include nonmarketable equity securities in other assets on the Consolidated Balance Sheet.

For investments in limited partnerships, limited liability companies and other minor investments that are not required to be consolidated, we use either the cost method or the equity method. The cost method is described above for nonmarketable equity securities. We use the cost method for minor investments in which we have no influence over the operations of the investee and when cost appropriately reflects our economic interest in the underlying investment. We use the equity method for all other general and limited partner ownership interests and limited liability company investments. Under the equity method, we record our equity ownership share of net income or loss of the investee in noninterest income. Investments described above are included in equity investments on the Consolidated Balance Sheet.

Debt Securities

Debt securities are recorded on a trade-date basis. We classify debt securities as held to maturity and carry them at amortized cost if we have the positive intent and ability to hold the securities to maturity. Debt securities that we purchase for short-term appreciation or other trading purposes are carried at market value and classified as other short-term investments. Realized and unrealized gains and losses on trading securities are included in noninterest income.

Debt securities not classified as held to maturity or trading are designated as securities available for sale and carried at market value with unrealized gains and losses, net of income taxes, reflected in accumulated other comprehensive income (loss). We review all debt securities that are in an unrealized loss position for other-than-temporary impairment on a quarterly basis. Other-than-temporary declines in the market value of available for sale debt securities are recognized as a securities loss included in noninterest income in the period in which the determination is made.

We include all interest on debt securities, including amortization of premiums and accretion of discounts using the interest method, in net interest income. We compute gains and losses realized on the sale of debt securities available for sale on a specific security basis and include them in noninterest income.

LOANS AND LEASES

Except as described below, loans are stated at the principal amounts outstanding, net of unearned income, unamortized deferred fees and costs on originated loans, and premiums or discounts on loans purchased. Interest related to loans other than nonaccrual loans is accrued based on the principal amount outstanding and credited to net interest income as earned using the interest method. Loan origination fees, direct loan origination costs, and loan premiums and discounts are deferred and amortized to income, over periods not exceeding the contractual life of the loan, using methods that are not materially different from the interest method.

Certain loans are accounted for at fair value in accordance with SFAS 155, "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140", with changes in fair value reported in trading revenue. The fair value of these loans was $160 million, or less than .5% of the total loan portfolio, at March 31, 2007.

We also provide financing for various types of equipment, aircraft, energy and power systems, and rolling stock through a variety of lease arrangements. Direct financing leases are carried at the aggregate of lease payments plus estimated residual value of the leased property, less unearned income. Leveraged leases, a form of financing lease, are carried net of nonrecourse debt. We recognize income over the term of the lease using the interest method. Lease residual values are reviewed for other-than-temporary impairment on a quarterly basis. Gains or losses on the sale of leased assets are included in noninterest income while valuation adjustments on lease residuals are included in noninterest expense.

LOAN SALES, SECURITIZATIONS AND RETAINED INTERESTS

We recognize the sale of loans or other financial assets when the transferred assets are legally isolated from our creditors and the appropriate accounting criteria are met. We also sell mortgage and other loans through secondary market securitizations. In certain cases, we may retain a portion or all of the securities issued, interest-only strips, one or more subordinated tranches, servicing rights and, in some cases, cash reserve accounts, all of which are considered retained interests in the transferred assets. Our loan sales and securitizations are generally structured without recourse to us and with no restrictions on the retained interests. In the event we are obligated for recourse liabilities in a sale, our policy is to record such liabilities at fair value upon closing of the transaction. Specific reserves and allocated pooled reserves are charged-off and reduce the basis of the loans when the loans are designated as held for sale. Gains or losses recognized on the sale of the loans depend on the allocation of carrying value between the loans sold and the retained interests, based on their relative fair market values at the date of sale. We generally estimate fair value based on the present value of future expected cash flows using assumptions as to discount rates, interest rates, prepayment speeds, credit losses and servicing costs, if applicable. Gains or losses on these transactions are reported in noninterest income.

As of January 1, 2006, we adopted SFAS 156, "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140. " SFAS 156 was issued in March 2006 and requires all newly recognized servicing rights and obligations to be initially measured at fair value. For each class of recognized servicing rights and obligations, the standard permits the election of either the amortization method or the fair value measurement method for subsequent measurement of the asset or obligation. For separately recognized servicing rights and obligations retained or purchased related to commercial loans and commercial mortgages, we have elected to account for them under the amortization method, which requires us to amortize the servicing assets or liabilities in proportion to and over the periods of estimated net servicing income or net servicing loss. For servicing rights or obligations related to residential mortgage loans, we have elected to account for subsequent adjustments using the fair value method with changes in the value of the right or obligation reflected in noninterest income.

Each quarter, we evaluate our servicing assets that are being carried at amortized cost for impairment by categorizing the pools of assets underlying servicing rights by product type. A valuation allowance is recorded and reduces current income when the carrying amount of a specific asset category exceeds its fair value.

We classify securities retained as debt securities available for sale or other assets, depending on the form of the retained interest. Retained interests that are subject to prepayment risk are reviewed on a quarterly basis for impairment. If the fair value of the retained interest is below its carrying amount and the decline is determined to be other-than-temporary, then the decline is reflected in noninterest income. We recognize other adjustments to the fair market value of retained interests classified as available for sale securities through accumulated other comprehensive income (loss).

NONPERFORMING ASSETS

Nonperforming assets include:

- Nonaccrual loans,
- Troubled debt restructurings, and
- Foreclosed assets.

Other than consumer loans, we generally classify loans as nonaccrual when we determine that the collection of interest or principal is doubtful or when a default of interest or principal has existed for 90 days or more and the loans are not well-secured or in the process of collection. When the accrual of interest is discontinued, any accrued but uncollected interest credited to income in the current year is reversed and any unpaid interest accrued in the prior year, is charged against the allowance for loan and lease losses. We charge off loans based on the facts and circumstances of the individual loan.

Consumer loans well-secured by residential real estate, including home equity and home equity lines of credit, are classified as nonaccrual at 12 months past due. These loans are considered well secured if the fair market value of the property, less 15% to cover potential foreclosure expenses, is greater than or equal to the principal balance including any superior liens. A fair market value assessment of the property is initiated when the loan becomes 80 to 90 days past due. The procedures for foreclosure of these loans is consistent with our general foreclosure process discussed below. The classification of consumer loans well-secured by residential real estate as nonaccrual loans at 12 months past due is in accordance with Federal Financial Institutions Examination Council guidelines. We charge off loans based on the facts and circumstances of the individual loan.

Consumer loans not well-secured or in the process of collection are classified as nonaccrual at 120 days past due if they are home equity loans and at 180 days past due if they are home equity lines of credit. These loans are recorded at the lower of cost or market value, less liquidation costs and the unsecured portion of these loans is generally charged off when they become nonaccrual.

A loan is categorized as a troubled debt restructuring if a significant concession is granted due to deterioration in the financial condition of the borrower.

Nonperforming loans are generally not returned to performing status until the obligation is brought current and the borrower has performed in accordance with the contractual terms for a reasonable period of time and collection of the contractual principal and interest is no longer doubtful. Nonaccrual commercial and commercial real estate loans and troubled debt restructurings are designated as impaired loans. We recognize interest collected on these loans on the cash basis or cost recovery method.

Foreclosed assets are comprised of any asset seized or property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Depending on various state statutes, legal proceedings are initiated on or about the 65th day of delinquency. If no other remedies arise from the legal proceedings, the final outcome will result in the sheriff's sale of the property. When PNC acquires the deed, the transfer of loans to other real estate owned ("OREO") will be completed. These assets are recorded on the date acquired at the lower of the related loan balance or market value of the collateral less estimated disposition costs. We estimate market values primarily based on appraisals, when available, or quoted market prices on liquid assets. Subsequently, foreclosed assets are valued at the lower of the amount recorded at acquisition date or the current market value less estimated disposition costs. Valuation adjustments on these assets and gains or losses realized from disposition of such property are reflected in noninterest expense.

ALLOWANCE FOR LOAN AND LEASE LOSSES

We maintain the allowance for loan and lease losses at a level that we believe to be adequate to absorb estimated probable credit losses inherent in the loan portfolio as of the balance sheet date. The allowance is increased by the provision for credit losses, which is charged against operating results, and decreased by the amount of charge-offs, net of recoveries. Our determination of the adequacy of the allowance is based on periodic evaluations of the loan and lease portfolios and other relevant factors. This evaluation is inherently subjective as it requires material estimates, all of which may be susceptible to significant change, including, among others:

- Expected default probabilities,
- Loss given default,
- Exposure at default,
- Amounts and timing of expected future cash flows on impaired loans,
- Value of collateral,
- Estimated losses on consumer loans and residential mortgages, and
- Amounts for changes in economic conditions and potential estimation or judgmental imprecision.

In determining the adequacy of the allowance for loan and lease losses, we make specific allocations to impaired loans, allocations to pools of watchlist and nonwatchlist loans and allocations to consumer and residential mortgage loans. We also allocate reserves to provide coverage for probable losses not covered in specific, pool and consumer reserve methodologies related to qualitative and measurement factors. While allocations are made to specific loans and pools of loans, the total reserve is available for all credit losses.

Specific allocations are made to significant individual impaired loans and are determined in accordance with SFAS 114, "Accounting by Creditors for Impairment of a Loan," with impairment measured based on the present value of the loan's expected cash flows, the loan's observable market price or the fair value of the loan's collateral. We establish a specific allowance on all other impaired loans based on their loss given default credit risk rating.

Allocations to loan pools are developed by business segment based on probability of default and loss given default risk ratings by using historical loss trends and our judgment concerning those trends and other relevant factors. These factors may include, among others:

- Actual versus estimated losses,
- Regional and national economic conditions, and
- Business segment and portfolio concentrations.

Loss factors are based on industry and/or internal experience and may be adjusted for significant factors that, based on our judgment, impact the collectibility of the portfolio as of the balance sheet date. Consumer and residential mortgage loan allocations are made at a total portfolio level based on historical loss experience adjusted for portfolio activity.

While our pool reserve methodologies strive to reflect all risk factors, there continues to be a certain element of uncertainty associated with, but not limited to, potential estimation errors and imprecision in the estimation process due to the inherent lag of information. We provide additional reserves that are designed to provide coverage for expected losses attributable to such risks. In addition, these reserves include factors which may not be directly measured in the determination of specific or pooled reserves. These factors include:

- Industry concentration and conditions,
- Credit quality trends,
- Recent loss experience in particular segments of the portfolio,
- Ability and depth of lending management,
- Changes in risk selection and underwriting standards, and
- Bank regulatory considerations.

ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT

We maintain the allowance for unfunded loan commitments and letters of credit at a level we believe is adequate to absorb estimated probable losses related to these unfunded credit facilities. We determine the adequacy of the allowance based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. Net adjustments to the allowance for unfunded loan commitments and letters of credit are included in the provision for credit losses.

MORTGAGE AND OTHER LOAN SERVICING RIGHTS

We provide servicing under various commercial, consumer and residential loan servicing contracts. These contracts are either purchased in the open market or retained as part of a commercial mortgage loan securitization, residential mortgage loan sale or other commercial loan sale. Prior to January 1, 2006, purchased contracts were recorded at cost and the servicing rights retained from the sale or securitization of loans were recorded based on their relative fair value to all of the assets securitized or sold. As a result of the adoption of SFAS 156, beginning January 1, 2006 all newly acquired servicing rights were initially measured at fair value. Fair value is based on the present value of the expected future servicing cash flows, including assumptions as to:

- Interest rates for escrow and deposit balance earnings,
- Discount rates,
- Estimated interest rates, and
- Estimated servicing costs.

For subsequent measurements of our servicing rights we have elected to account for our commercial mortgage and commercial loan servicing rights as a class of assets under the amortization method. This determination was made based on the unique characteristics of the commercial mortgages and commercial loans underlying these servicing rights with regard to market inputs used in determining fair value and how we manage the risks inherent in the commercial servicing rights assets. Specific risk characteristics of the commercial mortgages include loan type, currency or exchange rate, interest rates and expected cash flows. Specific risk characteristics of commercial loans include interest rates and credit quality factors which could impact expected cash flows. We record the servicing assets as other intangible assets and amortize them over their estimated lives in proportion to estimated net servicing income or loss. On a quarterly basis, we test the assets for impairment using various valuation models. If the estimated fair value of the assets is less than the carrying value, an impairment loss is recognized. Servicing fees are recognized as they are earned and are reported net of amortization expense in noninterest income. For residential mortgage servicing rights, we have elected to account for these assets under the fair value method. The primary risk of changes to the value of the residential mortgage servicing rights resides in the potential volatility in the economic assumptions used, primarily the interest rates. The pricing methodology used by PNC to value residential mortgage servicing rights uses a combination of securities market data observations, model cash flow projections and anecdotal servicing observations and surveys. Changes in the fair values of these assets are reflected in noninterest income.

DEPRECIATION AND AMORTIZATION

For financial reporting purposes, we depreciate premises and equipment principally using the straight-line method over their estimated useful lives.

We use estimated useful lives for furniture and equipment ranging from one to 10 years, and depreciate buildings over an estimated useful life of up to 40 years. We amortize leasehold improvements over their estimated useful lives of up to 15 years or the respective lease terms, whichever is shorter.

We purchase, as well as internally develop and customize, certain software to enhance or perform internal business functions. Software development costs incurred in the planning and post-development project stages are charged to noninterest expense. Costs associated with designing software configuration and interfaces, installation, coding programs and testing systems are capitalized and amortized using the straight-line method over periods ranging from one to seven years.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We use a variety of financial derivatives as part of our overall asset and liability risk management process to manage interest rate, market and credit risk inherent in our business activities. We use substantially all such instruments to manage risk related to changes in interest rates. Interest rate and total return swaps, interest rate caps and floors, and futures contracts are the primary instruments we use for interest rate risk management.

Financial derivatives involve, to varying degrees, interest rate, market and credit risk. We manage these risks as part of our asset and liability management process and through credit policies and procedures. We seek to minimize counterparty credit risk by entering into transactions with only high-quality institutions, establishing credit limits, and generally requiring bilateral netting and collateral agreements.

We recognize all derivative instruments at fair value as either other assets or other liabilities. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as an accounting hedge, the trading gain or loss is recognized in noninterest income.

For those derivative instruments that are designated and qualify as hedging instruments, we must designate the hedging instrument, based on the exposure being hedged, as a fair value hedge or a cash flow hedge. We have no derivatives that hedge the net investment in a foreign operation.

We formally document the relationship between the hedging instruments and hedged items, as well as the risk management objective and strategy before undertaking a hedge. To qualify for hedge accounting, the derivatives and related hedged items must be designated as a hedge. For hedging relationships in which effectiveness is measured, we formally assess, both at the inception of the hedge and on an ongoing basis, if the derivatives are highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that the derivative instrument is not highly effective as a hedge, hedge accounting is discontinued.

For derivatives that are designated as fair value hedges (i.e., hedging the exposure to changes in the fair value of an asset or a liability attributable to a particular risk), changes in the fair value of the hedging derivative are recognized in earnings and offset by recognizing changes in the fair value of the hedged item attributable to the hedged risk. To the extent the hedge is ineffective, the changes in fair value will not offset and the difference is reflected in the same financial statement category as the hedged item.

For derivatives designated as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows), the effective portions of the gain or loss on derivatives are reported as a component of accumulated other comprehensive income (loss) and subsequently reclassified in interest income in the same period or periods during which the hedged transaction affects earnings. As a result, the change in fair value of any ineffective portion of the hedging derivative is recognized immediately in earnings.

We discontinue hedge accounting when it is determined that the derivative is no longer qualifying as an effective hedge; the derivative expires or is sold, terminated or exercised; or the derivative is de-designated as a fair value or cash flow hedge or it is no longer probable that the forecasted transaction will occur by the end of the originally specified time period. If we determine that the derivative no longer qualifies as a fair value or cash flow hedge and therefore hedge accounting is discontinued, the derivative will continue to be recorded on the balance sheet at its fair value with changes in fair value included in current earnings. For a discontinued fair value hedge, the previously hedged item is no longer adjusted for changes in fair value.

When hedge accounting is discontinued because it is no longer probable that a forecasted transaction will occur, the derivative will continue to be recorded on the balance sheet at its fair value with changes in fair value included in current earnings, and the gains and losses in accumulated other comprehensive income (loss) will be recognized immediately into earnings. When we discontinue hedge accounting because the hedging instrument is sold, terminated or no longer designated, the amount reported in accumulated other comprehensive income (loss) up to the date of sale, termination or de-designation continues to be reported in other comprehensive income or loss until the forecasted transaction affects earnings.

We occasionally purchase or originate financial instruments that contain an embedded derivative. Prior to January 1, 2006, we assessed at the inception of the transaction if economic characteristics of the embedded derivative were clearly and closely related to the economic characteristics of the financial instrument (host contract), whether the financial instrument that embodied both the embedded derivative and the host contract were measured at fair value with changes in fair value reported in earnings, and whether a separate instrument with the same terms as the embedded instrument would not meet the definition of a derivative. If the embedded derivative did not meet these three conditions, the embedded derivative would qualify as a derivative and be recorded apart from the host contract and carried at fair value with changes recorded in current earnings. On January 1, 2006, we adopted SFAS 155, which, among other provisions, permits a fair value election for hybrid financial instruments requiring bifurcation on an instrument-by-instrument basis. Beginning January 1, 2006, we elected to account for certain previously bifurcated hybrid instruments and certain newly acquired hybrid instruments under this fair value election on an instrument-by-instrument basis. As such, certain previously reported embedded derivatives are now reported with their host contracts at fair value in loans or other borrowed funds.

We enter into commitments to make loans whereby the interest rate on the loan is set prior to funding (interest rate lock commitments). We also enter into commitments to purchase mortgage loans (purchase commitments). Both interest rate lock commitments and purchase commitments on mortgage loans that will be held for resale are accounted for as free-standing derivatives. Interest rate lock commitments and purchase commitments that are considered to be derivatives are recorded at fair value in other assets or other liabilities. Fair value of interest rate lock commitments and purchase commitments is determined as the change in value that occurs after the inception of the commitment considering the projected security price, fees collected from the borrower and costs to originate, adjusted for anticipated fallout risk. We recognize the gain or loss from the change in fair value of these derivatives in trading noninterest income.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115." This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option may be applied on an instrument by instrument basis with a few exceptions. The election is irrevocable and must be applied to entire instruments and not to portions of instruments. We will adopt SFAS 159 beginning January 1, 2008.

During 2006, the FASB issued the following:

- SFAS 157, "Fair Value Measurements," defines fair value and establishes a framework for measuring fair value which includes permissible valuation techniques and a hierarchy of inputs utilized in the measurement process. This statement applies whenever other accounting standards require or permit fair value measurement. As required, we will adopt SFAS 157 prospectively beginning January 1, 2008. While we are continuing to evaluate the possible impact of this new standard, we currently do not expect the adoption to have a material effect on our results of operations or financial position.

- FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements and sets forth recognition, derecognition and measurement criteria for tax positions taken or expected to be taken in a tax filing. For PNC, this guidance is effective for all tax positions taken or expected to be taken beginning on January 1, 2007. See Note 11 Income Taxes.
- FASB Staff Position No. ("FSP") FAS 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction." This guidance requires a recalculation of the timing of income recognition for a leveraged lease under SFAS 13, "Accounting for Leases," when a change in the timing of income tax deductions directly related to the leveraged lease transaction occurs or is projected to occur. Any tax positions taken regarding the leveraged lease transaction must be recognized and measured in accordance with FIN 48 described above. This guidance is effective for PNC beginning January 1, 2007 with the cumulative effect of applying the provisions of this FSP being recognized through an adjustment to opening retained earnings. Any immediate or future reductions in earnings from the change in accounting would be recovered in subsequent years. Our adoption of the guidance in FSP FAS 13-2 resulted in an after-tax charge to beginning retained earnings at January 1, 2007 of approximately $149 million.

NOTE 2 ACQUISITION

Effective March 2, 2007, we acquired Mercantile Bankshares Corporation ("Mercantile") under an Agreement and Plan of Merger dated as of October 8, 2006. Mercantile shareholders received .4184 shares of PNC common stock and $16.45 in cash for each share of Mercantile, or in the aggregate approximately 53 million shares of PNC common stock and $2.1 billion in cash. Total consideration paid was approximately $5.9 billion in stock and cash.

Mercantile has added banking and investment and wealth management services through 235 branches in Maryland, Virginia, the District of Columbia, Delaware and southeastern Pennsylvania. This transaction has significantly expanded our presence in the mid-Atlantic region, particularly within the attractive Baltimore and Washington, DC markets.

Our acquisition of Mercantile added approximately $21 billion of assets to our Consolidated Balance Sheet, including $12.4 billion of loans, $4.3 billion of goodwill and $3.0 billion of available for sale and trading securities. Loans added with this acquisition included $5.8 billion of commercial real estate, $2.7 billion of commercial, $2.3 billion of residential mortgage and $1.6 billion of consumer loans. In addition, we added $12.5 billion of deposits and $2.1 billion of borrowed funds in connection with this acquisition. Our Consolidated Income Statement includes the impact of Mercantile subsequent to our March 2, 2007 acquisition.

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NOTE 3 SECURITIES

In millions	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2007 (a)				
SECURITIES AVAILABLE FOR SALE				
Debt securities				
Residential mortgage-backed	**$19,594**	**$65**	**$(113)**	**$19,546**
Commercial mortgage-backed	**3,884**	**18**	**(20)**	**3,882**
Asset-backed	**2,049**	**4**	**(10)**	**2,043**
U.S. Treasury and government agencies	**414**		**(3)**	**411**
State and municipal	**206**	**1**	**(2)**	**205**
Other debt	**36**			**36**
Total debt securities	**26,183**	**88**	**(148)**	**26,123**
Corporate stocks and other	**352**			**352**
Total securities available for sale	**$26,535**	**$88**	**$(148)**	**$26,475**
December 31, 2006 (a)				
SECURITIES AVAILABLE FOR SALE				
Debt securities				
Residential mortgage-backed	$17,325	$39	$(156)	$17,208
Commercial mortgage-backed	3,231	13	(25)	3,219
Asset-backed	1,615	3	(9)	1,609
U.S. Treasury and government agencies	611		(3)	608
State and municipal	140	1	(2)	139
Other debt	90		(3)	87
Total debt securities	23,012	56	(198)	22,870
Corporate stocks and other	321	1	(1)	321
Total securities available for sale	$23,333	$57	$(199)	$23,191

(a) Securities held to maturity at March 31, 2007 and December 31, 2006 totaled less than $.5 million at each date.

We evaluate our securities available for sale portfolio in light of changing market conditions and other factors and, where appropriate, take steps intended to improve our overall positioning.

At March 31, 2007, securities available for sale included a net unrealized loss of $60 million, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2006 was a net unrealized loss of $142 million.

The fair value of securities available for sale generally decreases when interest rates increase and vice versa. Net unrealized gains and losses in the securities available for sale portfolio are included in shareholders' equity as accumulated other comprehensive income (loss), net of tax.

Of the $148 million gross unrealized loss amount at March 31, 2007, $134 million related to securities that had been in a loss position for 12 months or more. The fair value of those securities totaled approximately $7.4 billion. Of those securities in an unrealized loss position for 12 months or more as of March 31, 2007, PNC held 11 residential mortgage-backed security positions with fair value totaling $270 million that had an unrealized loss of more than 5% when compared with their amortized cost. The unrealized loss on these positions totaled $19 million and, the unrealized loss amount on any individual position did not exceed $4 million. These securities are primarily collateralized mortgage obligations where amortized cost closely approximates the par value of the security. These securities are either US government agency issued or rated "AAA". At March 31, 2007, PNC also held certain other securities included in the other categories in the preceding table that had an unrealized loss of more than 5% when compared with their amortized cost. The approximate fair value of these other securities at March 31, 2007 was $5 million and the aggregate unrealized loss on these securities positions was not significant. The majority of the reported unrealized loss related to these securities and the remaining other available for sale securities is attributable to changes in interest rates and not from the deterioration in the credit quality of the issuer.

The expected weighted-average life of securities available for sale (excluding corporate stocks and other) was 3 years and 8 months at March 31, 2007 and December 31, 2006.

Information relating to securities sold is set forth in the following table:

Securities Sold

Three months ended March 31 In millions	Proceeds	Gross Gains	Gross Losses	Net Gains (Losses)	Income Tax Expense/ (Benefit)
2007	**$3,425**	**$9**	**$(12)**	**$(3)**	**$(1)**
2006	1,257		(4)	(4)	(1)

The fair value of securities pledged to secure public and trust deposits and repurchase agreements and for other purposes was $23.3 billion at March 31, 2007 and $10.6 billion at

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December 31, 2006. The increase is due primarily to an increase in securities pledged as collateral for the ability to borrow from the Federal Reserve Bank of Cleveland. The pledged securities include positions held in our portfolio of securities available for sale, trading securities that are included in Other short-term investments on our Consolidated Balance Sheet, and securities accepted as collateral from others that we are permitted by contract or custom to sell or repledge.

The fair value of securities accepted as collateral that we are permitted by contract or custom to sell or repledge was $1.3 billion at March 31, 2007 and $1.4 billion at December 31, 2006 and is a component of Federal funds sold and Resale agreements on our Consolidated Balance Sheet. Of the permitted amount, $1.2 billion was repledged to others at March 31, 2007 and $1.3 billion was repledged to others at December 31, 2006.

NOTE 4 ASSET QUALITY

The following table sets forth nonperforming assets and related information.

Dollars in millions	March 31, 2007	December 31, 2006
Nonaccrual loans		
Commercial	**$121**	$109
Commercial real estate	**25**	12
Consumer	**14**	13
Residential mortgage	**16**	12
Lease financing	**2**	1
Total nonaccrual loans	**178**	147
Foreclosed and other assets		
Lease	**12**	12
Residential mortgage	**11**	10
Other	**3**	2
Total foreclosed and other assets	**26**	24
Total nonperforming assets (a)	**$204**	$171
Nonperforming loans to total loans	**.28%**	.29%
Nonperforming assets to total loans and foreclosed assets	**.32**	.34
Nonperforming assets to total assets	**.17**	.17

(a) Excludes equity management assets carried at estimated fair value of $15 million at March 31, 2007 and $11 million at December 31, 2006 (amounts include troubled debt restructured assets of $4 million at both March 31, 2007 and December 31, 2006) and loans held for sale carried at lower of cost or market value of $18 million at March 31, 2007.

Changes in the allowance for loan and lease losses were as follows:

In millions	2007	2006
Allowance at January 1	**$560**	$596
Charge-offs		
Commercial	**(31)**	(16)
Consumer	**(17)**	(12)
Total charge-offs	**(48)**	(28)
Recoveries		
Commercial	**7**	6
Consumer	**5**	4
Total recoveries	**12**	10
Net charge-offs		
Commercial	**(24)**	(10)
Consumer	**(12)**	(8)
Total net charge-offs	**(36)**	(18)
Provision for credit losses	**8**	22
Acquired allowance—Mercantile	**142**	
Net change in allowance for unfunded loan commitments and letters of credit	**16**	(3)
Allowance at March 31	**$690**	$597

Changes in the allowance for unfunded loan commitments and letters of credit were as follows:

In millions	2007	2006
Allowance at January 1	**$120**	$100
Acquired allowance – Mercantile	**17**	
Net change in allowance for unfunded loan commitments and letters of credit	**(16)**	3
Allowance at March 31	**$121**	$103

NOTE 5 GOODWILL AND OTHER INTANGIBLE ASSETS

A summary of the changes in goodwill by business segment for the three months ended March 31, 2007 follows:

Goodwill

In millions	December 31 2006	Additions/ Adjustments	March 31 2007
Retail Banking	$1,466	$3,958	**$5,424**
Corporate & Institutional Banking	938	368	**1,306**
PFPC	968		**968**
BlackRock	30	13	**43**
Other		(2)	**(2)**
Total	$3,402	$4,337	**$7,739**

We added $4.3 billion of goodwill and $288 million of other intangible assets in connection with our March 2007 acquisition of Mercantile. Assets and liabilities of acquired entities are recorded at estimated fair value as of the acquisition date and are subject to refinement as information relative to the fair values at that date becomes available. We are awaiting certain information relating to our valuations and any pre-acquisition contingencies. Revisions may result in subsequent adjustments to goodwill. As of March 31, 2007, the goodwill and other intangible assets related to Mercantile are reported in the Retail Banking and Corporate & Institutional Banking business segments.

The gross carrying amount, accumulated amortization and net carrying amount of other intangible assets by major category consisted of the following:

Other Intangible Assets

In millions	March 31, 2007	December 31, 2006
Customer-related and other intangibles		
Gross carrying amount	**$ 623**	$ 342
Accumulated amortization	**(193)**	(178)
Net carrying amount	**$ 430**	$ 164
Mortgage and other loan servicing rights		
Gross carrying amount	**$ 727**	$ 689
Accumulated amortization	**(228)**	(212)
Net carrying amount	**$ 499**	$ 477
Total	**$ 929**	$ 641

Most of our other intangible assets have finite lives and are amortized primarily on a straight-line basis or, in the case of mortgage and other loan servicing rights and certain core deposit intangibles, on an accelerated basis.

For customer-related intangibles, the estimated remaining useful lives range from less than 1 year to 12 years, with a weighted-average remaining useful life of approximately 8 years. Our mortgage and other loan servicing rights are amortized primarily over a period of 5 to 10 years in proportion to the estimated net servicing cash flows from the related loans.

The changes in the carrying amount of goodwill and net other intangible assets for the three months ended March 31, 2007 are as follows:

Changes in Goodwill and Other Intangibles

In millions	Goodwill	Customer-Related	Servicing Rights
Balance at December 31, 2006	$3,402	$164	$477
Additions/adjustments:			
Mercantile acquisition	4,326	281	7
Corporate & Institutional	(2)		31
BlackRock	13		
Amortization		(15)	(16)
Balance at March 31, 2007	**$7,739**	**$430**	**$499**

Our investment in BlackRock changes when BlackRock repurchases its shares in the open market or issues shares for an acquisition or pursuant to its employee compensation plans. We record goodwill when BlackRock repurchases its shares at an amount greater than book value per share and this results in an increase in our percentage ownership interest.

Servicing revenue from both commercial and residential mortgage servicing assets and liabilities generated contractually specified servicing fees, net interest income from servicing portfolio deposit balances and ancillary fees totaling $43 million for the three months ended March 31, 2007 and $33 million for the three months ended March 31, 2006. We also generate servicing revenue from fee-based activities provided to others.

Amortization expense on intangible assets for the first three months of 2007 was $31 million. Amortization expense on existing intangible assets for the remainder of 2007 and for 2008 through 2012 is estimated to be as follows:

- Remainder of 2007: $146 million,
- 2008: $147 million,
- 2009: $129 million,
- 2010: $109 million,
- 2011: $94 million, and
- 2012: $53 million.

NOTE 6 VARIABLE INTEREST ENTITIES

As discussed in our 2006 Form 10-K, we are involved with various entities in the normal course of business that may be deemed to be VIEs. We consolidated certain VIEs as of March 31, 2007 and December 31, 2006 for which we were determined to be the primary beneficiary. These consolidated VIEs and relationships with PNC are described in our 2006 Form 10-K.

We hold significant variable interests in VIEs that have not been consolidated because we are not considered the primary beneficiary. Information on these VIEs follows:

Non-Consolidated VIEs – Significant Variable Interests

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss
March 31, 2007			
Market Street	**$3,820**	**$3,819**	**$6,149(a)**
Collateralized debt obligations	**540**	**449**	**8**
Partnership interests in low income housing projects	**33**	**30**	**8**
Total	**$4,393**	**$4,298**	**$6,165**
December 31, 2006			
Market Street	$4,020	$4,020	$6,117(a)
Collateralized debt obligations	815	570	22
Partnership interests in low income housing projects	33	30	8
Total	$4,868	$4,620	$6,147

(a) PNC's risk of loss consists of off-balance sheet liquidity commitments to Market Street of $5.6 billion and other credit enhancements of $.5 billion at March 31, 2007. The comparable amounts at December 31, 2006 were $5.6 billion and $.6 billion, respectively.

MARKET STREET

Market Street Funding LLC ("Market Street") is a multi-seller asset-backed commercial paper conduit that is owned by an independent third party. Market Street's activities are limited to the purchasing of assets or making loans secured by interests primarily in pools of receivables from US corporations that desire access to the commercial paper market. Market Street funds the asset purchases or loans by issuing commercial paper which has been rated A1/P1 by Standard & Poor's and Moody's, respectively, and is supported by pool-specific credit enhancement, liquidity facilities and program-level credit enhancement.

PNC Bank, National Association ("PNC Bank, N.A.") provides certain administrative services, a portion of the program-level credit enhancement and the majority of liquidity facilities to Market Street in exchange for fees negotiated based on market rates. All of Market Street's assets at March 31, 2007 and December 31, 2006 collateralize the commercial paper obligations. PNC views its credit exposure for the Market Street transactions as limited. Facilities requiring PNC to fund for defaulted assets totaled $890 million at March 31, 2007. For 84% of the liquidity facilities at March 31, 2007, PNC is not required to fund if the assets are in default. PNC may be liable for funding under liquidity facilities for events such as borrower bankruptcies, collateral deficiencies or covenant violations. Additionally, PNC's obligations under the liquidity facilities are secondary to the risk of first loss provided by the borrower or another third party in the form of deal-specific credit enhancement – for example, by the over collateralization of the assets. Deal-specific credit enhancement that supports the commercial paper issued by Market Street is generally structured to cover a multiple of the expected historical losses for the pool of assets and is sized to generally meet rating agency standards for comparably structured transactions. Credit enhancement is provided in part by PNC Bank, N.A. in the form of a cash collateral account that is funded by a loan facility that expires March 23, 2012. Neither creditors nor equity investors in Market Street have any recourse to our general credit. PNC recognized program administrator fees and commitment fees related to PNC's portion of the liquidity facilities of $2.9 million and $1 million, respectively, for the quarter ended March 31, 2007.

As more fully described in our 2006 Form 10-K, Market Street was restructured as a limited liability company in October 2005 and entered into a subordinated Note Purchase Agreement ("Note") with an unrelated third party.

The Note provides first loss coverage whereby the investor absorbs losses up to the amount of the Note, which was $6.0 million as of March 31, 2007. Proceeds from the issuance of the Note are held by Market Street in a first loss reserve account that will be used to reimburse any losses incurred by Market Street, PNC Bank, N.A. or other providers under the liquidity facilities and the credit enhancement arrangements.

As a result of the Note issuance, we reevaluated the design of Market Street, its capital structure and relationships among the variable interest holders under the provisions of FIN 46R. Based on this analysis, we determined that we were no longer the primary beneficiary as defined by FIN 46R and deconsolidated Market Street from our Consolidated Balance Sheet effective October 17, 2005. There have been no events or changes in the contractual terms of the Note since that date that would change this conclusion.

The aggregate assets and liabilities of VIEs that we have consolidated in our financial statements are as follows:

Consolidated VIEs – PNC Is Primary Beneficiary

In millions	Aggregate Assets	Aggregate Liabilities
Partnership interests in low income housing projects		
March 31, 2007	**$ 780**	**$ 780**
December 31, 2006	$ 834	$ 834

Investment Company Accounting - Deferred Application

We also have subsidiaries that invest in and act as the investment manager for private equity funds organized as limited partnerships as part of our equity management activities. The funds invest in private equity investments to generate capital appreciation and profits. As permitted by FIN 46R, we have deferred applying the provisions of the interpretation for these entities pending further action by the FASB. These entities are not consolidated into our financial statements as of March 31, 2007 or December 31, 2006. Information on these entities follows:

In millions	Aggregate Assets	Aggregate Equity	PNC Risk of Loss
Private Equity Funds			
March 31, 2007	**$ 110**	**$ 110**	**$ 102**
December 31, 2006	$ 102	$ 102	$ 104

PNC's risk of loss in the table above includes both the value of our equity investments and any unfunded commitments to the respective entities. The value of our investment in these entities is included in equity investments on our Consolidated Balance Sheet.

PERPETUAL TRUST SECURITIES

We issue certain hybrid capital vehicles that qualify as capital for both regulatory and tangible ratios.

In December 2006, one of our indirect subsidiaries, PNC REIT Corp., sold $500 million of 6.517% Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities (the "Trust Securities") of PNC Preferred Funding Trust I ("Trust I"), in a private placement. PNC REIT Corp. had previously acquired the Trust Securities from the trust in exchange for an equivalent amount of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Securities (the "LLC Preferred Securities"), of PNC Preferred Funding LLC, (the "LLC"), held by PNC REIT Corp. The LLC's initial material assets consist of indirect interests in mortgages and mortgage-related assets previously owned by PNC REIT Corp. Our 2006 Form 10-K includes additional information regarding the Trust Securities, including descriptions of replacement capital and dividend restriction covenants.

In March 2007, PNC Preferred Funding LLC , sold $500 million of 6.113% Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities of PNC Preferred Funding Trust II (“Trust II”), in a private placement. In connection with the private placement, Trust II acquired $500 million of LLC Preferred Securities.

PNC REIT Corp. owns 100% of the LLC’s common voting securities. As a result, the LLC is an indirect subsidiary of PNC and is consolidated on our Consolidated Balance Sheet. Trust I and Trust II’s investment in the LLC Preferred Securities is characterized as a minority interest on our Consolidated Balance Sheet since we are not the primary beneficiary of Trust I and Trust II. This minority interest totaled approximately $981 million at March 31, 2007.

NOTE 7 CAPITAL SECURITIES OF SUBSIDIARY TRUSTS

In March 2007, we redeemed all of the underlying Capital Securities relating to UNB Capital Trust I and Riggs Capital Trust II. The total outstanding Capital Securities redeemed were $216 million.

As part of the Mercantile acquisition, we acquired the James Monroe Statutory Trust II (“Monroe Trust II”) and the James Monroe Statutory Trust III (“Monroe Trust III”).

On July 31, 2003, Monroe Trust II was formed and issued $4 million of capital securities which are due July 31, 2033 and redeemable beginning July 31, 2008 at par. On October 3, 2005, Monroe Trust III was formed and issued $8 million of capital securities which are due December 15, 2035 and are redeemable beginning December 15, 2010 at par. Aggregate junior subordinated debt of $12 million owed by PNC to Monroe Trust II and Monroe Trust III is included on our Consolidated Balance Sheet at March 31, 2007, with the related service cost included in interest expense.

At March 31, 2007, our remaining Capital Securities represent non-voting preferred beneficial interests in the assets of PNC Institutional Capital Trust B and PNC Capital Trusts C and D (as further described in Note 14 Capital Securities of Subsidiary Trusts of our 2006 Form 10-K) and Monroe Trusts II and III. All of these trusts are wholly owned finance subsidiaries of PNC. The financial statements of the Trusts are not included in PNC’s consolidated financial statements in accordance with GAAP.

We have elected to redeem, effective May 15, 2007, all of the underlying Capital Securities, totaling $300 million, relating to PNC Institutional Capital Trust B.

The obligations of the respective parent of each Trust, when taken collectively, are the equivalent of a full and unconditional guarantee of the obligations of such Trust under the terms of the Capital Securities. Such guarantee is subordinate in right of payment in the same manner as other junior subordinated debt. There are certain restrictions on PNC’s overall ability to obtain funds from its subsidiaries. For additional disclosure on these funding restrictions, including an explanation of dividend and intercompany loan limitations, see Note 4 Regulatory Matters in our 2006 Form 10-K.

NOTE 8 CERTAIN EMPLOYEE BENEFIT AND STOCK-BASED COMPENSATION PLANS

Pension and Post-Retirement Plans

As more fully described in our 2006 Form 10-K, we have a noncontributory, qualified defined benefit pension plan covering eligible employees. Benefits are derived from a cash balance formula based on compensation levels, age and length of service. Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants.

We also maintain nonqualified supplemental retirement plans for certain employees. We also provide certain health care and life insurance benefits for qualifying retired employees (“post-retirement benefits”) through various plans. The nonqualified pension and postretirement benefit plans are unfunded.

The components of our net periodic pension and post-retirement benefit cost for the first quarter of 2007 and 2006 were as follows:

Three months ended March 31 In millions	Qualified Pension Plan 2007	Qualified Pension Plan 2006	Nonqualified Pension Plan 2007	Nonqualified Pension Plan 2006	Post-retirement Benefits 2007	Post-retirement Benefits 2006
Service cost	**$9**	$9			**$1**	
Interest cost	**19**	17	**$1**	$1	**3**	$4
Expected return on plan assets	**(36)**	(32)				
Amortization of prior service cost					**(2)**	(2)
Recognized net actuarial loss		6	**1**	1		1
Net periodic cost (benefit)	**$(8)**	$ —	**$2**	$2	**$2**	$3

During the first quarter of 2007, we added another defined benefit pension plan as a result of the Mercantile acquisition. Plan assets and benefit obligations of the Mercantile plan were approximately $242 million and $246 million, respectively, at acquisition date. The $4 million funding deficit was recognized as part of the Mercantile acquisition purchase price allocation. We plan to integrate the Mercantile plan into the PNC plan as of December 31, 2007.

Stock-Based Compensation Plans
We have long-term incentive award plans ("Incentive Plans") that provide for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, incentive shares/performance units, restricted stock, other share-based awards and dollar-denominated awards to executives and, other than incentive stock options, to non-employee directors. We grant a substantial portion of our stock-based compensation awards during the first quarter of the year. As of March 31, 2007, no incentive stock options or stock appreciation rights were outstanding. The Incentive Plans are more fully described in Note 18 Stock-Based Compensation Plans of our 2006 Form 10-K.

Nonqualified Stock Options
Options are granted at exercise prices not less than the market value of common stock on the grant date. Generally, options granted since 1999 become exercisable in installments after the grant date. Options granted prior to 1999 are mainly exercisable 12 months after grant date. No option may be exercisable after 10 years from its grant date. Payment of the option exercise price may be in cash or previously owned shares of common stock at market value on the exercise date.

Generally, options granted under the Incentive Plans vest ratably over a three-year period as long as the grantee remains an employee or, in certain cases, retires from PNC. For all options granted prior to the adoption of SFAS 123R "Share-Based Payment" ("SFAS 123R"), we recognized compensation expense over the three-year vesting period. If an employee retired prior to the end of the three-year vesting period, we accelerated the expensing of all unrecognized compensation costs at the retirement date. As required under SFAS 123R, we recognize compensation expense for options granted to retirement-eligible employees after January 1, 2006 in the period granted, in accordance with the service period provisions of the options. Total compensation expense recognized related to PNC stock options during the first quarter of 2007 and 2006 was approximately $6 million in each quarter.

For purposes of computing stock option expense, we estimated the fair value of stock options using the Black-Scholes option-pricing model. The model requires the use of numerous assumptions, many of which are very subjective.

We used the following assumptions in the option-pricing model to determine first quarter 2007 and 2006 stock option expense:

- The risk-free interest rate is based on the US Treasury yield curve,
- The dividend yield represents average yields over the previous three-year period,
- Volatility is measured using the fluctuation in month-end closing stock prices over a period which corresponds with the average expected option life, but in no case less than a five-year period, and
- The expected life assumption represents the period of time that options granted are expected to be outstanding and is based on a weighted average of historical option activity.

Option Pricing Assumptions

Weighted average for the three months ended March 31	**2007**	2006
Risk-free interest rate	**4.9%**	4.4%
Dividend yield	**3.4%**	3.7%
Volatility	**19.4%**	20.6%
Expected life	**4.6 yrs.**	5.5 yrs.

The following table summarizes PNC stock option information as of and for the three month period ending March 31, 2007:

	Shares (thousands)	Weighted-Average Exercise Price
Outstanding at December 31, 2006	14,950	$59.29
Granted	1,604	72.74
Exercised	(1,155)	54.85
Forfeited	(25)	70.84
Outstanding at March 31, 2007	**15,374**	**$61.00**
Exercisable at March 31, 2007	**11,527**	**$58.91**

The weighted-average grant-date fair value of options granted during the first quarter of 2007 was $10.76 per option, compared with $10.00 per option for options granted during the first quarter of 2006. During the first quarter of 2007 we issued approximately 1.1 million shares from treasury stock in connection with stock option exercise activity. As with past exercise activity, we intend to utilize treasury stock for future stock option exercises.

Incentive/Performance Unit Share and Restricted Stock/Unit Awards
The fair value of nonvested incentive/performance unit shares and restricted stock/unit awards is initially determined based on prices not less than the market value of our common stock price on the date of grant. Incentive/performance unit shares are subsequently valued subject to the achievement of one or more financial and other performance goals over a three-year period. The Personnel and Compensation Committee of the Board of Directors approves the final award payout with respect to incentive/performance unit shares. Restricted stock/unit awards have various vesting periods ranging from 24 months to 60 months. There are no financial or performance goals associated with any of our restricted stock/unit awards.

We recognize compensation expense for incentive/performance unit shares and restricted stock/unit awards ratably over the corresponding vesting and/or performance periods for each type of program. Total compensation expense recognized related to PNC incentive/performance unit share and restricted stock/unit awards during the first quarter of 2007 was approximately $10 million, compared with $12 million during the first quarter of 2006.

The following table summarizes PNC nonvested incentive/performance unit shares and restricted stock/unit awards as of and for the three month period ending March 31, 2007:

Shares in thousands	Nonvested Incentive/ Performance Unit Shares	Weighted-Average Grant Date Fair Value	Nonvested Restricted Stock/ Units	Weighted-Average Grant Date Fair Value
Dec. 31, 2006	186	$64.15	2,425	$57.45
Granted	**130**	**68.91**	**512**	**69.86**
Vested	—	—	**(761)**	**59.94**
Forfeited	—	—	**(12)**	**55.46**
March 31, 2007	**316**	**$66.11**	**2,164**	**$59.52**

The weighted-average grant-date fair value of incentive/performance unit shares and restricted stock/unit awards is measured by reducing the grant date price by the present value of dividends expected to be paid on the underlying shares and for estimated forfeitures on restricted stock/unit awards.

At March 31, 2007, there was $64 million of unrecognized deferred compensation expense related to nonvested share-based compensation arrangements granted under the Incentive Plans. This cost is expected to be recognized as expense over a period of no longer than 5 years.

NOTE 9 FINANCIAL DERIVATIVES

We use a variety of derivative financial instruments to help manage interest rate, market and credit risk and reduce the effects that changes in interest rates may have on net income, fair value of assets and liabilities, and cash flows. These instruments include interest rate swaps, interest rate caps and floors, futures contracts, and total return swaps.

Fair Value Hedging Strategies

We enter into interest rate and total return swaps, interest rate caps, floors and futures derivative contracts to hedge designated commercial mortgage loans held for sale, commercial loans, bank notes, senior debt and subordinated debt for changes in fair value primarily due to changes in interest rates. Adjustments related to the ineffective portion of fair value hedging instruments are recorded in interest income, interest expense or noninterest income depending on the hedged item.

Cash Flow Hedging Strategy

We enter into interest rate swap contracts to modify the interest rate characteristics of designated commercial loans from variable to fixed in order to reduce the impact of interest rate changes on future interest income. We are hedging our exposure to the variability of future cash flows for all forecasted transactions for a maximum of 10 years for hedges converting floating-rate commercial loans to fixed. The fair value of these derivatives is reported in other assets or other liabilities and offset in accumulated other comprehensive income (loss) for the effective portion of the derivatives. When the hedged transaction culminates, any unrealized gains or losses related to these swap contracts are reclassified from accumulated other comprehensive loss into earnings in the same period or periods during which the hedged forecasted transaction affects earnings and are included in interest income. Ineffectiveness of the strategy, if any, is reported in interest income.

During the next twelve months, we expect to reclassify to earnings $20 million of pretax net losses, or $13 million after-tax, on cash flow hedge derivatives currently reported in accumulated other comprehensive loss. This amount could differ from amounts actually recognized due to changes in interest rates and the addition of other hedges subsequent to March 31, 2007. These net losses are anticipated to result from net cash flows on receive fixed interest rate swaps that would impact interest income recognized on the related floating rate commercial loans.

As of March 31, 2007 we have determined that there were no hedging positions where it was probable that certain forecasted transactions may not occur within the originally designated time period.

For those hedge relationships that require testing for ineffectiveness, any ineffectiveness present in the hedge relationship is recognized in current earnings. The ineffective portion of the change in value of these derivatives resulted in a minimal net loss for the three months ended March 31, 2007 and a $1 million net loss for the three months ended March 31, 2006.

Free-Standing Derivatives

To accommodate customer needs, we also enter into financial derivative transactions primarily consisting of interest rate swaps, interest rate caps and floors, futures, swaptions, and foreign exchange and equity contracts. We primarily manage our market risk exposure from customer positions through transactions with third-party dealers. The credit risk associated with derivatives executed with customers is essentially the same as that involved in extending loans and is subject to normal credit policies. We may obtain collateral based on our assessment of the customer. For derivatives not designated as an accounting hedge, the gain or loss is recognized in trading noninterest income.

Also included in free-standing derivatives are transactions that we enter into for risk management and proprietary purposes that are not designated as accounting hedges, primarily interest rate and basis swaps, interest rate caps and floors, futures, credit default swaps, option and foreign exchange contracts and certain interest rate-locked loan origination commitments as well as commitments to buy or sell mortgage loans.

Basis swaps are agreements involving the exchange of payments, based on notional amounts, of two floating rate financial instruments denominated in the same currency, one pegged to one reference rate and the other tied to a second reference rate (e.g., swapping payments tied to one-month LIBOR for payments tied to three-month LIBOR). We use these contracts to mitigate the impact on earnings of exposure to a certain referenced interest rate.

We purchase and sell credit default swaps to mitigate the economic impact of credit losses on specifically identified existing lending relationships or to generate revenue from proprietary trading activities. The fair value of these derivatives typically are based on the change in value, due to changing credit spreads.

Interest rate lock commitments for, as well as commitments to buy or sell, mortgage loans that we intend to sell are considered free-standing derivatives. Our interest rate exposure on certain commercial mortgage interest rate lock commitments is economically hedged with pay-fixed interest rate swaps and forward sales agreements. These contracts mitigate the impact on earnings of exposure to a certain referenced rate.

Free-standing derivatives also include positions we take based on market expectations or to benefit from price differentials between financial instruments and the market based on stated risk management objectives.

Derivative Counterparty Credit Risk
By purchasing and writing derivative contracts we are exposed to credit risk if the counterparties fail to perform. Our credit risk is equal to the fair value gain in the derivative contract. We minimize credit risk through credit approvals, limits, monitoring procedures and collateral requirements. We generally enter into transactions with counterparties that carry high quality credit ratings.

We enter into risk participation agreements to share some of the credit exposure with other counterparties related to interest rate derivative contracts or to take on credit exposure to generate revenue. We will make/receive payments under these guarantees if a customer defaults on its obligation to perform under certain credit agreements. Risk participation agreements entered into prior to July 1, 2003 were considered financial guarantees and therefore are not included in derivatives. Agreements entered into subsequent to June 30, 2003 are included in the derivatives table that follows. We determine that we meet our objective of reducing credit risk associated with certain counterparties to derivative contracts when the participation agreements share in their proportional credit losses of those counterparties.

We generally have established agreements with our major derivative dealer counterparties that provide for exchanges of marketable securities or cash to collateralize either party's positions. At March 31, 2007 we held cash and US government and mortgage-backed securities with a fair value of $101 million and pledged cash with a fair value of $176 million under these agreements.

The total notional or contractual amounts, estimated net fair value and credit risk for derivatives at March 31, 2007 and December 31, 2006 were as follows:

	March 31, 2007			December 31, 2006		
In millions	Notional/ Contract amount	Estimated net fair value	Credit risk	Notional/ Contract amount	Estimated net fair value	Credit risk
ACCOUNTING HEDGES						
Fair value hedges	**$5,688**	**$5**	**$68**	$4,996	$(1)	$51
Cash flow hedges	**8,559**	**77**	**87**	7,815	62	72
Total	**$14,247**	**$82**	**$155**	$12,811	$61	$123
FREE-STANDING DERIVATIVES						
Interest rate contracts	**$124,207**	**$19**	**$506**	$101,749	$21	$533
Equity contracts	**2,228**	**(70)**	**134**	2,393	(63)	134
Foreign exchange contracts	**7,315**	**1**	**55**	7,203		61
Credit derivatives	**3,673**	**(3)**	**8**	3,626	(11)	5
Options	**85,611**	**52**	**271**	97,669	68	306
Risk participation agreements	**830**		**1**	786		
Commitments related to mortgage-related assets	**6,024**	**1**	**12**	2,723	10	15
Other	**20**			20		
Total	**$229,908**	**$—**	**$987**	$216,169	$25	$1,054

NOTE 10 EARNINGS PER SHARE

Basic and diluted earnings per common share calculations follow:

In millions, except share and per share data	Three months ended March 31 2007	2006
CALCULATION OF BASIC EARNINGS PER COMMON SHARE		
Net income applicable to basic earnings per common share (a)	**$459**	$354
Basic weighted-average common shares outstanding (in thousands)	**308,170**	292,027
Basic earnings per common share	**$1.49**	$1.21
(a) Preferred dividends declared were less than $.5 million for each period.		
CALCULATION OF DILUTED EARNINGS PER COMMON SHARe (b) (c)		
Net income	**$459**	$354
Less: BlackRock adjustment for common stock equivalents	**2**	2
Net income applicable to diluted earnings per common share	**$457**	$352
Basic weighted-average common shares outstanding (in thousands)	**308,170**	292,027
Conversion of preferred stock Series A and B	**65**	75
Conversion of preferred stock Series C and D	**562**	593
Conversion of debentures	**2**	2
Exercise of stock options	**1,969**	2,169
Incentive/performance unit share and restricted stock/unit awards	**1,146**	1,412
Diluted weighted-average common shares outstanding (in thousands)	**311,914**	296,278
Diluted earnings per common share	**$1.46**	$1.19
(b) Excludes stock options considered to be anti-dilutive (in thousands)	**4,826**	4,930
(c) Excludes exchangeable senior notes considered to be anti-dilutive (in thousands)	**7,779**	—

NOTE 11 INCOME TAXES

As described in Note 1, we adopted FIN 48 effective January 1, 2007. Our adoption of FIN 48 did not result in a cumulative adjustment to equity.

Upon adoption at January 1, 2007, we had $49 million of unrecognized tax benefits. The unrecognized benefits were composed of the following three broad categories.

In millions	
Unrecognized tax benefits related to acquired companies' tax positions	$10
Unrecognized tax benefits related to temporary differences	20
Unrecognized tax benefits related to permanent differences	19
Total	$49

Under existing accounting rules, any changes in the amounts of unrecognized tax benefits related to acquired companies' tax positions would result in an adjustment to the goodwill associated with the particular acquisition; any changes in the amounts of unrecognized tax benefits related to temporary differences would result in a reclassification to deferred tax liability; and any changes in the amounts of unrecognized tax benefits related to permanent differences would result in an adjustment to income tax expense and therefore our effective tax rate. The unrecognized tax benefits included above that, if recognized, would affect the effective tax rate total $13 million. This is less than the total amount of unrecognized tax benefit related to permanent differences because a portion of those unrecognized benefits relate to state tax matters.

During the first quarter of 2007, unrecognized tax benefits increased by $39 million primarily due to our acquisition of Mercantile.

Our consolidated federal income tax returns through 2003 have been audited by the Internal Revenue Service. Tax years 1998-2003 are currently before the IRS Appeals Division with the only issue to be resolved being the tax treatment of our cross-border leases. The Internal Revenue Service is in the preliminary stages of examining our 2004 and 2005 consolidated federal income tax returns.

The states of New York, New Jersey and Maryland (following our acquisition of Mercantile) and New York City are principally where we are subject to state and local income tax. The State of New York is currently auditing our 2002 to 2004 filings. Subsequent years remain subject to examination in that jurisdiction. Through 2006, BlackRock was included in our New York combined tax filings and constituted most of the tax liability. Years subsequent to 2002 remain subject to examination by New Jersey and New York City and years subsequent to 2003 remain subject to examination by Maryland.

Our policy is to classify interest and penalties associated with income taxes as income taxes. Upon adoption of FIN 48 at January 1, 2007, we had accrued $72 million of interest related to tax positions, most of which related to our cross- border leasing transactions. The total accrued interest during the first quarter of 2007 increased to $85 million primarily due to our acquisition of Mercantile.

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NOTE 12 SHAREHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME

Activity in shareholders' equity for the first three months of 2007 follows. Our preferred stock outstanding as of March 31, 2007 and December 31, 2006 totaled less than $.5 million at each date and, therefore, is excluded from the table.

In millions, except per share data	Shares Outstanding Common Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2006	293	$1,764	$1,651	$10,985	$ (235)	$(3,377)	$10,788
Net income				459			459
Other comprehensive income (loss), net of tax							
Net unrealized securities gains					53		53
Net unrealized gains on cash flow hedge derivatives					17		17
Pension, other postretirement and postemployment benefit plan adjustments					6		6
Other (a)					(3)		(3)
Comprehensive income							532
Cash dividends declared							
Common ($.55 per share)				(161)			(161)
Net effect of adopting FSP FAS 13-2				(149)			(149)
Treasury stock activity	53		891			2,860	3,751
Tax benefit of stock option plans			7				7
Stock options granted			6				6
Effect of BlackRock equity transactions			(26)				(26)
Restricted stock/unit and incentive/performance unit share transactions			(9)				(9)
Balance at March 31, 2007	**346**	**$1,764**	**$2,520**	**$11,134**	**$ (162)**	**$ (517)**	**$14,739**

Comprehensive income for the three months ended March 31, 2006 totaled $227 million.

A summary of the components of the change in accumulated other comprehensive income (loss) follows:

Three months ended March 31, 2007 In millions	Pretax	Tax (Expense) Benefit	After-tax
Change in net unrealized securities losses			
Increase in net unrealized gains on securities held at period end	$ 72	$ (26)	$ 46
Less: Net losses realized in net income (b)	(11)	4	(7)
Change in net unrealized securities losses	83	(30)	53
Change in net unrealized losses on cash flow hedge derivatives			
Increase in net unrealized gains on cash flow hedge derivatives	24	(9)	15
Less: Net losses realized in net income	(3)	1	(2)
Change in net unrealized losses on cash flow hedge derivatives	27	(10)	17
Change in pension, other postretirement and postemployment benefit plan adjustments		6	6
Change in other (a)	1	(4)	(3)
Change in other comprehensive income (loss)	$111	$ (38)	$ 73

The accumulated balances related to each component of other comprehensive income (loss) are as follows:

In millions	**March 31, 2007**		December 31, 2006	
	Pretax	**After-tax**	Pretax	After-tax
Net unrealized securities gains (losses)	**$ (57)**	**$ (38)**	$(140)	$ (91)
Net unrealized gains (losses) on cash flow hedge derivatives	**7**	**4**	(20)	(13)
Pension, other postretirement and postemployment benefit plan adjustments	**(228)**	**(142)**	(228)	(148)
Other, net (a)	**28**	**14**	27	17
Accumulated other comprehensive loss	**$(250)**	**$ (162)**	$(361)	$ (235)

(a) Consists of interest-only strip valuation adjustments, foreign currency translation adjustments and deferred tax adjustments on BlackRock's other comprehensive income.

(b) The pretax amount represents net unrealized losses at December 31, 2006 that were realized in 2007 when the related securities were sold. This amount differs from net securities losses included in the Consolidated Income Statement primarily because it does not include gains or losses realized on securities that were purchased and then sold during 2007.

NOTE 13 LEGAL PROCEEDINGS

Some of our subsidiaries are defendants (or have potential contractual contribution obligations to other defendants) in several pending lawsuits brought during late 2002 and 2003 arising out of the bankruptcy of Adelphia Communications Corporation and its subsidiaries. There also are threatened additional proceedings arising out of the same matters. One of the lawsuits was brought on Adelphia's behalf by the unsecured creditors' committee and equity committee in Adelphia's consolidated bankruptcy proceeding and was removed to the United States District Court for the Southern District of New York by order dated February 9, 2006. Pursuant to Adelphia's plan of reorganization, this lawsuit will be prosecuted by a contingent value vehicle, known as the Adelphia Recovery Trust. The other lawsuits, one of which is a putative consolidated class action, were brought by holders of debt and equity securities of Adelphia and have been consolidated for pretrial purposes in that district court. These lawsuits arise out of lending and securities underwriting activities engaged in by these PNC subsidiaries together with other financial services companies. In the aggregate, more than 400 other financial services companies and numerous other companies and individuals have been named as defendants in one or more of the lawsuits. Collectively, with respect to some or all of the defendants, the lawsuits allege federal law claims, including violations of federal securities and other federal laws, violations of common law duties, aiding and abetting such violations, voidable preference payments, and fraudulent transfers, among other matters. The lawsuits seek unquantified monetary damages, interest, attorneys' fees and other expenses, and a return of the alleged voidable preference and fraudulent transfer payments, among other remedies. The bank defendants, including the PNC defendants, have entered into a settlement of the consolidated class action referred to above. This settlement was approved by the district court in November 2006. In December 2006, a group of class members appealed the order approving the settlement agreement to the United States Court of Appeals for the Second Circuit. The amount for which we would be responsible under this settlement is insignificant. We believe that we have defenses to the claims against us in these lawsuits, as well as potential claims against third parties, and intend to defend the remaining lawsuits vigorously. These lawsuits involve complex issues of law and fact, presenting complicated relationships among the many financial and other participants in the events giving rise to these lawsuits, and have not progressed to the point where we can predict the outcome of the remaining lawsuits other than the one for which a settlement is pending. It is not possible to determine what the likely aggregate recoveries on the part of the plaintiffs in these remaining matters might be or the portion of any such recoveries for which we would ultimately be responsible, but the final consequences to PNC could be material.

In April 2005, an amended complaint was filed in the putative class action against PNC, PNC Bank, N.A., our Pension Plan and its Pension Committee in the United States District Court for the Eastern District of Pennsylvania (originally filed in December 2004). The complaint claims violations of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), arising out of the January 1, 1999 conversion of our Pension Plan from a traditional defined benefit formula into a "cash balance" formula, the design and continued operation of the Plan, and other related matters. Plaintiffs seek to represent a class of all current and former employee-participants in and beneficiaries of the Plan as of December 31, 1998 and thereafter. Plaintiffs also seek to represent a subclass of all current and former employee participants in and beneficiaries of the Plan as of December 31, 1998 and thereafter who were or would have become eligible for an early retirement subsidy under the former Plan at some time prior to the date of the amended complaint. The plaintiffs are seeking unquantified damages and equitable relief available under ERISA, including interest, costs, and attorneys' fees. In November 2005, the district court granted our motion to dismiss the amended complaint. Plaintiffs appealed this ruling to the United States Court of Appeals for the Third Circuit, which affirmed the district court's ruling in an opinion dated January 30, 2007. In February 2007, the court of appeals denied plaintiffs' petition for rehearing. Plaintiffs may seek further judicial review of the dismissal of the complaint.

In March 2006, a first amended complaint was filed in the United States District Court for the Eastern District of Texas by Data Treasury Corporation against PNC and PNC Bank, N.A., as well as more than 50 other financial institutions, vendors, and other companies, claiming that the defendants are infringing, and inducing or contributing to the infringement of, the plaintiff's patents, which allegedly involve check imaging, storage and transfer. The plaintiff seeks unspecified damages and interest and trebling of both, attorneys' fees and other expenses, and injunctive relief against the alleged infringement. We are not in a position to assess the likely outcome of this matter, including our exposure, if any. We believe that we have defenses to the claims against us in this lawsuit and intend to defend it vigorously. In January 2007, the district court entered an order staying the claims asserted against PNC under two of the four patents allegedly infringed by PNC, pending reexamination of these patents by the United States Patent and Trademark Office. The lawsuit will proceed with respect to the other two patents. Further, the stay may be lifted once the Patent and Trademark Office completes its reexamination.

As a result of the acquisition of Riggs, PNC is now responsible for Riggs' obligations to provide indemnification to its directors, officers, and, in some cases, employees and agents against certain liabilities incurred as a result of their service on behalf of or at the request of Riggs. PNC is also now responsible for Riggs' obligations to advance on behalf of covered individuals costs incurred in connection with certain claims or proceedings, subject to written undertakings to repay all amounts so advanced if it is ultimately determined that the individual is not entitled to indemnification. Since the acquisition, we have advanced such costs on behalf of covered individuals from Riggs and expect to continue to do so in the future.

Between 2001 and 2003, on behalf of either individual plaintiffs or a putative class of plaintiffs, several separate actions were filed in state and federal court against Community Bank of Northern Virginia (“CBNV”) and other defendants challenging the validity of second mortgage loans the defendants made to the plaintiffs. CBNV became a subsidiary of PNC when we acquired Mercantile. All of the cases were either filed in, or removed to, the United States District Court for the Western District of Pennsylvania. In June 2003, the parties to the various actions informed the court that they had reached an agreement in principle to settle the various actions. In July 2003, the court conditionally certified a class for settlement purposes, preliminarily approved the class settlement, and directed the issuance of notice to the class. Thereafter, certain plaintiffs who had initially opted out of the proposed settlement and other objectors challenged the validity of the settlement in the district court. The district court denied their arguments and approved the settlement. These “opt out” plaintiffs and other objectors appealed the district court’s approval of the settlement to the United States Court of Appeals for the Third Circuit. In August 2005, the court of appeals reversed the district court’s approval of the settlement and remanded the case to the district court with instructions to consider and address certain specific issues when re-evaluating the settlement. In August 2006, the settling parties submitted a modified settlement agreement to the district court for its approval. In addition, several individuals have filed actions on behalf of themselves or a putative class of plaintiffs alleging claims involving CBNV’s second mortgage loans. These actions also were filed in, or transferred for coordinated or consolidated pre-trial proceedings, to the United States District Court for the Western District of Pennsylvania. The plaintiffs in these lawsuits seek unquantified monetary damages, interest, attorneys’ fees and other expenses, and a refund of all origination fees and fees paid for title services.

There are several pending proceedings or other matters arising out of the three 2001 PAGIC transactions. These proceedings and other matters, including pending settlements relating to certain of the lawsuits and other claims arising out of the PAGIC transactions, are described in our 2006 Annual Report on Form 10-K for the year ended December 31, 2006. In April 2007, the United States District Court for the Western District of Pennsylvania approved the settlement by our former independent auditors for the years ended 2001 of the consolidated class action arising out of the PAGIC transactions. This defendant’s settlement will become effective on May 18, 2007 unless there is an appeal from the court’s approval. Upon effectiveness of this settlement, this defendant will dismiss its appeal of the court’s approval of our settlement of the same class action. At that point, our settlement would become final.

In connection with industry-wide investigations of practices in the mutual fund industry including market timing, late day trading, employee trading in mutual funds and other matters, several of our subsidiaries have received requests for information and other inquiries from state and federal governmental and regulatory authorities. These subsidiaries are fully cooperating in all of these matters. In addition, as a result of the regulated nature of our business and that of a number of our subsidiaries, particularly in the banking and securities areas, we and our subsidiaries are the subject from time to time of investigations and other forms of regulatory inquiry, often as part of industry-wide regulatory reviews of specified activities. Our practice is to cooperate fully with these investigations and inquiries.

In addition to the proceedings or other matters described above, PNC and persons to whom we may have indemnification obligations, in the normal course of business, are subject to various other pending and threatened legal proceedings in which claims for monetary damages and other relief are asserted. We do not anticipate, at the present time, that the ultimate aggregate liability, if any, arising out of such other legal proceedings will have a material adverse effect on our financial position. However, we cannot now determine whether or not any claims asserted against us or others to whom we may have indemnification obligations, whether in the proceedings or other matters specifically described above or otherwise, will have a material adverse effect on our results of operations in any future reporting period.

NOTE 14 SEGMENT REPORTING

We have four major businesses engaged in providing banking, asset management and global fund processing products and services:

- Retail Banking,
- Corporate & Institutional Banking,
- BlackRock, and
- PFPC.

Results of individual businesses are presented based on our management accounting practices and our management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of individual businesses are not necessarily comparable with similar information for any other company. We refine our methodologies from time to time as our management accounting practices are enhanced and our businesses and management structure change. Financial results are presented, to the extent practicable, as if each business, with the exception of our BlackRock segment, operated on a stand-alone basis. As permitted under GAAP, we have aggregated the business results for certain operating segments for financial reporting purposes.

Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing methodology that incorporates product maturities, duration and other factors. Capital is intended to cover unexpected losses and is assigned to the banking and processing businesses using our risk-based economic capital model. We have assigned to Retail Banking capital equal to 6% of funds to reflect the capital required for well-capitalized banks and to approximate market comparables for this business. The assigned capital for PFPC reflects its legal entity shareholders' equity.

BlackRock business segment results for the three months ended March 31, 2006 reflected our majority ownership in BlackRock during that period. Subsequent to the September 29, 2006 BlackRock/MLIM transaction closing, which had the effect of reducing our ownership interest to approximately 34%, our investment in BlackRock has been accounted for under the equity method but continues to be a separate reportable business segment of PNC. The fair value of our investment in BlackRock at March 31, 2007 was approximately $6.7 billion. Our first quarter 2006 business segment information included in this Note 14 for BlackRock was not restated.

We have allocated the allowances for loan and lease losses and unfunded loan commitments and letters of credit based on our assessment of risk inherent in the loan portfolios. Our allocation of the costs incurred by operations and other support areas not directly aligned with the businesses is primarily based on the use of services.

Total business segment financial results differ from total consolidated results. The impact of these differences is reflected in the "Intercompany Eliminations" and "Other" categories. "Intercompany Eliminations" reflects activities conducted among our businesses that are eliminated in the consolidated results. "Other" includes residual activities that do not meet the criteria for disclosure as a separate reportable business, such as gains or losses related to BlackRock transactions including LTIP distributions and obligations, Mercantile and BlackRock/MLIM acquisition integration costs, asset and liability management activities, related net securities gains or losses, certain trading activities, equity management activities and minority interest in income of BlackRock for the first quarter of 2006, differences between business segment performance reporting and financial statement reporting (GAAP), and most corporate overhead.

Assets, revenue and earnings attributable to foreign activities were not material in the periods presented.

BUSINESS SEGMENT PRODUCTS AND SERVICES

Retail Banking provides deposit, lending, brokerage, trust, investment management, and cash management services to approximately 2.9 million consumer and small business customers within our primary geographic area. Our customers are serviced through 1,077 offices in our branch network, the call center located in Pittsburgh and the Internet – *www.pncbank.com*. The branch network is located primarily in Pennsylvania; New Jersey; Washington, DC; Maryland; Virginia; Ohio; Kentucky and Delaware. Brokerage services are provided through PNC Investments, LLC, and J.J.B. Hilliard, W.L. Lyons, Inc. Retail Banking also serves as investment manager and trustee for employee benefit plans and charitable and endowment assets and provides nondiscretionary defined contribution plan services and investment options through its *Vested Interest®* product. These services are provided to individuals and corporations primarily within our primary geographic markets.

Corporate & Institutional Banking provides lending, treasury management, and capital markets-related products and services to mid-sized corporations, government entities, and selectively to large corporations. Lending products include secured and unsecured loans, letters of credit and equipment leases. Treasury management services include cash and investment management, receivables management, disbursement services, funds transfer services, information reporting, and global trade services. Capital markets-related products and services include foreign exchange, derivatives, loan syndications, mergers and acquisitions advisory and related services to middle-market companies, securities underwriting, and securities sales and trading. Corporate & Institutional Banking also provides commercial loan servicing, real estate advisory and technology solutions for the commercial real estate finance industry. Corporate & Institutional Banking provides products and services generally within our primary geographic markets, with certain products and services provided nationally.

BlackRock is one of the world's largest publicly traded investment management firms. As of March 31, 2007, BlackRock's assets under management were approximately $1.15 trillion. The firm manages assets on behalf of institutions and individuals worldwide through a variety of equity, fixed income, cash management and alternative investment products. In addition, BlackRock provides BlackRock Solutions® investment system, risk management, and financial advisory services to a growing number of institutional investors. The firm has a major presence in key global markets, including the United States, Europe, Asia, Australia and the Middle East.

PFPC is a leading full service provider of processing, technology and business solutions for the global investment industry. Securities services include custody, securities lending, and accounting and administration for funds registered under the 1940 Act and alternative investments. Investor services include transfer agency, managed accounts, subaccounting, and distribution. PFPC serviced $2.2 trillion in total assets and 68 million shareholder accounts as of March 31, 2007 both domestically and internationally through its Ireland and Luxembourg operations.

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Business Segment Results

Three months ended March 31 In millions	Retail Banking	Corporate & Institutional Banking	BlackRock	PFPC	Other	Intercompany Eliminations	Consolidated
2007							
INCOME STATEMENT							
Net interest income (expense)	**$451**	**$180**		**$(5)**	**$(3)**		**$623**
Noninterest income	**387**	**187**	**$66**	**205**	**156**	**$(10)**	**991**
Total revenue	**838**	**367**	**66**	**200**	**153**	**(10)**	**1,614**
Provision for (recoveries of) credit losses	**23**	**(16)**			**1**		**8**
Depreciation and amortization	**22**	**5**		**15**	**24**		**66**
Other noninterest expense	**474**	**188**		**138**	**85**	**(7)**	**878**
Earnings (loss) before income taxes	**319**	**190**	**66**	**47**	**43**	**(3)**	**662**
Income taxes	**118**	**58**	**15**	**16**	**(7)**	**3**	**203**
Earnings (loss)	**$201**	**$132**	**$51**	**$31**	**$50**	**$(6)**	**$459**
Inter-segment revenue	**$6**	**$3**	**$4**	**$4**	**$(7)**	**$(10)**	
AVERAGE ASSETS (a)	**$34,449**	**$26,498**	**$3,870**	**$2,378**	**$44,087**	**$(3,860)**	**$107,422**
2006							
INCOME STATEMENT							
Net interest income (expense)	$407	$167	$13	$(9)	$(22)		$556
Noninterest income	345	165	396	227	70	$(18)	1,185
Total revenue	752	332	409	218	48	(18)	1,741
Provision for credit losses	9	12			1		22
Depreciation and amortization	17	6	9	14	26		72
Other noninterest expense	423	169	288	159	67	(16)	1,090
Earnings (loss) before minority interests in BlackRock and income taxes	303	145	112	45	(46)	(2)	557
Minority interest in BlackRock					22		22
Income taxes	113	43	41	18	(33)	(1)	181
Earnings (loss)	$190	$102	$71	$27	$(35)	$(1)	$354
Inter-segment revenue	$3	$2	$8	$1	$4	$(18)	
AVERAGE ASSETS (a)	$29,369	$23,788	$1,841	$2,385	$36,930	$(2,184)	$92,129

(a) Period-end balances for BlackRock and PFPC.

Certain revenue and expense amounts shown in the preceding table differ from amounts included in the Business Segments Review section of Part I, Item 2 of this Form 10-Q due to the presentation in Item 2 of business revenues on a taxable-equivalent basis, the inclusion of BlackRock/MLIM acquisition integration costs in "Other" in the Item 2 presentation, and classification differences related to PFPC. PFPC income classified as net interest income (expense) in the preceding table represents the interest components of other nonoperating income (net of nonoperating expense) and debt financing as disclosed in the Business Segments Review section.

NOTE 15 COMMITMENTS AND GUARANTEES

EQUITY FUNDING AND OTHER COMMITMENTS

Our unfunded commitments related to private equity investments, affordable housing limited partnerships and other investments were $291 million, $56 million and $60 million, respectively, at March 31, 2007. The amount of other investments at March 31, 2007 included those related to Steel City Capital Funding LLC ("Steel City") as further discussed below.

On March 1, 2007, we entered into a joint venture with a third party to form Steel City for purposes of purchasing and originating second lien loans and turnaround loans. Our primary reason for pursuing this venture was to leverage our strengths of origination and servicing, provide an additional product to our customers, and allow for us to moderate the risks associated with this asset class. Additionally, we will earn fees for portfolio management services. Steel City is a limited liability company in which various PNC subsidiaries will initially hold an approximate 31% equity ownership. Our initial capital contribution to Steel City was approximately $33 million with a commitment to fund an additional $45 million. The third party investor contributed initial capital of $74 million with a commitment to fund an additional $101 million. We evaluated the accounting for this transaction under FIN 46R and other appropriate generally accepted accounting principles and determined that our aggregate investment will be accounted for under the equity method. This transaction did not have a material impact on our consolidated results of operations.

STANDBY LETTERS OF CREDIT

We issue standby letters of credit and have risk participations in standby letters of credit and bankers' acceptances issued by other financial institutions, in each case to support obligations of our customers to third parties. If the customer fails to meet its financial or performance obligation to the third party under the terms of the contract, then upon the request of the guaranteed party, we would be obligated to make payment to them. The standby letters of credit and risk participations in standby letters of credit and bankers' acceptances outstanding on March 31, 2007 had terms ranging from less than one year to 10 years. The aggregate maximum amount of future payments we could be required to make under outstanding standby letters of credit and risk participations in standby letters of credit and bankers' acceptances was $6.9 billion at March 31, 2007.

Assets valued as of March 31, 2007 of approximately $.8 billion secured certain specifically identified standby letters of credit. Approximately $2.1 billion in recourse provisions from third parties was also available for this purpose as of March 31, 2007. In addition, a portion of the remaining standby letters of credit and letter of credit risk participations issued on behalf of specific customers is also secured by collateral or guarantees that secure the customers' other obligations to us. The carrying amount of the liability for our obligations related to standby letters of credit and risk participations in standby letters of credit and bankers' acceptances was $54 million at March 31, 2007.

STANDBY BOND PURCHASE AGREEMENTS AND OTHER LIQUIDITY FACILITIES

We enter into standby bond purchase agreements to support municipal bond obligations. At March 31, 2007, the aggregate of PNC's commitments under these facilities was $240 million. PNC also enters into certain other liquidity facilities to support individual pools of receivables acquired by commercial paper conduits including Market Street. At March 31, 2007, our total commitments under these facilities were $5.8 billion, of which $5.6 billion was related to Market Street.

INDEMNIFICATIONS

We are a party to numerous acquisition or divestiture agreements under which we have purchased or sold, or agreed to purchase or sell, various types of assets. These agreements can cover the purchase or sale of:

- Entire businesses,
- Loan portfolios,
- Branch banks,
- Partial interests in companies, or
- Other types of assets.

These agreements generally include indemnification provisions under which we indemnify the third parties to these agreements against a variety of risks to the indemnified parties as a result of the transaction in question. When PNC is the seller, the indemnification provisions will generally also provide the buyer with protection relating to the quality of the assets we are selling and the extent of any liabilities being assumed by the buyer. Due to the nature of these indemnification provisions, we cannot quantify the total potential exposure to us resulting from them.

We provide indemnification in connection with securities offering transactions in which we are involved. When we are the issuer of the securities, we provide indemnification to the underwriters or placement agents analogous to the indemnification provided to the purchasers of businesses from us, as described above. When we are an underwriter or placement agent, we provide a limited indemnification to the issuer related to our actions in connection with the offering and, if there are other underwriters, indemnification to the other underwriters intended to result in an appropriate sharing of the risk of participating in the offering. Due to the nature of these indemnification provisions, we cannot quantify the total potential exposure to us resulting from them.

We enter into certain types of agreements that include provisions for indemnifying third parties, such as:

- Agreements relating to providing various servicing and processing functions to third parties,
- Agreements relating to the creation of trusts or other legal entities to facilitate leasing transactions, commercial mortgage-backed securities transactions (loan securitizations) and certain other off-balance sheet transactions,
- Confidentiality agreements,
- Syndicated credit agreements, as a syndicate member,
- Sales of individual loans and equipment leases,
- Arrangements with brokers to facilitate the hedging of derivative and convertible arbitrage activities, and
- Litigation settlement agreements.

Due to the nature of these indemnification provisions, we cannot calculate our aggregate potential exposure under them.

We enter into certain types of agreements, including leases, assignments of leases, and subleases, in which we agree to indemnify third parties for acts by our agents, assignees and/or sublessees, and employees. While we do not believe these indemnification liabilities are material, either individually or in total, we cannot calculate our potential exposure.

We enter into contracts for the delivery of technology service in which we indemnify the other party against claims of patent and copyright infringement by third parties. Due to the nature of these indemnification provisions, we cannot calculate our aggregate potential exposure under this type of indemnification.

We engage in certain insurance activities which require our employees to be bonded. We satisfy this bonding requirement by issuing letters of credit in a total amount of approximately $4 million.

In the ordinary course of business, we enter into contracts with third parties under which the third parties provide services on behalf of PNC. In many of these contracts, we agree to indemnify the third party service provider under certain circumstances. The terms of the indemnity vary from contract to contract and the amount of the indemnification liability, if any, cannot be determined.

We are a general or limited partner in certain asset management and investment limited partnerships, many of which contain indemnification provisions that would require us to make payments in excess of our remaining funding commitments. While in certain of these partnerships the maximum liability to us is limited to the sum of our unfunded commitments and partnership distributions received by us, in the others the indemnification liability is unlimited. As a result, we cannot determine our aggregate potential exposure for these indemnifications.

Pursuant to their bylaws, PNC and its subsidiaries provide indemnification to directors, officers and, in some cases, employees and agents against certain liabilities incurred as a result of their service on behalf of or at the request of PNC and its subsidiaries. PNC and its subsidiaries also advance on behalf of covered individuals costs incurred in connection with certain claims or proceedings, subject to written undertakings by each such individual to repay all amounts so advanced if it is ultimately determined that the individual is not entitled to indemnification. We generally are responsible for similar indemnifications and advancement obligations that companies we acquire, including Riggs and Mercantile, had to their officers, directors and sometimes employees and agents at the time of acquisition. We advanced such costs on behalf of several such individuals (including some from Riggs) with respect to pending litigation or investigations during the first three months of 2007. It is not possible for us to determine the aggregate potential exposure resulting from the obligation to provide this indemnity or to advance such costs.

In connection with the lending of securities held by PFPC as an intermediary on behalf of certain of its clients, we provide indemnification to those clients against the failure of the borrowers to return the securities. The market value of the securities lent is fully secured on a daily basis; therefore, the exposure to us is limited to temporary shortfalls in the collateral as a result of short-term fluctuations in trading prices of the loaned securities. At March 31, 2007, the total maximum potential exposure as a result of these indemnity obligations was $14.7 billion, although we held collateral at the time in excess of that amount.

OTHER GUARANTEES

We write caps and floors for customers, risk management and proprietary trading purposes. At March 31, 2007, the fair value of the written caps and floors liability on our Consolidated Balance Sheet was $54 million. Our ultimate obligation under written options is based on future market conditions and is only quantifiable at settlement. We manage our market risk exposure from customer positions through transactions with third-party dealers.

We also enter into credit default swaps under which we buy loss protection from or sell loss protection to a counterparty for the occurrence of a credit event of a reference entity. The fair value of the contracts sold on our Consolidated Balance Sheet was a net asset of $3 million at March 31, 2007. The maximum amount we would be required to pay under the credit default swaps in which we sold protection, assuming all reference obligations experience a credit event at a total loss, without recoveries, was $1.1 billion at March 31, 2007.

We have entered into various contingent performance guarantees through credit risk participation arrangements with terms ranging from less than one year to 10 years. We will be required to make payments under these guarantees if a customer defaults on its obligation to perform under certain credit agreements with third parties. Our exposure under these agreements is approximately $406 million at March 31, 2007.

CONTINGENT PAYMENTS IN CONNECTION WITH CERTAIN ACQUISITIONS

A number of the acquisition agreements to which we are a party and under which we have purchased various types of assets, including the purchase of entire businesses, partial interests in companies, or other types of assets, require us to make additional payments in future years if certain predetermined goals are achieved or not achieved within a specific time period. Due to the nature of the contract provisions, we cannot quantify our total exposure that may result from these agreements.

STATISTICAL INFORMATION (Unaudited)

THE PNC FINANCIAL SERVICES GROUP, INC.

Average Consolidated Balance Sheet And Net Interest Analysis

Taxable-equivalent basis Dollars in millions	First Quarter 2007 Average Balances	Interest Income/ Expense	Average Yields/ Rates	Fourth Quarter 2006 Average Balances	Interest Income/ Expense	Average Yields/ Rates
Assets						
Interest-earning assets:						
Securities available for sale						
Residential mortgage-backed	**$17,198**	**$229**	**5.33%**	$16,082	$213	5.31%
Commercial mortgage-backed	**3,338**	**44**	**5.19**	2,640	34	5.10
Asset-backed	**1,876**	**26**	**5.52**	1,561	22	5.57
U.S. Treasury and government agencies	**394**	**4**	**4.20**	441	4	4.11
State and municipal	**162**	**2**	**4.93**	140	2	5.25
Other debt	**79**	**2**	**7.05**	89	1	7.13
Corporate stocks and other	**347**	**4**	**4.95**	277	3	4.07
Total securities available for sale	**23,394**	**311**	**5.31**	21,230	279	5.27
Loans, net of unearned income						
Commercial	**21,479**	**391**	**7.28**	20,458	380	7.26
Commercial real estate	**5,478**	**101**	**7.40**	3,483	65	7.30
Consumer	**16,865**	**269**	**6.47**	16,272	263	6.41
Residential mortgage	**7,173**	**105**	**5.84**	5,606	79	5.60
Lease financing	**2,534**	**24**	**3.81**	2,789	30	4.30
Other	**527**	**9**	**6.80**	385	7	7.49
Total loans, net of unearned income	**54,056**	**899**	**6.68**	48,993	824	6.63
Loans held for sale	**2,955**	**45**	**6.13**	3,167	46	5.84
Federal funds sold and resale agreements	**2,092**	**26**	**4.96**	2,049	28	5.11
Other	**2,735**	**41**	**6.17**	3,198	45	5.57
Total interest-earning assets/interest income	**85,232**	**1,322**	**6.23**	78,637	1,222	6.15
Noninterest-earning assets:						
Allowance for loan and lease losses	**(612)**			(557)		
Cash and due from banks	**2,945**			2,999		
Other	**19,857**			17,969		
Total assets	**$107,422**			$99,048		
Liabilities, Minority and Noncontrolling Interests, and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits						
Money market	**$22,503**	**200**	**3.60**	$20,879	192	3.65
Demand	**8,671**	**26**	**1.18**	8,143	27	1.27
Savings	**2,250**	**3**	**.46**	1,882	2	.47
Retail certificates of deposit	**15,691**	**179**	**4.63**	14,837	170	4.55
Other time	**1,623**	**20**	**5.04**	1,355	18	5.00
Time deposits in foreign offices	**3,129**	**41**	**5.21**	3,068	41	5.24
Total interest-bearing deposits	**53,867**	**469**	**3.52**	50,164	450	3.54
Borrowed funds						
Federal funds purchased	**4,533**	**58**	**5.15**	3,167	43	5.27
Repurchase agreements	**1,858**	**22**	**4.70**	2,264	27	4.68
Bank notes and senior debt	**4,182**	**56**	**5.36**	2,757	38	5.35
Subordinated debt	**4,370**	**67**	**6.17**	4,361	69	6.34
Other	**1,877**	**21**	**4.38**	2,161	24	4.45
Total borrowed funds	**16,820**	**224**	**5.33**	14,710	201	5.39
Total interest-bearing liabilities/interest expense	**70,687**	**693**	**3.95**	64,874	651	3.97
Noninterest-bearing liabilities, minority and noncontrolling interests, and shareholders' equity:						
Demand and other noninterest-bearing deposits	**15,807**			14,827		
Allowance for unfunded loan commitments and letters of credit	**126**			117		
Accrued expenses and other liabilities	**7,961**			7,882		
Minority and noncontrolling interests in consolidated entities	**893**			542		
Shareholders' equity	**11,948**			10,806		
Total liabilities, minority and noncontrolling interests, and shareholders' equity	**$107,422**			$99,048		
Interest rate spread			**2.28**			2.18
Impact of noninterest-bearing sources			**.67**			.70
Net interest income/margin		**$629**	**2.95%**		$571	2.88%

Nonaccrual loans are included in loans, net of unearned income. The impact of financial derivatives used in interest rate risk management is included in the interest income/expense and average yields/rates of the related assets and liabilities. Basis adjustments related to hedged items are included in noninterest-earning assets and noninterest-bearing liabilities. Average balances of securities are based on amortized historical cost (excluding SFAS 115 adjustments to fair value, which are included in other assets). Average balances for certain loans and borrowed funds accounted for at fair value, with changes in fair value recorded in trading noninterest income, are included in noninterest-earning assets and noninterest-bearing liabilities.

Third Quarter 2006			Second Quarter 2006			First Quarter 2006		
Average Balances	Interest Income/ Expense	Average Yields/ Rates	Average Balances	Interest Income/ Expense	Average Yields/ Rates	Average Balances	Interest Income/ Expense	Average Yields/ Rates
$15,282	$193	5.05%	$14,247	$171	4.79%	$13,882	$163	4.69%
2,182	27	4.89	2,348	27	4.62	2,043	22	4.38
1,457	20	5.54	1,170	15	5.16	1,055	13	4.93
2,285	25	4.42	3,181	35	4.38	3,465	38	4.35
144	2	4.73	152	2	5.24	156	2	5.16
90	2	7.14	88	1	7.12	89	2	6.93
259	3	5.68	230	4	6.34	216	4	7.65
21,699	272	5.01	21,416	255	4.76	20,906	244	4.66
20,431	382	7.31	20,348	360	7.00	19,556	329	6.72
3,268	62	7.45	3,071	56	7.17	3,021	49	6.54
16,150	260	6.38	16,049	248	6.20	16,184	238	5.97
7,332	99	5.43	7,353	100	5.39	7,272	97	5.36
2,790	31	4.44	2,761	31	4.47	2,769	31	4.51
367	7	7.45	354	6	7.04	344	6	6.61
50,338	841	6.59	49,936	801	6.38	49,146	750	6.14
2,408	38	6.19	2,411	36	5.99	2,745	37	5.47
1,401	18	5.09	613	7	4.72	488	5	4.06
2,805	41	5.78	2,795	33	4.70	3,147	37	4.82
78,651	1,210	6.09	77,171	1,132	5.84	76,432	1,073	5.64
(609)			(600)			(600)		
3,161			3,140			3,187		
14,142			13,736			13,110		
$95,345			$93,447			$92,129		
$20,565	186	3.57	$19,019	152	3.20	$18,482	133	2.92
8,075	23	1.16	8,229	20	.98	8,304	18	.87
2,021	2	.50	2,177	3	.49	2,250	3	.51
14,209	155	4.32	13,686	136	3.97	13,243	121	3.72
1,467	19	4.94	1,323	15	4.63	1,309	14	4.28
3,712	49	5.21	4,276	53	4.89	3,396	38	4.42
50,049	434	3.43	48,710	379	3.11	46,984	327	2.81
3,831	51	5.27	2,715	34	4.93	2,594	29	4.47
2,027	25	4.80	2,226	26	4.48	2,307	23	4.08
2,801	38	5.23	3,145	39	5.04	3,824	44	4.56
4,436	70	6.29	4,437	67	6.05	4,437	63	5.66
1,627	18	4.32	2,504	25	3.96	2,599	24	3.77
14,722	202	5.40	15,027	191	5.06	15,761	183	4.65
64,771	636	3.88	63,737	570	3.56	62,745	510	3.27
14,549			13,926			13,966		
104			103			101		
6,346			6,305			6,106		
640			631			589		
8,935			8,745			8,622		
$95,345			$93,447			$92,129		
		2.21			2.28			2.37
		.68			.62			.58
	$574	2.89%		$562	2.90%		$563	2.95%

Loan fees for the three months ended March 31, 2007, December 31, 2006, September 30, 2006, June 30, 2006 and March 31, 2006 were $9 million, $8 million, $9 million, $9 million and $9 million, respectively. Interest income includes the effects of taxable-equivalent adjustments using a marginal federal income tax rate of 35% to increase tax-exempt interest income to a taxable-equivalent basis. The taxable-equivalent adjustments to interest income for the three months ended March 31, 2007, December 31, 2006, September 30, 2006, June 30, 2006 and March 31, 2006 were $6 million, $5 million, $7 million, $6 million and $7 million, respectively. Average securities held to maturity totaled less than $.5 million for each of the periods presented and are included in the “Other debt” category.

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PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 13 Legal Proceedings in the Notes To Consolidated Financial Statements under Part I, Item 1, of this Report, which is incorporated by reference in response to this item.

ITEM 1A. RISK FACTORS

No material changes from the risk factors previously disclosed in PNC's 2006 Form 10-K in response to Part I, Item 1A.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Details of our repurchases of PNC common stock during the first quarter of 2007 are included in the following table:

In thousands, except per share data

2007 period	Total shares purchased (1)	Average price paid per share	Total shares purchased as part of publicly announced programs (2)	Maximum number of shares that may yet be purchased under the programs (2)
January 1 – January 31	686	$ 74.57	338	14,165
February 1 – February 28	227	$ 74.95		14,165
March 1 – March 31	1,172	$ 71.73	1,062	13,103
Total	2,085	$ 73.01	1,400	

(1) Includes PNC common stock purchased under the program referred to in note (2) to this table and PNC common stock purchased in connection with our various employee benefit plans.

(2) Our current stock repurchase program, which was authorized as of February 16, 2005, allows us to purchase up to 20 million shares on the open market or in privately negotiated transactions. This program will remain in effect until fully utilized or until modified, superseded or terminated.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

An annual meeting of shareholders of The PNC Financial Services Group, Inc. was held on April 24, 2007 for the purpose of considering and acting upon the following matters: (1) the election of 18 directors to serve until the next annual meeting and until their successors are elected and qualified, (2) the approval of The PNC Financial Services Group, Inc. 1996 Executive Incentive Award Plan, as amended and restated, and (3) the ratification of the Audit Committee's selection of PricewaterhouseCoopers LLP as PNC's independent auditors for 2007.

Eighteen directors were elected and the aggregate votes cast for or against/withheld were as follows:

	Aggregate Votes	
Nominee	For	Against/Withheld
Richard O. Berndt	238,665,877	6,565,291
Charles E. Bunch	240,450,246	4,780,922
Paul W. Chellgren	238,644,320	6,586,848
Robert N. Clay	240,144,841	5,086,327
George A. Davidson, Jr.	238,681,552	6,549,616
Kay Coles James	241,160,552	4,070,616
Richard B. Kelson	240,091,015	5,140,153
Bruce C. Lindsay	238,792,148	6,439,020
Anthony A. Massaro	240,113,857	5,117,311
Jane G. Pepper	227,376,677	17,854,491
James E. Rohr	230,048,512	15,182,656
Donald J. Shepard	240,564,271	4,666,897
Lorene K. Steffes	241,746,035	3,485,133
Dennis F. Strigl	239,787,961	5,443,207
Stephen G. Thieke	241,735,866	3,495,302
Thomas J. Usher	238,413,260	6,817,908
George H. Walls, Jr.	239,791,175	5,439,993
Helge H. Wehmeier	240,153,911	5,077,157

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The PNC Financial Services Group, Inc. 1996 Executive Incentive Award Plan, as amended and restated, was approved and the aggregate votes cast for or against and the abstentions and broker non-votes were as follows:

Aggregate Votes			
For	Against	Abstain	Broker Non-Votes
177,499,961	24,974,470	3,988,469	38,768,268

The Audit Committee's selection of PricewaterhouseCoopers LLP as PNC's independent auditors for 2007 was ratified and the aggregate votes cast for or against and the abstentions were as follows:

Aggregate Votes		
For	Against	Abstain
241,099,394	2,370,187	1,761,587

With respect to all of the preceding matters, holders of our common and voting preferred stock voted together as a single class. The following table sets forth, as of the February 28, 2007 record date, the number of shares of each class or series of stock that were issued and outstanding and entitled to vote, the voting power per share, and the aggregate voting power of each class or series:

Title of Class or Series	Voting Rights Per Share	Number of Shares Entitled to Vote	Aggregate Voting Power
Common Stock	1	293,403,508	293,403,508
$1.80 Cumulative Convertible Preferred Stock –Series A	8	6,713	53,704
$1.80 Cumulative Convertible Preferred Stock – Series B	8	1,393	11,144
$1.60 Cumulative Convertible Preferred Stock – Series C	4/2.4	143,536	239,226
$1.80 Cumulative Convertible Preferred Stock – Series D	4/2.4	194,414	324,023
Total possible votes			294,031,605*

* Represents greatest number of votes possible. Actual aggregate voting power was less since each holder of such preferred stock was entitled to a number of votes equal to the number of full shares of common stock into which such holder's preferred stock was convertible.

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ITEM 6. EXHIBITS

The following exhibit index lists Exhibits filed, or in the case of Exhibits 32.1 and 32.2 furnished, with this Quarterly Report on Form 10-Q:

EXHIBIT INDEX

3.4	Articles of Incorporation of the Corporation, as amended.
4.1	There are no instruments with respect to long-term debt of the Corporation and its subsidiaries that involve securities authorized under the instrument in an amount exceeding 10 percent of the total assets of the Corporation and its subsidiaries on a consolidated basis. The Corporation agrees to provide the SEC with a copy of instruments defining the rights of holders of long-term debt of the Corporation and its subsidiaries on request.
4.15	Terms of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series I. Incorporated by reference to Exhibit 3.4 of this Report.
4.16	Exchange Agreement, dated March 29, 2007, by and among the Corporation, PNC Bank, National Association, and PNC Preferred Funding Trust II. Incorporated by reference to Exhibit 4.16 of the Corporation's Current Report on Form 8-K dated March 29, 2007 (filed March 30, 2007).
4.17	Second Amendment, dated as of February 28, 2007, between the Corporation and Computershare Investor Services, LLC, as successor-in-interest to The Chase Manhattan Bank as Rights Agent, to Rights Agreement dated as of May 15, 2000 and amended on January 1, 2003. Incorporated by reference to Exhibit 4.1 of the Corporation's Current Report on Form 8-K dated February 28, 2007 (filed March 6, 2007).
10.44	Employment letter agreement between the Corporation and Edward J. Kelly, III, conditioned on and commencing upon the closing of the acquisition of Mercantile Bankshares Corporation by the Corporation, together with provisions of superseded agreements referenced in the employment letter agreement.
10.45	The Corporation's Restricted Stock Agreement with Edward J. Kelly, III.
10.46	The Corporation's Restricted Share Units Agreement with Edward J. Kelly, III.
10.47	Supplemental Retirement Agreement with Edward J. Kelly, III (Letter from PNC, as successor to Mercantile Bankshares Corporation, to Mr. Kelly dated March 1, 2007, together with agreement between Mr. Kelly and Mercantile dated February 2, 2001 and amendment to that agreement dated February 27, 2007).
10.48	Mercantile Bankshares Corporation and Participating Affiliates Supplemental 401(k) Executive Retirement Plan and Mercantile Bankshares Corporation and Participating Affiliates Supplemental Cash Balance Executive Retirement Plan.
10.49	The Corporation's 1996 Executive Incentive Award Plan, as amended and restated. Incorporated by reference to Exhibit A to the Corporation's definitive proxy statement for its 2007 annual meeting of shareholders, filed March 23, 2007.
12.1	Computation of Ratio of Earnings to Fixed Charges.
12.2	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
31.1	Certification of Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

You can receive copies of these Exhibits electronically at the SEC's home page at www.sec.gov or by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, DC 20549 at prescribed rates. The Exhibits are also available as part of this Form 10-Q on or through PNC's corporate website at www.pnc.com under "About PNC—Investor Relations—Financial Information." Shareholders may also receive copies of Exhibits, without charge, by contacting Shareholder Relations at 800-843-2206 or via e-mail at investor.relations@pnc.com.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on May 9, 2007 on its behalf by the undersigned thereunto duly authorized.

The PNC Financial Services Group, Inc.

/s/ Richard J. Johnson

Richard J. Johnson
Chief Financial Officer
(Principal Financial Officer)

CORPORATE HEADQUARTERS

THE PNC FINANCIAL SERVICES GROUP, INC.

CORPORATE HEADQUATERS

The PNC Financial Services Group, Inc.
One PNC Plaza
249 Fifth Avenue
Pittsburgh, Pennsylvania 15222-2707
412-762-2000

STOCK LISTING

The PNC Financial Services Group, Inc.'s common stock is listed on the New York Stock Exchange under the symbol PNC.

INTERNET INFORMATION

The PNC Financial Services Group, Inc.'s financial reports and information about its products and services are available on the internet at www.pnc.com.

FINANCIAL INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934. Therefore, we file annual, quarterly and current reports as well as proxy materials with the Securities and Exchange Commission ("SEC"). You can obtain copies of these and other filings, including exhibits, electronically at the SEC's Internet website at www.sec.gov or on or through PNC's corporate Internet website at www.pnc.com in the "About PNC – Investor Relations" section. Copies may also be obtained without charge by contacting Shareholder Services at 800-982-7652 or via e-mail at web.queries@computershare.com.

CORPORATE GOVERNANCE AT PNC

Information about our Board of Directors ("Board") and its committees and about corporate governance at PNC is available on PNC's corporate website at www.pnc.com under "About PNC – Investor Relations – Corporate Governance." Shareholders who would like to request printed copies of the PNC Code of Business Conduct and Ethics or our Corporate Governance Guidelines or the charters of our Board's Audit, Nominating & Governance, and Personnel & Compensation Committees (all of which are posted on the PNC corporate website) may do so by sending their requests to George P. Long, III, Corporate Secretary, at corporate headquarters at the above address. Copies will be provided without charge to shareholders.

INQUIRIES

For financial services call 888-PNC-2265. Individual shareholders should contact Shareholder Services at 800-982-7652.

Analysts and institutional investors should contact William H. Callihan, Senior Vice President, Director of Investor Relations, at 412-762-8257 or via e-mail at investor.relations@pnc.com.

News media representatives and others seeking general information should contact Brian E. Goerke, Director of External Communications, at 412-762-4550 or via e-mail at corporate.communications@pnc.com.

COMMON STOCK PRICES/DIVIDENDS DECLARED

The table below sets forth by quarter the range of high and low sale and quarter-end closing prices for The PNC Financial Services Group, Inc. common stock and the cash dividends declared per common share.

	High	Low	Close	Cash Dividends Declared
2007 Quarter				
First	**$76.41**	**$68.60**	**$71.97**	**$ .55**
Total				**$ .55**
2006 Quarter				
First	$71.42	$61.78	$67.31	$ .50
Second	72.00	65.30	70.17	.55
Third	73.55	68.09	72.44	.55
Fourth	75.15	67.61	74.04	.55
Total				$ 2.15

On April 5, 2007, our Board of Directors approved a quarterly cash dividend payable on April 24, 2007 of $.63 per common share, an increase of 15% from the previous dividend paid in the first quarter of 2007.

DIVIDEND POLICY

Holders of The PNC Financial Services Group, Inc. common stock are entitled to receive dividends when declared by the Board out of funds legally available for this purpose. The Board presently intends to continue the policy of paying quarterly cash dividends. However, the amount of future dividends will depend on earnings, the financial condition of The PNC Financial Services Group, Inc. and other factors, including applicable government regulations and policies and contractual restrictions.

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The PNC Financial Services Group, Inc. Dividend Reinvestment and Stock Purchase Plan enables holders of our common and preferred stock to purchase additional shares of common stock conveniently and without paying brokerage commissions or service charges. You can obtain a prospectus and enrollment form by contacting Shareholder Services at 800-982-7652.

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services, LLC
250 Royall Street
Canton, MA 02021
800-982-7652

**AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
THE PNC FINANCIAL SERVICES GROUP, INC.**

FIRST. The name of the corporation is The PNC Financial Services Group, Inc.

SECOND. The address of the corporation's registered office in the Commonwealth of Pennsylvania is One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707.

THIRD. The corporation is incorporated under the provisions of the Business Corporation Law, the Act approved May 5, 1933, P.L. 364, as amended. The purpose of the corporation is, and it shall have unlimited power to engage in and to do any lawful act concerning any or all lawful business for which corporations may be incorporated under such Act.

FOURTH. The term of the corporation's existence is perpetual.

FIFTH. The authority to make, amend and repeal the by-laws of the corporation is hereby vested in the Board of Directors, subject always to the power of the shareholders to change any such action.

SIXTH. The aggregate number of shares of capital stock which the corporation shall have authority to issue is 820,000,000 shares divided into two classes consisting of 20,000,000 shares of preferred stock of the par value of $1.00 each ("Preferred Stock") and 800,000,000 shares of common stock of the par value of $5.00 each ("Common Stock").

SEVENTH. The following is a statement of certain of the designations, preferences, qualifications, privileges, limitations, restrictions, and special or relative rights in respect of the Preferred Stock and the Common Stock and a statement of the authority vested in the Board of Directors to fix by resolution any designations, preferences, privileges, qualifications, limitations, restrictions and special or relative rights of any series of Preferred Stock which are not fixed hereby:

PREFERRED STOCK

1. *Issuance in series*. The shares of Preferred Stock may be issued from time to time in series. Each series shall be so designated as to distinguish the shares thereof from the shares of all other series. All shares of any particular series shall be identical except, if entitled to cumulative dividends, as to the date or dates from which dividends thereon shall be cumulative. The shares of any one series need not be identical or rank equally with the shares of any other series except as required by law or as provided hereby. The Board of Directors is expressly vested with authority to establish and designate any one or more series of Preferred Stock and to fix and determine by resolution any designations, preferences, qualifications, privileges, limitations, restrictions or special or relative rights of additional series which are not fixed hereby, including the following:

(a) The number of shares to constitute the series and the distinctive designation thereof.

(b) The dividend rate, the dates for payment of dividends, whether dividends shall be cumulative, and, if so, the date or dates from which and the extent to which dividends shall be cumulative.

(c) The amount or amounts payable upon voluntary or involuntary liquidation of the Corporation.

(d) The voting rights, if any, of the holders of shares of the series.

(e) The redemption price or prices, if any, and the terms and conditions on which shares may be redeemed.

(f) Whether the shares of the series shall be convertible into or exchangeable for shares of capital stock of the Corporation or other securities, and, if so, the conversion price or prices or the rate or rates of conversion or exchange, any adjustments thereof, and any other terms and conditions of conversion or exchange.

(g) Whether the shares of the series shall be entitled to the benefit of any retirement or sinking fund to be applied to the purchase or redemption of such shares, and, if so, the amount thereof and the terms and conditions relative to the operation thereof.

(h) The rank of the shares of the series, as in dividends and assets, in relation to the shares of any other class or series of capital stock of the Corporation.

(i) Such other preferences, qualifications, privileges, limitations, restrictions or special or relative rights of any series as are not fixed hereby and as the Board of Directors may deem advisable and state in such resolutions.

2. *Dividends.* The holders of shares of each series of Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors, dividends at the rate which shall have been fixed hereby or by the Board of Directors as authorized hereby with respect to such series, and no more except as shall have been determined by the Board of Directors as authorized hereby. If dividends on a particular series shall have been determined hereby or by the Board of Directors as authorized hereby to be cumulative, no dividends shall be paid or set apart for payment or declared on the Common Stock or on any class or series of stock of the Corporation ranking as to dividends subordinate to such series (other than dividends payable in Common Stock or in any class or series of stock of the Corporation ranking as to dividends and assets subordinate to such series) and no payment shall be made or set apart for the purchase, redemption or other acquisition for value of any shares of Common Stock or of any class or series of stock of the Corporation ranking as to dividends or assets subordinate to such series, until dividends (to the extent cumulative) for all past dividend periods on all outstanding shares of such series have been paid, or declared and set apart for payment, in full. In case dividends for any dividend period are not paid in full on all shares of Preferred Stock ranking equally as to dividends, all such shares shall participate ratably in the payment of dividends for such period in proportion to the full amounts of dividends to which they are respectively entitled.

3. *Liquidation of the Corporation.* In the event of voluntary or involuntary liquidation of the Corporation the holders of shares of each series of Preferred Stock shall be entitled to receive from the assets of the Corporation (whether capital or surplus), prior to any payment to the holders of Common Stock or of any class or series of stock of the Corporation ranking as to assets subordinate to such series, the amount fixed hereby or by the Board of Directors as authorized hereby for such series, plus, in case dividends on such series shall have been determined hereby or by the Board of Directors as authorized hereby to be cumulative, an amount equal to the accrued and unpaid dividends thereon (to the extent cumulative) computed to the date on which payment thereof is made available, whether or not earned or declared. After such payment to the holders of shares of such series, any remaining balance shall be paid to the holders of Common Stock or of any class or series of stock of the Corporation ranking as to assets subordinate to such series, as they maybe entitled. If, upon liquidation of the Corporation, its assets are not sufficient to pay in full the amounts so payable to the holders of shares of all series of Preferred Stock ranking equally as to assets, all such shares shall participate ratably in the distribution of assets in proportion to the full amounts to which they are respectively entitled. Neither a merger nor a consolidation of the Corporation into or with any other corporation nor a sale, transfer or lease of all or part of the assets of the Corporation shall be deemed a liquidation of the Corporation within the meaning of this paragraph.

4. *Voting rights.* (a) Except as otherwise required by law, holders of shares of Preferred Stock shall have only such voting rights, if any, as shall have been fixed and determined hereby or by the Board of Directors as authorized hereby. Except as otherwise required by law or as otherwise provided hereby or by the Board of Directors as authorized hereby, holders of Preferred Stock having voting rights and holders of Common Stock shall vote together as one class.

(b) If the Corporation shall have failed to pay, or declare and set apart for payment, dividends on all outstanding shares of Preferred Stock in an amount equal to six quarterly dividends at the rates payable upon such shares (whether or not such dividends are cumulative), the number of directors of the Corporation shall be increased by two at the first annual meeting of the shareholders of the Corporation held thereafter, and at such meeting and at each subsequent annual meeting until cumulative dividends payable for all past dividend periods and continuous noncumulative dividends for at least one year on all outstanding shares of Preferred Stock entitled thereto shall have been paid, or declared and set apart for payment, in full, the holders of shares of Preferred Stock of all series shall have the right, voting as a class, to elect such two additional members of the Board of Directors to hold office for a term of one year. Upon such payment, or such declaration and setting apart for payment, in full, the terms of the two additional directors so elected shall forthwith terminate, and the number of directors of the Corporation shall be reduced by two, and such voting right of the holders of shares of Preferred Stock shall cease, subject to increase in the number of directors as aforesaid and to revesting of such voting right in the event of each and every additional failure in the payment of dividends in an amount equal to six quarterly dividends as aforesaid.

5. *Action by Corporation requiring approval of Preferred Stock.*The Corporation shall not, without the affirmative vote at a meeting, or the written consent with or without a meeting, of the holders of at least two-thirds of the then outstanding shares of Preferred Stock of all series (a) create or increase the authorized number of shares of any class of stock ranking as to dividends or assets prior to the Preferred Stock; or (b) change the preferences, qualifications, privileges, limitations, restrictions or special or relative rights granted to or imposed upon the shares of Preferred Stock in any material respect adverse to the holders thereof, provided that if any such change will affect any particular series materially and adversely as contrasted with the effect thereof upon any other series, no such change may be made without, in addition, such vote or consent of the holders of at least two-thirds of the then outstanding shares of the particular series which would be so affected.

6. *Redemption and acquisition.* (a) Except as otherwise provided by the Board of Directors as authorized hereby, the Corporation, at its option to be exercised by its Board of Directors, may redeem the whole or any part of the Preferred Stock or of

any series thereof at such times and at the applicable amount for each share which shall have been fixed and determined hereby or by the Board of Directors as authorized hereby with respect thereto, plus, in case dividends shall have been determined hereby or by the Board of Directors as authorized hereby to be cumulative, an amount equal to the accrued and unpaid dividends thereon (to the extent cumulative) computed to the date fixed for redemption, whether or not earned or declared (hereinafter collectively called the "redemption price"). If at any time less than all of the Preferred Stock then outstanding is to be called for redemption, the Board may select one or more series to be redeemed, and if less than all the outstanding Preferred Stock of any series is to be called for redemption, the shares to be redeemed may be selected by lot or by such other equitable method as the Board in its discretion may determine. Notice of every redemption, stating the redemption date, the redemption price, and the place of payment thereof, and, if less than all of the Preferred Stock then outstanding is called for redemption, identifying the shares to be redeemed, shall be published at least once in a newspaper printed in the English language and of general circulation in the City of Philadelphia, Pennsylvania, or in the Borough of Manhattan, the City of New York, New York, the first publication to be not less than 30 nor more than 60 days prior to the date fixed for redemption. Copies of such notice shall be mailed at least 30 days and not more than 60 days prior to the date fixed for redemption to the holders of record of the shares to be redeemed at their addresses as the same shall appear on the books of the Corporation, but failure to give such additional notice by mail or any defect therein or failure of any addressee to receive it shall not affect the validity of the proceedings for redemption. The Corporation, upon publication of the first notice of redemption as aforesaid or upon irrevocably authorizing the bank or trust company hereinafter mentioned to publish such notice as aforesaid, may deposit or cause to be deposited in trust with a bank or trust company in the City of Philadelphia, Pennsylvania, or in the Borough of Manhattan, the City of New York, New York, an amount equal to the redemption price of the shares to be redeemed, which amount shall be payable to the holders thereof upon surrender of certificates therefor on or after the date fixed for redemption or prior thereto if so directed by the Board of Directors. Upon such deposit, or if no such deposit is made then from and after the date fixed for redemption unless the Corporation shall default in making payment of the redemption price upon surrender of certificates as aforesaid, the shares called for redemption shall cease to be outstanding and the holders thereof shall cease to be shareholders with respect to such shares and shall have no interest in or claim against the Corporation with respect to such shares other than the right to receive the redemption price from such bank or trust company or from the Corporation, as the case may be, without interest thereon, upon surrender of certificates as aforesaid; provided that conversion rights of shares called for redemption shall terminate at the close of business on the date fixed for redemption or at such earlier time as shall have been fixed by the Board of Directors as authorized hereby. Any funds so deposited which shall not be required for such redemption because of the exercise of conversion rights subsequent to the date of such deposit shall be returned to the Corporation. In case any holder of shares called for redemption shall not, within six years after the date of such deposit, have claimed the amount deposited with respect to the redemption thereof, such bank or trust company, upon demand, shall pay over to the Corporation such unclaimed amount and shall thereupon be relieved of all responsibility in respect thereof to such holder, and thereafter such holder shall look only to the Corporation for payment thereof. Any interest which may accrue on funds so deposited shall be paid to the Corporation from time to time.

(b) Except as otherwise provided by the Board of Directors as authorized hereby, the Corporation shall have the right to acquire Preferred Stock from time to time at such price or prices as the Corporation may determine, provided that unless dividends (to the extent cumulative) payable for all past quarterly dividend periods on all outstanding shares of Preferred Stock entitled to cumulative dividends have been paid, or declared and set apart for payment, in full, the Corporation shall not acquire for value any shares of Preferred Stock except in accordance with an offer (which may vary as to terms offered with respect to shares of different series but not with respect to shares of the same series) made in writing or by publication (as determined by the Board of Directors) to all holders of record of shares of Preferred Stock.

(c) Except as otherwise provided by the Board of Directors as authorized hereby, Preferred Stock redeemed or acquired by the Corporation otherwise than by conversion shall not be cancelled or retired except by action of the Board and shall have the status of authorized and unissued Preferred Stock which may be reissued by the Board as shares of the same or any other series until cancelled and retired by action of the Board, but, at the option of the Board, Preferred Stock acquired otherwise than by redemption or conversion may be held as treasury shares which may be reissued by the Board until cancelled and retired by action of the Board.

$1.80 CUMULATIVE CONVERTIBLE PREFERRED STOCK, SERIES A

7. *Designation.* A series of Preferred Stock designated $1.80 Cumulative Convertible Preferred Stock, Series A (Redeemable) (herein called "Series A Preferred Stock") is hereby established, consisting of 98,583 shares subject to increase or decrease in the number of shares in accordance with law.

8. *Dividends.* The dividend rate of shares of this series shall be $1.80 per share per year, payable quarterly on the tenth day of each March, June, September and December. Dividends shall be cumulative from the March 10, June 10, September 10 or

December 10 next preceding the date of issue of each share, unless the date of issue is a quarterly dividend payment date or a date between the record date for the determination of holders of $1.80 Cumulative Convertible Preferred Stock of Provident National Corporation, a predecessor of the Corporation (such stock having been converted into the Series A Preferred Stock), entitled to receive a quarterly dividend and the date of payment of such quarterly dividend, in either of which events such dividends shall be cumulative from such quarterly dividend payment date.

9. *Liquidation.* The amount payable upon shares of Series A Preferred Stock in the event of voluntary or involuntary liquidation of the Corporation, prior to any payment to the holders of Common Stock or of any class or series of stock of the Corporation ranking as to assets subordinate to the Series A Preferred Stock, shall be $40.00 per share plus an amount equal to accrued and unpaid dividends thereon computed to the date on which payment thereof is made available, whether or not earned or declared.

10. *Redemption.* Shares of Series A Preferred Stock shall be redeemable at anytime at $40.00 per share plus an amount equal to accrued and unpaid dividends thereon computed to the date fixed for redemption, whether or not earned or declared.

11. *Voting Rights.* Each holder of record of Series A Preferred Stock shall have the right to a number of votes equal to the number of full shares of Common Stock into which the share or shares of Series A Preferred Stock standing in his name on the books of the Corporation are at the time convertible.

12. *Conversion provisions.* (a) Shares of Series A Preferred Stock may, at the option of the holder, be converted into Common Stock of the Corporation (as such stock maybe constituted on the conversion date) at the rate of two shares of Common Stock for each share of Series A Preferred Stock, subject to adjustment as provided herein; provided that, as to any shares of Series A Preferred Stock which shall have been called for redemption, the conversion right shall terminate at the close of business on the date fixed for redemption.

(b) The holder of a share or shares of Series A Preferred Stock may exercise the conversion right as to any thereof by delivering to the Corporation, during regular business hours, at its principal office or at the office of any of its transfer agents for the Series A Preferred Stock or at such other place as may be designated by the Corporation, the certificate or certificates for the shares to be converted, duly endorsed or assigned in blank or to the Corporation (if required by it), accompanied by written notice stating that the holder elects to convert such shares and stating the name or names (with address) in which the certificate or certificates for Common Stock are to be issued. Conversion shall be deemed to have been effected on the date when such delivery is made, and such date is referred to herein as the "conversion date." As promptly as practicable thereafter the Corporation shall issue and deliver to or upon the written order of such holder, at such office or other place designated by the Corporation, a certificate or certificates for the number of full shares of Common Stock to which he is entitled and a check, cash, scrip certificate or other adjustment in respect of any fraction of a share as provided in Section 12(d) below. The person in whose name the certificate or certificates for Common Stock are to be issued shall be deemed to have become a holder of such Common Stock of record on the conversion date unless the transfer books of the Corporation are closed on that date, in which event he shall be deemed to have become a holder of such Common Stock of record on the next succeeding date on which the transfer books are open, but the conversion rate shall be that in effect on the conversion date.

(c) No payment or adjustment shall be made for dividends accrued on any shares of Series A Preferred Stock converted or for dividends on any shares of Common Stock issuable on conversion.

(d) The Corporation shall not be required to issue any fraction of a share upon conversion of any share or shares of Series A Preferred Stock. If more than one share of Series A Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the total number of shares of Series A Preferred Stock so surrendered. If any fractional interest in a share of Common Stock would be deliverable upon conversion, the Corporation shall make an adjustment therefor in cash unless its Board of Directors shall have determined to adjust fractional interests by issuance of scrip certificates or in some other manner. Adjustment in cash shall be made on the basis of the current market value of one share of Common Stock, which shall be taken to be the last reported sale price of the Corporation's Common Stock on the principal stock exchange on which the Common Stock is then listed on the last business day before the conversion date or, if there was no reported sale on that date, the average of the closing bid and asked quotations on that exchange on that day or, if the Common Stock is not then listed on any stock exchange, the average of the lowest bid and the highest asked quotations in the over-the-counter market on that day.

(e) The issuance of Common Stock on conversion of Series A Preferred Stock shall be without charge to the converting holder of Series A Preferred Stock for any tax in respect of the issuance thereof, but the Corporation shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of shares in any name other than that of the holder of record on the books of the Corporation of the shares of Series A Preferred Stock converted, and the

Corporation shall not be required to issue or deliver any certificate for shares of Common Stock unless and until the person requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

(f) The conversion rate provided in Section 12(a) shall be subject to the following adjustments, which shall be made to the nearest one-hundredth of a share of Common Stock or, if none, to the next lower one-hundredth:

(1) If the Corporation shall pay to the holders of its Common Stock a dividend in shares of Common Stock, the conversion rate in effect immediately prior to the record date fixed for the determination of the holders of Common Stock entitled to such dividend shall be proportionately increased, effective at the opening of business on the next following full business day.

(2) If the Corporation shall split the outstanding shares of its Common Stock into a greater number of shares or combine the outstanding shares into a smaller number, the conversion rate in effect immediately prior to such action shall be proportionately increased in the case of a split or decreased in the case of a combination, effective at the opening of business on the full business day next following the day such action becomes effective.

(3) If the Corporation shall issue to the holders of its Common Stock rights or warrants to subscribe for or purchase shares of its Common Stock at a price less than 90% of the Current Market Price (as defined below in this paragraph) of the Corporation's Common Stock at the record date fixed for the determination of the holders of Common Stock entitled to such rights or warrants, the conversion rate in effect immediately prior to said record date shall be increased, effective at the opening of business on the next following full business day, to an amount determined by multiplying such conversion rate by a fraction the numerator of which is the number of shares of Common Stock of the Corporation outstanding immediately prior to said record date plus the number of additional shares of its Common Stock offered for subscription or purchase and the denominator of which is said number of shares outstanding immediately prior to said record date plus the number of shares of Common Stock of the Corporation which the aggregate subscription or purchase price of the total number of shares so offered would purchase at the Current Market Price of the Corporation's Common Stock at said record date. The term "Current Market Price" at said record date shall mean the average of the daily last reported sale prices per share of the Corporation's Common Stock on the principal stock exchange on which the Common Stock is then listed during the 20 consecutive full business days commencing with the 30th full business day before said record date, provided that if there was no reported sale on any such day or days there shall be substituted the average of the closing bid and asked quotations on that exchange on that day, and provided further that if the Common Stock was not listed on any stock exchange on any such day or days there shall be substituted the average of the lowest bid and the highest asked quotations in the over-the-counter market on that day.

(g) No adjustment of the conversion rate provided in Section 12(a) shall be made by reason of the issuance of Common Stock for cash except as provided in Section 12(f)(3), or by reason of the issuance of Common Stock for property or services. Whenever the conversion rate is adjusted pursuant to Section 12(f), the Corporation shall (1) promptly place on file at its principal office and at the office of each of its transfer agents for the Series A Preferred Stock a statement signed by the Chairman of the Board, the President or a Vice President of the Corporation and by its Treasurer or an Assistant Treasurer showing in detail the facts requiring such adjustment and the conversion rate after such adjustment, and shall make such statement available for inspection by shareholders of the Corporation, and (2) cause a notice to be published at least once in a newspaper printed in the English language and of general circulation in the City of Philadelphia, Pennsylvania, or in the Borough of Manhattan, the City of New York, New York, stating that such adjustment has been made and the adjusted conversion rate.

(h) If the Corporation shall issue to the holders of its Common Stock rights or warrants to subscribe for or purchase shares of its Common Stock or any other security, or if the Corporation shall distribute to the holders of its Common Stock any evidences of indebtedness or any other assets (excluding dividends and distributions in cash), the Corporation shall mail to each holder of record of a share or shares of Series A Preferred Stock, at his address as it shall appear on the books of the Corporation, a notice stating the record date fixed or to be fixed for the determination of the holders of Common Stock of record entitled to such issuance or distribution. Such notice shall be mailed at least 10 days before such record date. Failure to mail such notice or any defect therein or failure of any addressee to receive it shall not affect the validity of such issuance or distribution or any vote thereon.

(i) In case of any reclassification or change in the outstanding shares of Common Stock of the Corporation (except a split or combination of shares) or in case of any consolidation or merger to which the Corporation is a party (except a merger in which the Corporation is the surviving corporation and which does not result in any reclassification of or change in the outstanding Common Stock of the Corporation except a split or combination of shares) or in case of any sale or conveyance to another corporation of all or substantially all of the property of the Corporation, effective provision shall be made by the

Corporation or by the successor or purchasing corporation (1) that the holder of each share of Series A Preferred Stock then outstanding shall thereafter have the right to convert such share into the kind and amount of stock and other securities and property receivable upon such reclassification, change, consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock of the Corporation into which such share of Series A Preferred Stock might have been converted immediately prior thereto, and (2) that there shall be subsequent adjustments of the conversion rate which shall be equivalent, as nearly as practicable, to the adjustments provided for in Section 12(f). The provisions of this Section 12(i) shall similarly apply to successive reclassifications, changes, consolidations, mergers, sales or conveyances.

(j) Shares of Common Stock issued on conversion of shares of Series A Preferred Stock shall be issued as fully paid shares and shall be nonassessable by the Corporation. The Corporation shall at all times reserve and keep available for the purpose of effecting the conversion of Series A Preferred Stock, such number of its duly authorized shares of Common Stock as shall be sufficient to effect the conversion of all outstanding shares of Series A Preferred Stock.

(k) Shares of Series A Preferred Stock converted as provided herein shall not be reissued.

$1.80 CUMULATIVE CONVERTIBLE PREFERRED STOCK, SERIES B

13. *Designation.* A series of Preferred Stock designated $1.80 Cumulative Convertible Preferred Stock, Series B (Nonredeemable) (herein called “Series B Preferred Stock”) is hereby established consisting of 38,542 shares subject to increase or decrease in the number of shares in accordance with law.

14. *Dividends.* The dividend rate of shares of Series B Preferred Stock shall be $1.80 per share per year, payable quarterly on the tenth day of each March, June, September and December. Dividends shall be cumulative from the March 10, June 10, September 10 or December 10 next preceding the date of issue of each share, unless the date of issue is a quarterly dividend payment date or a date between the record date for the determination of holders of $1.80 Cumulative Convertible Preferred Stock, 1971 Series, of Provident National Corporation, a predecessor of the Corporation (such stock having been converted into the Series B Preferred Stock), entitled to receive a quarterly dividend and the date of payment of such quarterly dividend, in either of which events such dividends shall be cumulative from such quarterly dividend payment date.

15. *Liquidation.* The amount payable upon shares of Series B Preferred Stock in the event of voluntary or involuntary liquidation of the Corporation, prior to any payment to the holders of Common Stock or of any class or series of stock of the Corporation ranking as to assets subordinate to the Series B Preferred Stock, shall be $40.00 per share plus an amount equal to accrued and unpaid dividends thereon computed to the date on which payment thereof is made available, whether or not earned or declared.

16. *Rank.* The Series B Preferred Stock shall rank, as to dividends and assets, equally with the series of Preferred Stock of the Corporation designated $1.80 Cumulative Convertible Preferred Stock, Series A (Redeemable).

17. *Redemption.* Shares of Series B Preferred Stock shall not be redeemable.

18. *Voting rights.* Each holder of record of Series B Preferred Stock shall have the right to a number of votes equal to the number of full shares of Common Stock into which the share or shares of Series B Preferred Stock standing in his name on the books of the Corporation are at the time convertible.

19. *Conversion provisions.* (a) Shares of Series B Preferred Stock may, at the option of the holder, be converted into Common Stock of the Corporation (as such stock may be constituted on the conversion date) at the rate of two shares of Common Stock for each share of Series B Preferred Stock, subject to adjustment as provided herein.

(b) The holder of a share or shares of Series B Preferred Stock may exercise the conversion right as to any thereof by delivering to the Corporation during regular business hours, at its principal office or at the office of any of its transfer agents for the Series B Preferred Stock or at such other place as may be designated by the Corporation, the certificate or certificates for the shares to be converted, duly endorsed or assigned in blank or to the Corporation (if required by it), accompanied by written notice stating that the holder elects to convert such shares and stating the name or names (with address) in which the certificate or certificates for Common Stock are to be issued. Conversion shall be deemed to have been effected on the date when such delivery is made, and such date is referred to herein as the “conversion date.” As promptly as practicable thereafter, the Corporation shall issue and deliver to or upon the written order of such holder, at such office or other place designated by the Corporation, a certificate or certificates for the number of full shares of Common Stock to which he is entitled and a check, cash, scrip certificate or other adjustment in respect of any fraction of a share as provided in Section 19(d) below. The person in whose name the certificate or certificates for Common Stock are to be issued shall be deemed to have become a holder of such Common Stock of record on the conversion date unless the transfer books of the Corporation are closed on that date, in which event he shall be deemed to have become a holder of such Common Stock of record on the next succeeding date on which the transfer books are open, but the conversion rate shall be that in effect on the conversion date.

(c) No payment or adjustment shall be made for dividends accrued on any shares of Series B Preferred Stock converted or for dividends on any shares of Common Stock issuable on conversion.

(d) The Corporation shall not be required to issue any fraction of a share upon conversion of any share or shares of Series B Preferred Stock. If more than one share of Series B Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the total number of shares of Series B Preferred Stock so surrendered. If any fractional interest in a share of Common Stock would be deliverable upon conversion, the Corporation shall make an adjustment therefor in cash unless its Board of Directors shall have determined to adjust fractional interests by issuance of scrip certificates or in some other manner. Adjustment in cash shall be made on the basis of the current market value of one share of Common Stock, which shall be taken to be the last reported sale price of the Corporation's Common Stock on the principal stock exchange on which the Common Stock is then listed on the last business day before the conversion date or, if there was no reported sale on that date, the average of the closing bid and asked quotations on that exchange on that day or, if the Common Stock is not then listed on any stock exchange, the average of the lowest bid and the highest asked quotations in the over-the-counter market on that day.

(e) The issuance of Common Stock on conversion of Series B Preferred Stock shall be without charge to the converting holder of Series B Preferred Stock for any tax in respect of the issuance thereof, but the Corporation shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of shares in any name other than that of the holder of record on the books of the Corporation of the shares of Series B Preferred Stock converted, and the Corporation shall not be required to issue or deliver any certificate for shares of Common Stock unless and until the person requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

(f) The conversion rate provided in Section 19(a) above shall be subject to the following adjustments, which shall be made to the nearest one-hundredth of a share of Common Stock or, if none, to the next lower one-hundredth:

(1) If the Corporation shall pay to the holders of its Common Stock a dividend in shares of Common Stock, the conversion rate in effect immediately prior to the record date fixed for the determination of the holders of Common Stock entitled to such dividend shall be proportionately increased, effective at the opening of business on the next following full business day.

(2) If the Corporation shall split the outstanding shares of its Common Stock into a greater number of shares or combine the outstanding shares into a smaller number, the conversion rate in effect immediately prior to such action shall be proportionately increased in the case of a split or decreased in the case of a combination, effective at the opening of business on the full business day next following the day such action becomes effective.

(3) If the Corporation shall issue to the holders of its Common Stock rights or warrants to subscribe for or purchase shares of its Common Stock at a price less than 90% of the Current Market Price (as defined below in this paragraph) of the Corporation's Common Stock at the record date fixed for the determination of the holders of Common Stock entitled to such rights or warrants, the conversion rate in effect immediately prior to said record date shall be increased, effective at the opening of business on the next following full business day, to an amount determined by multiplying such conversion rate by a fraction the numerator of which is the number of shares of Common Stock of the Corporation outstanding immediately prior to said record date plus the number of additional shares of its Common Stock offered for subscription or purchase and the denominator of which is said number of shares outstanding immediately prior to said record date plus the number of shares of Common Stock of the Corporation which the aggregate subscription or purchase price of the total number of shares so offered would purchase at the Current Market Price of the Corporation's Common Stock at said record date. The term "Current Market Price" at said record date shall mean the average of the daily last reported sale prices per share of the Corporation's Common Stock on the principal stock exchange on which the Common Stock is then listed during the 20 consecutive full business days commencing with the 30th full business day before said record date, provided that if there was no reported sale on any such day or days there shall be substituted the average of the closing bid and asked quotations on that exchange on that day, and provided further that if the Common Stock was not listed on any stock exchange on any such day or days there shall be substituted the average of the lowest bid and the highest asked quotations in the over-the-counter market on that day.

(g) No adjustment of the conversion rate provided in Section 19(a) above shall be made by reason of the issuance of Common Stock for cash except as provided in Section 19(f)(3) above, or by reason of the issuance of Common Stock for property or services. Whenever the conversion rate is adjusted pursuant to Section 19(f) above the Corporation shall (1) promptly place on file at its principal office and at the office of each of its transfer agents for the Series B Preferred Stock a statement signed by the Chairman of the Board, the President or a Vice President of the Corporation and by its Treasurer or an Assistant Treasurer showing in detail the facts requiring such adjustment and the conversion, rate after such adjustment, and shall make such statement available for inspection by shareholders of the Corporation, and (2) cause a notice to be published at least once in a newspaper printed in the English language and of general circulation in the City of Philadelphia, Pennsylvania, or in the Borough of Manhattan, the City of New York, New York, stating that such adjustment has been made and the adjusted conversion rate.

(h) If the Corporation shall issue to the holders of its Common Stock rights or warrants to subscribe for or purchase shares of its Common Stock or any other security, or if the Corporation shall distribute to the holders of its Common Stock any evidences of indebtedness or any other assets (excluding dividends and distributions in cash), the Corporation shall mail to each holder of record of a share or shares of Series B Preferred Stock, at his address as it shall appear on the books of the Corporation, a notice stating the record date fixed or to be fixed for the determination of the holders of Common Stock of record entitled to such issuance or distribution. Such notice shall be mailed at least 10 days before such record date. Failure to mail such notice or any defect therein or failure of any addressee to receive it shall not affect the validity of such issuance or distribution or any vote thereon.

(i) In case of any reclassification or change of the outstanding shares of Common Stock of the Corporation (except a split or combination of shares) or in case of any consolidation or merger to which the Corporation is a party (except a merger in which the Corporation is the surviving corporation and which does not result in any reclassification of or change in the outstanding Common Stock of the Corporation except a split or combination of shares) or in case of any sale or conveyance to another corporation of all or substantially all of the property of the Corporation, effective provision shall be made by the Corporation or by the successor or purchasing corporation (1) that the holder of each share of Series B Preferred Stock then outstanding shall thereafter have the right to convert such share into the kind and amount of stock and other securities and property receivable upon such reclassification, change, consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock of the Corporation into which such share of Series B Preferred Stock might have been converted immediately prior thereto, and (2) that there shall be subsequent adjustments of the conversion rate which shall be equivalent, as nearly as practicable, to the adjustments provided for in Section 19(f) above. The provisions of this Section 19(i) shall similarly apply to successive reclassifications, changes, consolidations, mergers, sales or conveyances.

(j) Shares of Common Stock issued on conversion of shares of Series B Preferred Stock shall be issued as fully paid shares and shall be nonassessable by the Corporation. The Corporation shall at all times reserve and keep available for the purpose of effecting the conversion of Series B Preferred Stock, such number of its duly authorized shares of Common Stock as shall be sufficient to effect the conversion of all outstanding shares of Series B Preferred Stock.

(k) Shares of Series B Preferred Stock converted as provided herein shall not be reissued.

20. *Retirement or sinking fund.* The shares of Series B Preferred Stock shall not be entitled to the benefit of any retirement or sinking fund to be applied to the purchase or redemption of such shares.

$1.60 CUMULATIVE CONVERTIBLE PREFERRED STOCK, SERIES C

21. *Designation.* A series of Preferred Stock designated “$1.60 Cumulative Convertible Preferred Stock, Series C” (herein called “Series C Preferred Stock”) is hereby established, consisting of 1,433,935 shares subject to increase or decrease in the number of shares in accordance with law.

22. *Rank.* Series C Preferred Stock shall rank, as to dividends and assets, equally with the Series A Preferred Stock and the Series B Preferred Stock and every other share of capital stock from time to time outstanding which is not Common Stock of the Corporation and which is not specifically made senior or subordinate to the Series C Preferred Stock as to dividends or assets.

23. *Dividends.* The dividend rate of shares of this series shall be $1.60 per share per year, payable in equal quarterly installments on the first day of each January, April, July and October. Dividends shall be cumulative from the January 1, April 1, July 1 and October 1 next preceding the date of issue of each share, unless the date of issue is a quarterly dividend payment date or a date between the record date for the determination of holders of record of Series C Preferred Stock

entitled to receive a quarterly dividend and the date of payment of such quarterly dividend, in either of which events such dividends shall be cumulative from such dividend payment date.

24. *Liquidation.* The amount payable upon shares of Series C Preferred Stock in the event of voluntary or involuntary liquidation of the Corporation, prior to any payment to the holders of Common Stock or of any class or series of stock of the Corporation ranking as to assets subordinate to the Series C Preferred Stock, shall be $20.00 per share plus an amount equal to accrued and unpaid dividends thereon computed to the date on which payment thereof is made available, whether or not earned or declared.

25. *Redemption.* Shares of Series C Preferred Stock shall be redeemable at any time after February 1, 1989 at $20.00 per share plus an amount equal to accrued and unpaid dividends thereon computed to the date fixed for redemption, whether or not earned or declared.

26. *Voting rights.* Each holder of record of Series C Preferred Stock shall have the right to a number of votes equal to the number of full shares of Common Stock into which the share or shares of Series C Preferred Stock standing in his name on the books of the Corporation are at the time convertible.

27. *Conversion provisions.* (a) Shares of Series C Preferred Stock may, at the option of the holder, be converted into Common Stock of the Corporation (as such stock may be constituted on the conversion date) at the conversion price, determined as hereinafter provided, in effect at the time of conversion, subject to adjustment as provided herein; provided that, as to any shares of Series C Preferred Stock which shall have been called for redemption, the conversion right shall terminate at the close of business on the date fixed for redemption. The value of each share of Series C Preferred Stock for the purpose of such conversion shall be $20.00. The price at which shares of Common Stock of the Corporation shall be delivered upon conversion (herein called the "conversion price") shall initially be $48.00 per share of Common Stock of the Corporation.

(b) The holder of a share or shares of Series C Preferred Stock may exercise the conversion right as to any thereof by delivering to the Corporation, during regular business hours, at its principal office or at the office of any of its transfer agents for the Series C Preferred Stock or at such other place as may be designated by the Corporation, the certificate or certificates for the shares to be converted, duly endorsed or assigned in blank or to the Corporation (if required by it), accompanied by written notice stating that the holder elects to convert such shares and stating the name or names (with address) in which the certificate or certificates for Common Stock are to be issued. Conversion shall be deemed to have been effected on the date when such delivery is made, and such date is referred to herein as the "conversion date." As promptly as practicable thereafter the Corporation shall issue and deliver to or upon the written order of such holder, at such office or other place designated by the Corporation, a certificate or certificates for the number of full shares of Common Stock to which he is entitled and cash, scrip certificate or other adjustment in respect of any fraction of a share as provided in Section 27(d) below. The person in whose name the certificate or certificates for Common Stock are to be issued shall be deemed to have become a holder of such Common Stock of record on the conversion date unless the transfer books of the Corporation are closed on that date, in which event he shall be deemed to have become a holder of such Common Stock of record on the next succeeding date on which the transfer books are open, but the conversion price shall be that in effect on the conversion date.

(c) No payment or adjustment shall be made for dividends accrued on any shares of Series C Preferred Stock converted or for dividends on any shares of Common Stock issuable on conversion.

(d) The Corporation shall not be required to issue any fraction of a share upon conversion of any share or shares of Series C Preferred Stock. If more than one share of Series C Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the total number of shares of Series C Preferred Stock so surrendered. If any fractional interest in a share of Common Stock would be deliverable upon conversion, the Corporation shall make an adjustment therefor in cash unless its Board of Directors shall have determined to adjust fractional interests by issuance of scrip certificates or in some other manner. Adjustment in cash shall be made on the basis of the current market value of one share of Common Stock, which shall be taken to be the last reported sale price of the Corporation's Common Stock on the principal stock exchange on which the Common Stock is then listed (or if not so listed, on the over-the-counter market) for the last business day before the conversion date or, if there was no reported sale on that day, the last reported sales price on the first preceding day for which such price is available.

(e) The issuance of Common Stock on conversion of Series C Preferred Stock shall be without charge to the converting holder of Series C Preferred Stock for any tax in respect of the issuance thereof, but the Corporation shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of shares in any name other than that of the holder of record on the books of the Corporation of the shares of Series C Preferred Stock converted, and the Corporation shall not be required to issue or deliver any certificate for shares of Common Stock unless and until the person requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

(f) The conversion rate provided in Section 27(a) shall be subject to the following adjustments, which shall be made to the nearest cent:

(1) If the Corporation shall pay to the holders of its Common Stock a dividend in shares of Common Stock, the conversion price in effect immediately prior to the record date fixed for the determination of the holders of Common Stock entitled to such dividend shall be proportionately decreased, effective at the opening of business on the next following full business day.

(2) If the Corporation shall split the outstanding shares of its Common Stock into a greater number of shares or combine the outstanding shares into a smaller number, the conversion price in effect immediately prior to such action shall be proportionately decreased in the case of a split or increased in the case of a combination, effective at the opening of business on the full business day next following the day such action becomes effective.

(3) If the Corporation shall issue to the holders of its Common Stock rights or warrants to subscribe for or purchase shares of its Common Stock at a price less than 90% of the Current Market Price (as defined below in this paragraph) of the Corporation's Common Stock at the record date fixed for the determination of the holders of Common Stock entitled to such rights or warrants, the conversion price in effect immediately prior to said record date shall be adjusted, effective at the opening of business on the next following full business day, to an amount determined by multiplying such conversion price by a fraction the numerator of which is the number of shares of Common Stock of the Corporation outstanding immediately prior to said record date plus the number of shares of Common Stock of the Corporation which the aggregate subscription or purchase price of the total number of shares so offered would purchase at the Current Market Price of the Corporation's Common Stock at said record date and the denominator of which is said number of shares outstanding immediately prior to said record date plus the number of additional shares of its Common Stock offered for subscription or purchase. The term "Current Market Price" at said record date shall mean the average of the daily last reported sale prices per share of the Corporation's Common Stock on the principal stock exchange on which the Common Stock is then listed (or if not so listed, then on the over-the-counter market) during the 20 consecutive full business days commencing with the 30th full business day before said record date, provided that if there was no reported sale on any such day or days there shall be substituted the average of the closing bid and asked quotations on that day obtained from the market specialist assigned to the Corporation (or a market maker in the case of the over-the-counter market).

(4) The Corporation may make such reductions in the conversion price, in addition to those required by the foregoing provisions, as it considers to be advisable in order that any event treated for federal income tax purposes as a dividend of stock or stock rights shall not be taxable to the recipients.

(g) No adjustment of the conversion price provided in Section 27(a) shall be made by reason of the issuance of Common Stock for cash except as provided in Section 27(f)(3), or by reason of the issuance of Common Stock for property or services. Whenever the conversion price is adjusted pursuant to Section 27(f), the Corporation shall (1) promptly place on file at its principal office and at the office of each of its transfer agents for the Series C Preferred Stock a statement signed by the Chairman of the Board, the President or a Vice President of the Corporation and by its Treasurer or an Assistant Treasurer showing in detail the facts requiring such adjustment and the conversion price after such adjustment, and shall make such statement available for inspection by shareholders of the Corporation, and (2) cause a notice to be published at least once in a newspaper printed in the English language and of general circulation in the City of Erie, Pennsylvania, or in the Borough of Manhattan, the City of New York, New York, stating that such adjustment has been made and the adjusted conversion price.

(h) If the Corporation shall issue to the holders of its Common Stock rights or warrants to subscribe for or purchase shares of its Common Stock or any other security, or if the Corporation shall distribute to the holders of its Common Stock any evidences of indebtedness or any other assets (excluding dividends and distributions in cash), the Corporation shall mail to each holder of record of a share or shares of Series C Preferred Stock, at his address as it shall appear on the books of the Corporation, a notice stating the record date fixed or to be fixed for the determination of the holders of Common Stock of record entitled to such issuance or distribution. Such notice shall be mailed at least 10 days before such record date. Failure to mail such notice or any defect therein or failure of any addressee to receive it shall not affect the validity of such issuance or distribution or any vote thereon.

(i) In case of any reclassification or change in the outstanding shares of Common Stock of the Corporation (except a split or combination of shares) or in case of any consolidation or merger to which the Corporation is a party (except a merger in which the Corporation is the surviving corporation and which does not result in any reclassification of or change in the outstanding Common Stock of the Corporation except an increase in the number of outstanding shares or a split or combination of shares) or in case of any sale or conveyance to another corporation of all or substantially all of the property of the Corporation, effective provision shall be made by the Corporation or by the successor or purchasing corporation (1) that the holder of each share of Series C Preferred Stock then outstanding shall thereafter have the right to convert such share into the kind and amount of stock and other securities and property receivable upon such reclassification, change, consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock of the Corporation into which such share of Series C Preferred Stock might have been converted immediately prior thereto, and (2) that there shall be subsequent adjustments of the conversion price which shall be equivalent, as nearly as practicable, to the adjustments provided for in Section 27(f). The provisions of this Section 27(i) shall similarly apply to successive reclassifications, changes, consolidations, mergers, sales or conveyances.

(j) Shares of Common Stock issued on conversion of shares of Series C Preferred Stock shall be issued as fully paid shares and shall be non-assessable by the Corporation. The Corporation shall at all times reserve and keep available for the purpose of effecting the conversion of Series C Preferred Stock, such number of its duly authorized shares of Common Stock as shall be sufficient to effect the conversion of all outstanding shares of Series C Preferred Stock.

(k) Shares of Series C Preferred Stock converted as provided herein shall not be reissued.

$1.80 CUMULATIVE CONVERTIBLE PREFERRED STOCK, SERIES D

28. *Designation.* A series of Preferred Stock designated “$1.80 Cumulative Convertible Preferred Stock, Series D” (herein called “Series D Preferred Stock”) is hereby established, consisting of 1,766,140 shares subject to increase or decrease in the number of shares in accordance with law.

29. *Rank.* Series D Preferred Stock shall rank, as to dividends and assets, equally with the Series A Preferred Stock, the Series B Preferred Stock and the Series C Preferred Stock and every other share of capital stock from time to time outstanding which is not Common Stock of the Corporation and which is not specifically made senior or subordinate to the Series D Preferred Stock as to dividends or assets.

30. *Dividends.* The dividend rate of shares of this series shall be $1.80 per share per year, payable in equal quarterly installments on the first day of each January, April, July and October. Dividends shall be cumulative from the January 1, April 1, July 1 and October 1 next preceding the date of issue of each share, unless the date of issue is a quarterly dividend payment date or a date between the record date for the determination of holders of record of Series D Preferred Stock entitled to receive a quarterly dividend and the date of payment of such quarterly dividend, in either of which events such dividends shall be cumulative from such dividend payment date.

31. *Liquidation.* The amount payable upon shares of Series D Preferred Stock in the event of voluntary or involuntary liquidation of the Corporation, prior to any payment to the holders of Common Stock or of any class or series of stock of the Corporation ranking as to assets subordinate to the Series D Preferred Stock, shall be $20.00 per share plus an amount equal to accrued and unpaid dividends thereon computed to the date on which payment thereof is made available, whether or not earned or declared.

32. *Redemption.* Shares of Series D Preferred Stock shall be redeemable at any time after February 1, 1990 at $20.00 per share plus an amount equal to accrued and unpaid dividends thereon computed to the date fixed for redemption, whether or not earned or declared.

33. *Voting rights.* Each holder of record of Series D Preferred Stock shall have the right to a number of votes equal to the number of full shares of Common Stock into which the share or shares of Series D Preferred Stock standing in his name on the books of the Corporation are at the time convertible.

34. *Conversion provisions*. (a) Shares of Series D Preferred Stock may, at the option of the holder, be converted into Common Stock of the Corporation (as such stock may be constituted on the conversion date) at the conversion price, determined as hereinafter provided, in effect at the time of conversion, subject to adjustment as provided herein; provided that, as to any shares of Series D Preferred Stock which shall have been called for redemption, the conversion right shall terminate at the close of business on the date fixed for redemption. The value of each share of Series D Preferred Stock for the purpose of such conversion shall be $20.00. The price at which shares of Common Stock of the Corporation shall be delivered upon conversion (herein called the “conversion price”) shall initially be $48.00 per share of Common Stock of the Corporation.

(b) The holder of a share or shares of Series D Preferred Stock may exercise the conversion right as to any thereof by delivering to the Corporation, during regular business hours, at its principal office or at the office of any of its transfer agents for the Series D Preferred Stock or at such other place as may be designated by the Corporation, the certificate or certificates for the shares to be converted, duly endorsed or assigned in blank or to the Corporation (if required by it), accompanied by written notice stating that the holder elects to convert such shares and stating the name or names (with address) in which the certificate or certificates for Common Stock are to be issued. Conversion shall be deemed to have been effected on the date when such delivery is made, and such date is referred to herein as the "conversion date". As promptly as practicable thereafter the Corporation shall issue and deliver to or upon the written order of such holder, at such office or other place designated by the Corporation, a certificate or certificates for the number of full shares of Common Stock to which he is entitled and cash, scrip certificate or other adjustment in respect of any fraction of a share as provided in Section 34(d) below. The person in whose name the certificate or certificates for Common Stock are to be issued shall be deemed to have become a holder of such Common Stock of record on the conversion date unless the transfer books of the Corporation are closed on that date, in which event he shall be deemed to have become a holder of such Common Stock of record on the next succeeding date on which the transfer books are open, but the conversion price shall be that in effect on the conversion date.

(c) No payment or adjustment shall be made for dividends accrued on any shares of Series D Preferred Stock converted or for dividends on any shares of Common Stock issuable on conversion.

(d) The Corporation shall not be required to issue any fraction of a share upon conversion of any share or shares of Series D Preferred Stock. If more than one share of Series D Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the total number of shares of Series D Preferred Stock so surrendered. If any fractional interest in a share of Common Stock would be deliverable upon conversion, the Corporation shall make an adjustment therefor in cash unless its Board of Directors shall have determined to adjust fractional interests by issuance of scrip certificates or in some other manner. Adjustment in cash shall be made on the basis of the current market value of one share of Common Stock, which shall be taken to be the last reported sale price of the Corporation's Common Stock on the principal stock exchange on which the Common Stock is then listed (or if not so listed, on the over-the-counter market) for the last business day before the conversion date or, if there was no reported sale on that day, the last reported sales price on the first preceding day for which such price is available.

(e) The issuance of Common Stock on conversion of Series D Preferred Stock shall be without charge to the converting holder of Series D Preferred Stock for any tax in respect of the issuance thereof, but the Corporation shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of shares in any name other than that of the holder of record on the books of the Corporation of the shares of Series D Preferred Stock converted, and the Corporation shall not be required to issue or deliver any certificate for shares of Common Stock unless and until the person requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

(f) The conversion price provided in Section 34(a) shall be subject to the following adjustments, which shall be made to the nearest cent:

(1) If the Corporation shall pay to the holders of its Common Stock a dividend in shares of Common Stock, the conversion price in effect immediately prior to the record date fixed for the determination of the holders of Common Stock entitled to such dividend shall be proportionately decreased, effective at the opening of business on the next following full business day.

(2) If the Corporation shall split the outstanding shares of its Common Stock into a greater number of shares or combine the outstanding shares into a smaller number, the conversion price in effect immediately prior to such action shall be proportionately decreased in the case of a split or increased in the case of a combination, effective at the opening of business on the full business day next following the day such action becomes effective.

(3) If the Corporation shall issue to the holders of its Common Stock rights or warrants to subscribe for or purchase shares of its Common Stock at a price less than 90% of the Current Market Price (as defined below in this paragraph) of the Corporation's Common Stock at the record date fixed for the determination of the holders of Common Stock entitled to such rights or warrants, the conversion price in effect immediately prior to said record date shall be adjusted, effective at the opening of business on the next following full business day, to an amount determined by multiplying such conversion price by a fraction the numerator of which is the number of shares of Common Stock of the Corporation outstanding immediately prior to said record date plus the number of shares of Common Stock of the Corporation which the aggregate subscription or purchase price of the total number of shares so offered would purchase at the Current Market Price of the Corporation's Common Stock at said record date and the denominator of which is said number of shares outstanding immediately prior to said record date plus the number of additional shares of its Common Stock offered for subscription or purchase. The term "Current Market Price" at said record date shall mean the average of the daily last reported sale prices per share of the Corporation's Common Stock on the principal stock exchange on which

the Common Stock is then listed (or if not so listed, then on the over-the-counter market) during the 20 consecutive full business days commencing with the 30th full business day before said record date, provided that if there was no reported sale on any such day or days there shall be substituted the average of the closing bid and asked quotations on that day obtained from the market specialist assigned to the Corporation (or a market maker in the case of the over-the-counter market).

(4) The Corporation may make such reductions in the conversion price, in addition to those required by the foregoing provisions, as it considers to be advisable in order that any event treated for federal income tax purposes as a dividend of stock or stock rights shall not be taxable to the recipients.

(g) No adjustment of the conversion price provided in Section 34(a) shall be made by reason of the issuance of Common Stock for cash except as provided in Section 34(f)(3), or by reason of the issuance of Common Stock for property or services. Whenever the conversion price is adjusted pursuant to Section 34(f) the Corporation shall (1) promptly place on file at its principal office and at the office of each of its transfer agents for the Series D Preferred Stock a statement signed by the Chairman of the Board, the President or a Vice President of the Corporation and by its Treasurer or an Assistant Treasurer showing in detail the facts requiring such adjustment and the conversion price after such adjustment, and shall make such statement available for inspection by shareholders of the Corporation, and (2) cause a notice to be published at least once in a newspaper printed in the English language and of general circulation in the City of Scranton, Pennsylvania, or in the Borough of Manhattan, the City of New York, New York, stating that such adjustment has been made and the adjusted conversion price.

(h) If the Corporation shall issue to the holders of its Common Stock rights or warrants to subscribe for or purchase shares of its Common Stock or any other security, or if the Corporation shall distribute to the holders of its Common Stock any evidences of indebtedness or any other assets (excluding dividends and distributions in cash), the Corporation shall mail to each holder of record of a share or shares of Series D Preferred Stock, at his address as it shall appear on the books of the Corporation, a notice stating the record date fixed or to be fixed for the determination of the holders of Common Stock of record entitled to such issuance or distribution. Such notice shall be mailed at least 10 days before such record date. Failure to mail such notice or any defect therein or failure of any addressee to receive it shall not affect the validity of such issuance or distribution or any vote thereon.

(i) In case of any reclassification or change in the outstanding shares of Common Stock of the Corporation (except a split or combination of shares) or in case of any consolidation or merger to which the Corporation is a party (except a merger in which the Corporation is the surviving corporation and which does not result in any reclassification of or change in the outstanding Common Stock of the Corporation except an increase in the number of outstanding shares or a split or combination of shares) or in case of any sale or conveyance to another corporation of all or substantially all of the property of the Corporation, effective provision shall be made by the Corporation or by the successor or purchasing corporation (1) that the holder of each share of Series D Preferred Stock then outstanding shall thereafter have the right to convert such share into the kind and amount of stock and other securities and property receivable upon such reclassification, change, consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock of the Corporation into which such share of Series D Preferred Stock might have been converted immediately prior thereto, and (2) that there shall be subsequent adjustments of the conversion price which shall be equivalent, as nearly as practicable, to the adjustments provided for in Section 34(f). The provisions of this Section 34(i) shall similarly apply to successive reclassifications, changes, consolidations, mergers, sales or conveyances.

(j) Shares of Common Stock issued on conversion of shares of Series D Preferred Stock shall be issued as fully paid shares and shall be non-assessable by the Corporation. The Corporation shall at all times reserve and keep available for the purpose of effecting the conversion of Series D Preferred Stock, such number of its duly authorized shares of Common Stock as shall be sufficient to effect the conversion of all outstanding shares of Series D Preferred Stock.

(k) Shares of Series D Preferred Stock converted as provided herein shall not be reissued.

$2.60 CUMULATIVE NONVOTING PREFERRED STOCK, SERIES E

35. *Designation*. A series of Preferred Stock designated “$2.60 Cumulative Nonvoting Preferred Stock, Series E” (herein called “Series E Preferred Stock”) is hereby established, consisting of 338,100 shares subject to increase or decrease in the number of shares in accordance with law.

36. *Rank*. Series E Preferred Stock shall rank, as to dividends and assets, equally with the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock and the Series D Preferred Stock and every other share of capital stock from time

to time outstanding which is not Common Stock of the Corporation and which is not specifically made senior or subordinate to the Series E Preferred Stock as to dividends or assets.

37. *Dividends*. The dividend rate of shares of this series shall be $2.60 per share per year, payable in equal quarterly installments on the first day of each January, April, July and October. Dividends shall be cumulative from the January 1, April 1, July 1 and October 1 next preceding the date of issue of each share, unless the date of issue is a quarterly dividend payment date or a date between the record date for the determination of holders of record of Series E Preferred Stock entitled to receive a quarterly dividend and the date of payment of such quarterly dividend, in either of which events such dividends shall be cumulative from such dividend payment date.

38. *Liquidation*. The amount payable upon shares of Series E Preferred Stock in the event of voluntary or involuntary liquidation of the Corporation, prior to any payment to the holders of Common Stock or of any class or series of stock of the Corporation ranking as to assets subordinate to the Series E Preferred Stock, shall be $27.75 per share plus an amount equal to accrued and unpaid dividends thereon computed to the date on which payment thereof is made available, whether or not earned or declared.

39. *Redemption*. Shares of Series E Preferred Stock shall be redeemable at any time after February 1, 1990 at §27.75 per share plus an amount equal to accrued and unpaid dividends thereon computed to the date fixed for redemption, whether or not earned or declared.

40. *Voting rights*. The holder of Series E Preferred Stock shall not be entitled to vote on any matter, except as otherwise required by law.

41. *Conversion rights*. The holders of Series E Preferred Stock shall have no right to convert shares of Series E Preferred Stock into any other security of the Corporation.

FIXED/ADJUSTABLE RATE NONCUMULATIVE PREFERRED STOCK, SERIES F

42. *Designation*. A series of Preferred Stock designated “Fixed/Adjustable Rate Noncumulative Preferred Stock, Series F” (herein called “Series F Preferred Stock”) is hereby established, consisting of 6,000,000 shares subject to increase or decrease in the number of shares in accordance with law.

43. *Rank*. Series F Preferred Stock shall rank, as to dividends and assets, equally with the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and every other share of capital stock from time to time outstanding which is not Common Stock of the Corporation and which is not specifically made senior to or subordinate to the Series F Preferred Stock as to dividends or assets.

44. *Dividends*. (a) Through September 29, 2001, the dividend rate per share of Series F Preferred Stock shall be 6.05% or $3.025 per annum, payable quarterly on March 31, June 30, September 30 and December 31 of each year (each a “Dividend Payment Date”), commencing December 31, 1996. The initial dividend for the dividend period commencing on October 9, 1996 to (but not including) December 31, 1996, shall be $.6806 per share and shall be payable on December 31, 1996. On and after September 30, 2001, dividends on the Series F Preferred Stock shall be payable quarterly on each Dividend Payment Date at the Applicable Rate (as defined in subsection (c) of this Section 44) per share from time to time in effect. If a Dividend Payment Date is not a business day, dividends (if declared) on the Series F Preferred Stock shall be paid on the immediately preceding business day. A dividend period with respect to a Dividend Payment Date is the period commencing on the immediately preceding Dividend Payment Date and ending on the day immediately prior to the next succeeding Dividend Payment Date. Each such dividend shall be payable to holders of record as they appear on the stock books of the Corporation on such record dates, not more than 30 nor less than 15 days preceding the payment dates thereof, as will be fixed by the Corporation’s Board of Directors or a duly authorized committee thereof.

(b) Dividends on the Series F Preferred Stock shall not be cumulative and no rights shall accrue to the holders of the Series F Preferred Stock by reason of the fact that the Corporation may fail to declare or pay dividends on the Series F Preferred Stock in any amount in any year, whether or not the earnings of the Corporation in any year were sufficient to pay such dividends in whole or in part.

(c) Except as provided below in this subsection c of this Section 44, the “Applicable Rate” per annum for any dividend period beginning on or after September 30, 2001 shall be equal to .35% plus the Effective Rate (as hereinafter defined), but not less than 6.55% nor greater than 12.55% (without taking into account any adjustments as described in subsection (d) of this Section 44). The “Effective Rate” for any dividend period beginning on or after September 30, 2001 shall be equal to the highest of the Treasury Bill Rate, the Ten Year Constant Maturity Rate and the Thirty Year Constant Maturity Rate (each as hereinafter defined) for such dividend period. In the event that the Corporation determines in good faith that for any reason: (i) any one of the Treasury Bill Rate, the Ten Year Constant Maturity Rate or the Thirty Year Constant Maturity Rate cannot be determined for any dividend period, then the Effective Rate for such dividend period shall be equal to the higher of whichever two of such rates can be so determined; (ii) only one of the Treasury Bill Rate, the Ten Year Constant Maturity Rate or the Thirty Year Constant Maturity Rate can be determined for any dividend period, then the Effective Rate for such dividend period shall be equal to whichever such rate can be so determined; or (iii) none of the Treasury Bill Rate, the Ten Year Constant Maturity Rate or the Thirty Year Constant Maturity Rate can be determined for any dividend period, then the Effective Rate for the preceding dividend period shall be continued for such dividend period.

Except as described in this subsection (c) of this Section 44, the “Treasury Bill Rate” for each dividend period shall be the arithmetic average of the two most recent weekly per annum market discount rates (or the one weekly per annum market discount rate, if only one such rate is published during the relevant Calendar Period (as hereinafter defined)) for three-month U.S. Treasury bills, as published weekly by the Federal Reserve Board (as hereinafter defined) during the Calendar Period immediately preceding the last 10 calendar days preceding the dividend period for which the dividend rate on the Series F Preferred Stock is being determined. In the event that the Federal Reserve Board does not publish such a weekly per annum market discount rate during any such Calendar Period, then the Treasury Bill Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum market discount rates (or the one weekly per annum market discount rate, if only one such rate is published during the relevant Calendar Period) for three-month U.S. Treasury bills, as published weekly during such Calendar Period by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Corporation. In the event that a per annum market discount rate for three-month U.S. Treasury bills is not published by the Federal Reserve Board or by any Federal Reserve Bank or by any U.S. Government department or agency during such Calendar Period, then the Treasury Bill Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum market discount rates (or the one weekly per annum market discount rate, if only one such rate is published during the relevant Calendar Period) for all of the U.S. Treasury bills then having remaining maturities of not less than 80 nor more than 100 days, as published during such Calendar Period by the Federal Reserve Board or, if the Federal Reserve Board does not publish such rates, by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Corporation. In the event that the Corporation determines in good faith that for any reason no such U.S. Treasury bill rates are published as provided above during such Calendar Period, then the Treasury Bill Rate for such dividend period shall be the arithmetic average of the per annum market discount rates based upon the closing bids during such Calendar Period for each of the issues of marketable non-interest-bearing U.S. Treasury securities with a remaining maturity of not less than 80 nor more than 100 days from the date of each such quotation, as chosen and quoted daily for each business day in New York City (or less frequently if daily quotations are not generally available) to the Corporation by at least three recognized dealers in U.S. Government securities selected by the Corporation. In the event that the Corporation determines in good faith that for any reason the Corporation cannot determine the Treasury Bill Rate for any dividend period as provided in this paragraph, the Treasury Bill Rate for such dividend period shall be the arithmetic average of the per annum market discount rates based upon the closing bids during such Calendar Period for each of the issues of marketable interest-bearing U.S. Treasury securities with a remaining maturity of not less than 80 or more than 100 days, as chosen and quoted daily for each business day in New York City (or less frequently if daily quotations are not generally available) to the Corporation by at least three recognized dealers in U.S. Government securities selected by the Corporation. Except as described in this subsection (c) of this Section 44, the “Ten Year Constant Maturity Rate” for each dividend period shall be the arithmetic average of the two most recent weekly per annum Ten Year Average Yields (as hereinafter defined) (or the one weekly per annum Ten Year Average Yield, if only one such yield is published during the relevant Calendar Period), as published weekly by the Federal Reserve Board during the Calendar Period immediately preceding the last 10 calendar days preceding the dividend period for which the dividend rate on the Series F Preferred Stock is being determined. In the event that the Federal Reserve Board does not publish such a weekly per annum Ten Year Average Yield during such Calendar Period, then the Ten Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum Ten Year Average Yields (or the one weekly per annum Ten Year Average Yield, if only one such yield is published during the relevant Calendar Period), as published weekly during such Calendar Period by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Corporation. In the event that a per annum Ten Year Average Yield is not published by the Federal Reserve Board or by any Federal Reserve Bank or by any U.S. Government department or agency during such Calendar Period, then the Ten Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum average yields to maturity (or the one weekly per annum average yield to maturity, if only one such yield is published during the relevant Calendar Period) for all of the actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities (as hereinafter defined)) then having remaining maturities of not less than eight nor more than 12 years, as published during such Calendar Period by the Federal Reserve Board or, if the Federal Reserve Board does not publish such yields, by any Federal Reserve Bank or by any U.S.

Government department or agency selected by the Corporation. In the event that the Corporation determines in good faith that for any reason the Corporation cannot determine the Ten Year Constant Maturity Rate for any dividend period as provided above in this paragraph, then the Ten Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the per annum average yields to maturity based upon the closing bids during such Calendar Period for each of the issues of actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities) with a final maturity date not less than eight nor more than 12 years from the date of each such quotation, as chosen and quoted daily for each business day in New York City (or less frequently if daily quotations are not generally available) to the Corporation by at least three recognized dealers in U.S. Government securities selected by the Corporation.

Except as described in this subsection (c) of this Section 44, the "Thirty Year Constant Maturity Rate" for each dividend period shall be the arithmetic average of the two most recent weekly per annum Thirty Year Average Yields (as hereinafter defined) (or the one weekly per annum Thirty Year Average Yield, if only one such yield is published during the relevant Calendar Period), as published weekly by the Federal Reserve Board during the Calendar Period immediately preceding the last 10 calendar days preceding the dividend period for which the dividend rate on the Series F Preferred Stock is being determined. In the event that the Federal Reserve Board does not publish such a weekly per annum Thirty Year Average Yield during such Calendar Period, then the Thirty Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum Thirty Year Average Yields (or the one weekly per annum Thirty Year Average Yield, if only one such yield is published during the relevant Calendar Period), as published weekly during such Calendar Period by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Corporation. In the event that a per annum Thirty Year Average Yield is not published by the Federal Reserve Board or by any Federal Reserve Bank or by any U.S. Government department or agency during such Calendar Period, then the Thirty Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum average yields to maturity (or the one weekly per annum average yield to maturity, if only one such yield is published during the relevant Calendar Period) for all of the actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities) then having remaining maturities of not less than 28 nor more than 30 years, as published during such Calendar Period by the Federal Reserve Board or, if the Federal Reserve Board does not publish such yields, by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Corporation. In the event that the Corporation determines in good faith that for any reason the Corporation cannot determine the Thirty Year Constant Maturity Rate for any dividend period as provided above in this paragraph, then the Thirty Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the per annum average yields to maturity based upon the closing bids during such Calendar Period for each of the issues of actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities) with a final maturity date not less than 28 nor more than 30 years from the date of each such quotation, as chosen and quoted daily for each business day in New York City (or less frequently if daily quotations are not generally available) to the Corporation by at least three recognized dealers in U.S. Government securities selected by the Corporation.

The Treasury Bill Rate, the Ten Year Constant Maturity Rate and the Thirty Year Constant Maturity Rate shall each be rounded to the nearest five hundredths of a percent, with .025% being rounded upward.

The Applicable Rate with respect to each dividend period beginning on or after September 30, 2001 shall be calculated as promptly as practicable by the Corporation according to the appropriate method described in this subsection (c) of this Section 44. The Corporation shall cause notice of each Applicable Rate to be enclosed with the dividend payment checks next mailed to the holders of Series F Preferred Stock.

For the purposes of this subsection (c) of this Section 44, the following terms shall have the following meanings: (i) "Calendar Period" means a period of 14 calendar days; (ii) "Federal Reserve Board" means the Board of Governors of the Federal Reserve System or any successor agency; (iii) "Special Securities" means securities which can, at the option of the holder, be surrendered at face value in payment of any Federal estate tax or which provide tax benefits to the holder and are priced to reflect such tax benefits or which were originally issued at a deep or substantial discount; (iv) the term "Ten Year Average Yield" means the average yield to maturity for actively traded marketable U.S. Treasury fixed interest rate securities (adjusted to constant maturities of 10 years); and (v) "Thirty Year Average Yield" means the average yield to maturity for actively traded Treasury fixed interest rate securities (adjusted to constant maturities of 30 years).

(d) If one or more amendments to the Internal Revenue Code of 1986, as amended (the "Code"), are enacted that change the percentage of the dividends received deduction (70% as of October 4, 1996) as specified in Section 243(a)(1) of the Code or any successor provision (the "Dividends Received Percentage"), as applicable to the Series F Preferred Stock, the amount of each dividend payable per share of the Series F Preferred Stock for dividend payments made on or after the later of the date of enactment or the effective date of such change shall be adjusted by multiplying the amount of the dividend payable determined as described under subsection (a) of this Section 44 (before adjustment) by a factor, which shall be the number determined in accordance with the following formula (the "DRD Formula"), and rounding the result to the nearest cent:

$$\frac{1 - [.35(1-.70)]}{1 - [.35(1\text{-DRP})]}$$

For purposes of the DRD Formula. "DRP" means the Dividends Received Percentage applicable to the dividend in question. No amendment to the Code, other than a change in the dividends received deduction set forth in Section 243(a)(1) of the Code or any successor provision, as applicable to the Series F Preferred Stock, shall give rise to an adjustment. Notwithstanding the foregoing provisions of this subsection (d) of this Section 44, in the event that, with respect to any such amendment, the Corporation shall receive an unqualified opinion of nationally recognized independent tax counsel selected by the Corporation and approved by Cravath, Swaine & Moore (which approval shall not be unreasonably withheld) or a private letter ruling or similar form of authorization from the Internal Revenue Service to the effect that such an amendment would not apply to dividends payable on the Series F Preferred Stock, then any such amendment shall not result in the adjustment provided for pursuant to the DRD Formula. The opinion referenced in the previous sentence shall be based upon a specific provision in the legislation or upon a published pronouncement of the Internal Revenue Service addressing such legislation. The Corporation's calculation of the dividends payable as so adjusted and as certified accurate as to calculation and reasonable as to method by the independent certified public accountants then regularly engaged by the Corporation, shall be final and not subject to review.

If any amendment to the Code which reduces the Dividends Received Percentage, as applicable to the Series F Preferred Stock, is enacted and becomes effective after a dividend payable on a Dividend Payment Date has been declared, the amount of dividend payable on such Dividend Payment Date shall not be increased; but instead, an amount, equal to the excess of (x) the product of the dividends paid by the Corporation on such Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the reduced Dividends Received Percentage) and (y) the dividends paid by the Corporation on such Dividend Payment Date, shall be payable to holders of record on the next succeeding Dividend Payment Date in addition to any other amounts payable on such date.

If prior to April 1, 1997, an amendment to the Code is enacted that reduces the Dividends Received Percentage, as applicable to the Series F Preferred Stock, and such reduction retroactively applies to a Dividend Payment Date as to which the Corporation previously paid dividends on the Series F Preferred Stock (each an "Affected Dividend Payment Date"), the Corporation shall pay (if declared) additional dividends (the "Additional Dividends") on the next succeeding Dividend Payment Date (or if such amendment is enacted after the dividend payable on such Dividend Payment Date has been declared, on the second succeeding Dividend Payment Date following the date of enactment) to holders of record on such succeeding Dividend Payment Date in an amount equal to the excess of (x) the product of the dividends paid by the Corporation on each Affected Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the Dividends Received Percentage applicable to each Affected Dividend Payment Date) over (y) the dividends paid by the Corporation on each Affected Dividend Payment Date.

Additional Dividends shall not be paid in respect of the enactment of any amendment to the Code on or after April 1, 1997 which retroactively reduces the Dividends Received Percentage, or if prior to April 1, 1997, such amendment would not result in an adjustment due to the Corporation having received either an opinion of counsel or tax ruling referred to in the third preceding paragraph. The Corporation shall only make one payment of Additional Dividends.

In the event that the amount of dividend payable per share of the Series F Preferred Stock shall be adjusted pursuant to the DRD Formula and/or Additional Dividends are to be paid, the Corporation will cause notice of each such adjustment and, if applicable, any Additional Dividends, to be sent to the holders of the Series F Preferred Stock.

In the event that the Dividends Received Percentage, applicable to the Series F Preferred Stock, is reduced to 40% or less, the Corporation may at its option, redeem the Series F Preferred Stock as a whole, but not in part, as described in Section 46 below.

45. *Liquidation.* The amount payable upon shares of Series F Preferred Stock in the event of voluntary or involuntary liquidation of the Corporation, prior to any payment to the holders of Common Stock or of any class or series of stock of the Corporation ranking as to assets subordinated to the Series F Preferred Stock, shall be $50.00 per share plus an amount equal to accrued and unpaid dividends, whether or not earned or declared, computed thereon from the immediately preceding Dividend Payment Date (but without cumulation for unpaid dividends for prior dividend periods on the Series F Preferred Stock) to the date on which payment thereof is made available.

46. *Redemption.* (a) Prior to September 30, 2001, shares of Series F Preferred Stock shall not be redeemable, except under the circumstances described in subsection (b) of this Section 46. Shares of Series F Preferred Stock shall be redeemable by the

Corporation, in whole or in part, at any time and from time to time on and after September 30, 2001 at $50.00 per share plus an amount equal to accrued and unpaid dividends, whether or not earned or declared, computed thereon from the immediately preceding Dividend Payment Date (but without cumulation for unpaid dividends for prior dividend periods on the Series F Preferred Stock) to the date fixed for redemption, including any changes in dividends payable due to changes in the Dividends Received Percentage and Additional Dividends, if any (each as defined in subsection (d) of Section 44).

(b) Notwithstanding anything to the contrary in subsection (a) of this Section 46, if the Dividends Received Percentage is equal to or less than 40% and, as a result, the amount of dividends on the Series F Preferred Stock on any Dividend Payment Date will be or is adjusted upwards as described in subsection (d) of Section 44 above, the Corporation, at its option, may redeem all, but not less than all, of the outstanding shares of Series F Preferred Stock; provided, however, that within 60 days of the date on which an amendment to the Code is enacted which reduces the Dividends Received Percentage to 40 percent or less, the Corporation sends notice to the holders of the Series F Preferred Stock of such redemption. Any redemption of Series F Preferred Stock in accordance with this Section 46(b) shall take place on the date specified in the notice, which shall not be less than 30 days nor more than 60 days from the date such notice is sent to holders of Series F Preferred Stock. Any redemption of Series F Preferred Stock in accordance with this Section 46(b) shall be on notice as aforesaid at the applicable redemption price set forth in the following table, in each case plus accrued and unpaid dividends computed thereon from the immediately preceding Dividend Payment Date (but without any cumulation for unpaid dividends for prior dividend periods on Series F Preferred Stock) to the date fixed for redemption, including any changes in dividends payable due to changes in the Dividends Received Percentage and Additional Dividends, if any, whether or not earned or declared.

Redemption Period	Redemption Price Per Share
October 9, 1996 through September 29, 1997	$ 52.50
September 30, 1997 through September 29, 1998	$ 52.00
September 30, 1998 through September 29, 1999	$ 51.50
September 30, 1999 through September 29, 2000	$ 51.00
September 30, 2000 through September 29, 2001	$ 50.50
On or after September 30, 2001	$ 50.00

(c) Holders of Series F Preferred Stock shall have no right to require the redemption of shares of Series F Preferred Stock.

47. *Voting Rights.* Holders of Series F Preferred Stock shall have no voting rights except as set forth in Section 4 and Section 5 of ARTICLE SEVENTH of the Corporation’s Articles of Incorporation or as otherwise required from time to time by law.

48. *Conversion Rights.* Shares of Series F Preferred Stock shall not be convertible into shares of Common Stock or any other security of the Corporation.

JUNIOR PARTICIPATING PREFERRED STOCK, SERIES G

49. *Designation and Amount.* The shares of such series shall be designated as “Series G Junior Participating Preferred Stock” (the “Series G Preferred Stock”) and the number of shares constituting the Series G Preferred Stock initially shall be 450,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; *provided*, that no decrease shall reduce the number of shares of Series G Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series G Preferred Stock.

50. *Dividends and Distributions.*

(A) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series G Preferred Stock with respect to dividends, the holders of shares of Series G Preferred Stock, in preference to the holders of Common Stock, par value $5.00 per share (the “Common Stock”), of the Corporation, and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of March, June, September and December in each year (each such date being referred to herein as a “Quarterly Dividend Payment Date”), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series G Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $0.10 or (b) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series G Preferred Stock. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series G Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series G Preferred Stock as provided in paragraph (A) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $0.10 per share on the Series G Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series G Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series G Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series G Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series G Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

51. *Voting Rights.* The holders of shares of Series G Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series G Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series G Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein, in any other Statement with Respect to Shares pursuant to Section 1522 of the Business Corporation Law or amendment to the Corporation's Amended and Restated Articles of Incorporation creating a series of Preferred Stock or any similar stock, or by law, the holders of shares of Series G Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

(C) Except as set forth herein, or as otherwise provided by law, holders of Series G Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

52. *Certain Restrictions.*

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series G Preferred Stock as provided in Section 50 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series G Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series G Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series G Preferred Stock, except dividends paid ratably on the Series G Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series G Preferred Stock, provided that the Corporation may at anytime redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series G Preferred Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series G Preferred Stock, or any shares of stock ranking on a parity with the Series G Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 52, purchase or otherwise acquire such shares at such time and in such manner.

53. *Reacquired Shares.* Except as otherwise provided by action of the Board of Directors, any shares of Series G Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever (other than by conversion) shall not be retired or cancelled but shall become authorized but unissued shares of Preferred Stock and maybe reissued as part of the same or a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth herein, in the Amended and Restated Articles of Incorporation of the Corporation, or in any other Statement with Respect to Shares pursuant to Section 1522 of the Business Corporation Law creating a series of Preferred Stock or any similar stock or as otherwise required by law.

54. *Liquidation, Dissolution or Winding Up.* Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series G Preferred Stock unless, prior thereto, the holders of shares of Series G Preferred Stock shall have received $1.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series G Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount to be distributed per share to holders of shares of Common Stock, or (2) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series G Preferred Stock, except distributions made ratably on the Series G Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series G Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

55. *Consolidation, Merger, etc.* In case the Corporation shall enter into any consolidation, merger, combination, division or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series G Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with

respect to the exchange or change of shares of Series G Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

56. *No Redemption.* The shares of Series G Preferred Stock shall not be redeemable.

57. *Rank.* The Series G Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets, junior to all series of any other class of the Corporation's Preferred Stock.

58. *Amendment.* If any shares of Series G Preferred Stock are then outstanding, the Amended and Restated Articles of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series G Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series G Preferred Stock, voting together as a single class.

7.00% NON-CUMULATIVE PREFERRED STOCK, SERIES H

59. *Designation.* A series of Preferred Stock designated "7.00% Non-cumulative Preferred Stock, Series H" (herein called "Series H Preferred Stock") shall be established, consisting of 7,500 shares, $1.00 par value per share and having a liquidation preference of $100,000 per share.

60. *Issuance upon Conditional Exchange.* (a) The Series H Preferred Stock shall be issued by the Corporation upon the direction by the United States Office of the Comptroller of the Currency (the "OCC") to exchange all of the Series A Preferred Stock of PNC REIT Corp. (the "REIT Series A Preferred Stock"), on a share-for-share basis, for the Series H Preferred Stock (a "Conditional Exchange") in connection with the occurrence of one of the following: (i) PNC Bank, National Association ("PNC Bank") becomes "undercapitalized" under prompt corrective action regulations, (ii) PNC Bank is placed into conservatorship or receivership, or (iii) the OCC, in its sole discretion, anticipates PNC Bank becoming "undercapitalized" in the near term or takes supervisory action that limits the payment of dividends by PNC REIT Corp. (a "Supervisory Event"). Upon the occurrence of a Conditional Exchange, each share of REIT Series A Preferred Stock shall be exchanged for one share of Series H Preferred Stock in accordance with the terms and conditions described herein and in the Certificate of Incorporation of PNC REIT Corp.

(b) Upon the Conditional Exchange, each holder of REIT Series A Preferred Stock shall be unconditionally obligated to surrender to the Corporation any certificates representing each share of REIT Series A Preferred Stock held by such holder, and the Corporation shall be unconditionally obligated to issue to such holder, in exchange for each such share of REIT Series A Preferred Stock surrendered, a share of Series H Preferred Stock on a share-for-share basis.

(c) The Conditional Exchange shall occur as of 10:00 a.m. Eastern Time on the date for such exchange set forth in the applicable OCC directive, or, if such date is not set forth in the directive, as of 10:00 a.m. Eastern Time on the earliest possible date such exchange could occur consistent with the directive, as determined by the Corporation. As of the time of the Conditional Exchange, all of the REIT Series A Preferred Stock will be deemed cancelled and will cease to be outstanding without any further action on the part of PNC RETT Corp. (the "REIT"), the Corporation or any other person, all rights of the holders of the REIT Series A Preferred Stock as stockholders of the REIT shall cease, and such persons shall thereupon and thereafter be deemed to be and shall be for all purposes solely holders of Series H Preferred Stock. Until replacement certificates representing Series H Preferred Stock are delivered (or in the event such replacement certificates are not delivered), any certificates previously representing the REIT Series A Preferred Stock shall be deemed for all purposes to represent Series H Preferred Stock.

(d) Any REIT Series A Preferred Stock purchased or redeemed by the REIT in accordance with the Certificate of Incorporation of the REIT prior to the time of the Conditional Exchange shall not be subject to the Conditional Exchange. In the event of a Conditional Exchange, any declared and unpaid dividends on the REIT Series A Preferred Stock as of the time of the Conditional Exchange shall be deemed to be declared and unpaid dividends on the Series H Preferred Stock.

61. *Rank.* Series H Preferred Stock shall rank, as to dividends and assets, *pari passu* with the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock and senior to the Series G Preferred Stock.

62. *Dividends*. (a) The dividend rate for the Series H Preferred Stock shall be 7.00% per share per annum of the initial liquidation preference of $100,000 per share, accruing from the date of its issuance to and including the last day of March, the last

day of June, the last day of September or the last day of December, whichever occurs first after such issuance (such period being the "Initial Dividend Period") and then for each dividend payment period thereafter, commencing on April 1, July 1, October 1 or January 1, as the case maybe, of each year and ending on and including the day next preceding the first day of the next quarterly period (each such period, including the Initial Dividend Period, being a "Dividend Period"). Until no longer outstanding, the holders of the Series H Preferred Stock shall be entitled to receive such cash dividends, and no more, and the Corporation shall be bound to pay the same, but only as, if and when declared by the Board of Directors, on March 31, June 30, September 30 and December 31 of each year (each a "Dividend Payment Date") for the Dividend Period ending on such dates, respectively. If a Dividend Payment Date is not a business day, the dividends (if declared) shall be paid on the immediately preceding business day. The amount of dividends payable for the Initial Dividend Period or any period shorter than a full Dividend Period shall be computed on the basis of a 360-day year having 30-day months and the actual number of days elapsed in the period. Each such dividend shall be payable to holders of record of the Series H Preferred Stock as they appear on the stock books of the Corporation on the respective record dates fixed for such purpose by the Board of Directors in advance of payment of such dividend, which shall be the 15th calendar day of the last calendar month of the applicable Dividend Period. If any dividend record date is not a business day then the dividend record date for the applicable Dividend Period shall be the immediately preceding business day.

(b) Dividends on the Series H Preferred Stock shall not be cumulative and no rights shall accrue to the holders of the Series H Preferred Stock by reason of the fact that the Corporation may fail to declare or pay dividends on the Series H Preferred Stock in any amount in any year, whether or not the earnings of the Corporation in any year were sufficient to pay such dividends in whole or in part and whether or not dividends are declared and paid for any future Dividend Period, with respect to any series of the Preferred Stock or the Common Stock of the Corporation.

63. *Liquidation.* The amount payable on the Series H Preferred Stock in the event of any voluntary or involuntary liquidation, dissolution or winding-up of affairs of the Corporation shall be $100,000 per share, plus authorized, declared but unpaid dividends up to the date of such liquidation, dissolution or winding-up of affairs of the Corporation, and no more, before any distribution shall be made to the holders of any shares of common stock and all other classes and series of securities of the Corporation which rank junior to the Series H Preferred Stock as to dividends and distributions.

64. *Redemption.* On or after September 30, 2025, the Corporation may redeem the Series H Preferred Stock for cash, in whole or in part, at a price equal to $100,000 per share of Series H Preferred Stock, plus authorized, declared but unpaid dividends to the date fixed for redemption, without interest, on shares redeemed.

65. *Voting rights.* The holders of the Series H Preferred Stock shall not be entitled to vote on any matter, except as otherwise required by law.

67. *Conversion rights.* The holders of the Series H Preferred Stock shall have no right to convert shares of Series H Preferred Stock into shares of any other security of the Corporation.

68. *Retirement or sinking fund.* The shares of Series H Preferred Stock shall not be entitled to the benefit of any retirement or sinking fund to be applied to the purchase or redemption of such shares.

FIXED-TO-FLOATING RATE NON-CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES I

69. *Designation*. A series of Preferred Stock designated "Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series I" (herein called "Series I Preferred Stock") shall be established, consisting of 5,000 shares, $1.00 par value per share and having a liquidation preference of $100,000 per share.

70. *Issuance upon Conditional Exchange*.

(a) The shares of Series I Preferred Stock shall be issued only upon direction by the United States Office of the Comptroller of the Currency (together with any successor United States federal bank regulatory authority that is the primary supervisory agency for PNC Bank, National Association ("PNC Bank"), the "OCC") to exchange the Fixed-to-Floating Rate Non-cumulative Exchangeable Perpetual Trust Securities, liquidation preference $100,000 per security (the "Trust Securities"), of PNC Preferred Funding Trust II, a Delaware statutory trust ("PNC Delaware"), on a security-for-security basis, for the Series I Preferred Stock (a "Series I Conditional Exchange"), in connection with the occurrence of one of the following: (i) PNC Bank becomes "undercapitalized" under the OCC's "prompt corrective action" regulations, (ii) PNC Bank is placed into conservatorship or receivership or (iii) the OCC, in its sole discretion, anticipates PNC Bank becoming "undercapitalized" in the near term or takes supervisory action that limits the payment of dividends by PNC Bank (each of (i) through (iii), a "Series I Conditional Exchange Event").

(b) The Series I Conditional Exchange will occur as of 8:00 A.M. New York time, on the date for such exchange set forth in the applicable OCC directive, or, if such date is not set forth in the directive, as of 8:00 A.M., New York time, on the earliest possible date such exchange could occur consistent with the directive, as determined by the Corporation and as evidenced by the issuance by the Corporation of a press release prior to such time.

(c) The Corporation will mail notice of the issuance of an OCC directive after the occurrence of a Series I Conditional Exchange Event to each holder of Trust Securities within 30 days, and the Corporation will deliver (or cause to be delivered) to each such holder Series I Preferred Stock upon surrender of the Trust Securities.

71. *Ranking*. The shares of Series I Preferred Stock shall rank:

(a) senior, as to dividends or upon liquidation, dissolution and winding up, to the Common Stock, and senior, as to dividends or upon liquidation, dissolution and winding up, to Series G and all other classes and series of capital stock of the Corporation now or hereafter authorized, issued or outstanding that, by their terms, do not expressly provide that they rank *pari passu* with the Series I Preferred Stock as to dividends or upon liquidation, dissolution and winding up, as the case may be (collectively, "Series I Junior Securities"); and

(b) on a parity, as to dividends or upon liquidation, dissolution and winding up with the Series A, Series B, Series C, Series D, Series E, Series F and Series H, and with each class or series of preferred capital stock of the Corporation hereafter authorized, issued or outstanding which specify that they are *pari passu* with the Series I Preferred Stock (collectively, "Series I Parity Securities").

The Corporation may authorize and issue additional shares of Series I Junior Securities and Series I Parity Securities without the consent of the holders of the Series I Preferred Stock. The holders of shares of Series I Preferred Stock will have no preemptive rights with respect to any shares of the Corporation's capital stock or any of its other securities convertible into or carrying rights or options to purchase any such capital stock.

72. *Dividends*.

(a) Dividends on the Series I Preferred Stock, if, when and as declared by the Corporation's Board of Directors out of its legally available funds, will be payable on each Series I Dividend Payment Date on a non-cumulative basis at an annual rate of 6.113% to, but not including, March 15, 2012 (whether or not a Business Day) if issued before March 15, 2012 and 3-Month USD LIBOR plus 1.2225% on March 15, 2012 and thereafter on the liquidation preference thereof, which is $100,000 per share, from and including the date of its issuance.

(b) Dividends on the Series I Preferred Stock, if, when and as declared by the Corporation's Board of Directors, will be payable on March 15th, June 15th, September 15th and December 15th of each year, or if any such day is not a Business Day, the next Business Day (each, a "Series I Dividend Payment Date"). If no shares of Series I Preferred Stock have been issued prior to March 15, 2012, a Series I Dividend Payment Date shall be deemed to have occurred on the date of issuance, if such issuance date is a distribution payment date with respect to the Trust Securities or, if such issuance date is not a distribution payment date with respect to the Trust Securities, on the immediately preceding distribution payment date with respect to the Trust Securities for purposes of determining the dividend rate.

(c) Each period from and including a Series I Dividend Payment Date (or the date of issuance of the Series I Preferred Stock) to but excluding the following Series I Dividend Payment Date is referred to herein as a "Series I Dividend Period," except that if the Series I Preferred Stock is outstanding on March 15, 2012, the Series I Dividend Period ending in March 2012 shall be to but not including March 15, 2012 (whether or not a Business Day) and the Series I Dividend Period ending in June 2012 shall commence on March 15, 2012 (whether or not a Business Day). Dividends payable on the Series I Preferred Stock will be computed on the basis of (x) for any Series I Dividend Periods ending prior to the Series I Dividend Payment Date in March 2012, twelve 30-day months, a 360-day year, and the actual number of days elapsed in the period, and (y) for any Series I Dividend Period thereafter, the actual number of days in the relevant period divided by 360. No interest will be paid on any dividend payment on the Series I Preferred Stock.

(d) The record date for the payment of dividends, if declared, will be the first day of the month in which the relevant Series I Dividend Payment Date occurs or, if any such day is not a Business Day, the first Business Day thereafter.

(e) Dividends on the Series I Preferred Stock are non-cumulative. If the Corporation's Board of Directors does not declare a dividend on the Series I Preferred Stock or declares less than a full dividend in respect of any Series I Dividend

Period, the holders of the Series I Preferred Stock will have no right to receive any dividend or a full dividend, as the case may be, for the Series I Dividend Period, and the Corporation will have no obligation to pay a dividend or to pay full dividends for that Series I Dividend Period, whether or not the earnings of the Corporation were sufficient to pay such dividends in whole or in part and whether or not dividends are declared and paid for any future Series I Dividend Period with respect to the Series I Preferred Stock, the Corporation's common stock or any other class or series of the Corporation's preferred stock.

(f) If full dividends on the Series I Preferred Stock for the then current Series I Dividend Period shall not have been declared and paid when due, or declared and a sum sufficient for the payment thereof set apart for payment at the time due for payment, no dividends shall be declared or paid or set apart for payment and no other distribution shall be declared or made or set apart for payment upon the Common Stock or any other Series I Junior Securities (other than distributions payable in Common Stock or Series I Junior Securities), nor shall any Common Stock, any other Series I Junior Securities or any Series I Parity Securities be redeemed, purchased or otherwise acquired for any consideration (or any monies be paid to or made available to a sinking fund for such purpose) by the Corporation (except as a result of reclassification of Series I Junior Securities for or into other Series I Junior Securities, or by conversion into or exchange for other Series I Junior Securities).

(g) When dividends are not paid in full (or a sum sufficient for such full payment is not set apart) upon the Series I Preferred Stock or any Series I Parity Securities, all dividends declared upon the Series I Preferred Stock and the Series I Parity Securities shall be declared *pro rata* so that the amount of dividends declared per share on the Series I Preferred Stock and the Series I Parity Securities shall in all cases bear to each other the same ratio that full dividends per share on the Series I Preferred Stock for the then-current Series I Dividend Period (which shall not include any accumulation in respect of unpaid dividends for prior Series I Dividend Periods) and full dividends per share, including required or permitted accumulations, if any, on the Series I Parity Securities bear to each other.

(h) Holders of shares of the Series I Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock, in excess of full dividends, as herein provided. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the shares of the Series I Preferred Stock which may be in arrears.

73. *Liquidation*.

(a) In the event the Corporation voluntarily or involuntarily liquidates, dissolves or winds up, the holders of Series I Preferred Stock at the time outstanding will be entitled to receive liquidating distributions in the amount of $100,000 per share, plus an amount equal to declared but unpaid dividends for the current Series I Dividend Period to the date of liquidation, out of the Corporation's assets legally available for distribution to its shareholders, before any distribution of assets is made to holders of the Corporation's common stock or any Series I Junior Securities and subject to the rights of the holders of any Series I Parity Securities and the rights of its depositors and creditors.

(b) After payment of the full amount of the liquidating distributions to which they are entitled, the holders of the Series I Preferred Stock will have no right or claim to any of the Corporation's remaining assets. In the event that, upon any such voluntary or involuntary liquidation, dissolution, or winding up, the Corporation's available assets are insufficient to pay the amount of the liquidation distributions on all outstanding Series I Preferred Stock and the corresponding amounts payable on any Series I Parity Securities, then the holders of the Series I Preferred Stock and any Series I Parity Securities will share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

(c) Neither the voluntary sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of the Corporation, nor the merger or consolidation of the Corporation with or into any one or more other persons, shall be deemed to be a voluntary or involuntary liquidation, dissolution or winding up for the purposes of this Section 73(c), unless such voluntary sale, conveyance, exchange or transfer shall be in connection with a plan of liquidation, dissolution or winding up of the Corporation.

74. *Redemption*.

(a) Shares of Series I Preferred Stock are not redeemable at the option of the holders thereof. Shares of Series I Preferred Stock are redeemable:

(i) in whole but not in part, on any Series I Dividend Payment Date prior to the Series I Dividend Payment Date in March 2012 upon the occurrence of a Regulatory Capital Event or a Rating Agency Event, at a cash redemption price equal to the sum of: (A) the greater of: (1) $100,000 per share of Series I Preferred Stock or (2) the sum of present values of $100,000 per share of Series I Preferred Stock and all undeclared dividends for the Series I Dividend Periods from the redemption date to and including the Series I Dividend Payment Date in March 2012, discounted to the redemption date on a quarterly basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, as calculated by an Independent Investment Banker, *plus* 0.50%; *plus* (B) any declared and unpaid dividends to the redemption date;

(ii) in whole but not in part, on any Series I Dividend Payment Date prior to the Series I Dividend Payment Date in March 2012 for any reason other than a Regulatory Capital Event or a Rating Agency Event, at a cash redemption price equal to the sum of: (A) the greater of (1) $100,000 per share of Series I Preferred Stock or (2) the sum of present values of $100,000 per share of Series I Preferred Stock and all undeclared dividends for the Series I Dividend periods from the redemption date to and including the Series I Dividend Payment Date in March 2012, discounted to the redemption date on a quarterly basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, as calculated by an Independent Investment Banker, *plus* 0.25%; *plus* (B) any declared and unpaid dividends to the redemption date;

(iii) in whole, but not in part, on any Series I Dividend Payment Date after the Series I Dividend Payment Date in March 2012 that is not a Five Year Date upon the occurrence of a Regulatory Capital Event, at a cash redemption price equal to $100,000 per share of Series I Preferred Stock, *plus* any declared and unpaid dividends to the redemption date;

(iv) in whole but not in part, on any Series I Dividend Payment Date after the Series I Dividend Payment Date in March 2012 that is not a Five Year Date for any reason other than a Regulatory Capital Event, at a cash redemption price equal to the sum of: (A) the greater of (1) $100,000 per share of Series I Preferred Stock or (2) the sum of present values of $100,000 per share of Series I Preferred Stock and all undeclared dividends for the Series I Dividend Periods from the redemption date to and including the next succeeding Five Year Date, discounted to the redemption date on a quarterly basis (assuming a 360-day year consisting of twelve 30-day months) at the 3-Month USD LIBOR rate applicable to the Series I Dividend Period immediately preceding such redemption date, as calculated by an Independent Investment Banker; *plus* (B) any declared and unpaid dividends to the redemption date; or

(v) in whole or in part, on each Series I Dividend Payment Date that is a Five Year Date, at a cash redemption price of $100,000 per share of Series I Preferred Stock, *plus* any declared and unpaid dividends to the redemption date, in each case, without accumulation of any undeclared dividends on the Series I Preferred Stock with respect to Series I Dividend Payment Dates prior to the redemption date.

(b) Capitalized terms used but not otherwise defined herein shall have the following meanings with respect to shares of Series I Preferred Stock:

(i) "Business Day" means any day other than a Saturday, Sunday or any other day on which the banks in New York, New York or Pittsburgh, Pennsylvania are generally required or authorized by law to be closed.

(ii) "Comparable Treasury Issue" means the United States Treasury security selected by the Independent Investment Banker as having a maturity comparable to the term remaining to the Series I Dividend Payment Date in March 2012 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of perpetual preferred securities having similar terms as the Series I Preferred Stock with respect to the payment of dividends and distributions of assets upon liquidation, dissolution or winding up of the issuer of such preferred stock.

(iii) "Comparable Treasury Price" means with respect to any redemption date for the shares of Series I Preferred Stock, the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Independent Investment Banker obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

(iv) "Five Year Date" means the Series I Dividend Payment Date in March 2012 and the Series I Dividend Payment Date in March of each fifth succeeding year.

(v) "Independent Investment Banker" means an independent investment banking institution of national standing appointed by the Corporation.

(vi) "LIBOR Business Day" means any day on which commercial banks are open for general business (including dealings in deposits in U.S. dollars) in London.

(vii) "LIBOR Determination Date" means, as to each Series I Dividend Period, the date that is two LIBOR Business Days prior to the first day of such Series I Dividend Period.

(viii) "Rating Agency" means, at any time, Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc., Moody's Investor Services, Inc. and Fitch, Inc., but only in the case of each such agency if it is rating the relevant security, including the Series I Preferred Stock, at the time or, if none of them is providing a rating for the relevant security, including the Series I Preferred Stock, at such time, then any "nationally recognized statistical rating organization" as that phrase is defined for purposes of Rule 436(g)(2) under the Securities Act of 1933, as amended, which is rating such relevant security.

(ix) "Rating Agency Event" occurs when the Corporation reasonably determines that an amendment, clarification or change has occurred in the equity criteria for securities such as the Series I Preferred Stock of any Rating Agency that then publishes a rating for the Corporation which amendment, clarification or change results in a lower equity credit for the Corporation than the respective equity credit assigned by such Rating Agency to securities such as the Series I Preferred Stock on the date of issuance of the Trust Securities.

(x) "Reference Treasury Dealer" means each of three primary U.S. government securities dealers (each a "Primary Treasury Dealer"), as specified by the Corporation; provided that if any Primary Treasury Dealer as specified by the Corporation ceases to be a Primary Treasury Dealer, the Corporation will substitute for such Primary Treasury Dealer another Primary Treasury Dealer and if the Corporation fails to select a substitute within a reasonable period of time, then the substitute will be a Primary Treasury Dealer selected by the Independent Investment Banker after consultation with the Corporation.

(xi) "Reference Treasury Dealer Quotations" means, with respect to the Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed, in each case, as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

(xii) "Regulatory Capital Event" occurs when the Corporation determines, based upon receipt of an opinion of counsel, rendered by a law firm experienced in such matters, in form and substance reasonably satisfactory to the Corporation, which states that there is a significant risk that the Series I Preferred Stock will not be of a type that constitutes Tier 1 capital of the Corporation under the risk-based capital guidelines of the Federal Reserve Board applicable to bank holding companies (without giving effect to quantitative limits on the components of Tier 1 capital), as a result of (1) any amendment to, clarifications of, or change in applicable laws or related regulations, guidelines, policies or official interpretations thereof, or (2) any official administrative pronouncement or judicial decisions interpreting or applying such laws or related regulations, guidelines, policies or official interpretations thereof.

(xiii) "3-Month USD LIBOR" means, with respect to any Series I Dividend Period, a rate determined on the basis of the offered rates for three-month U.S. dollar deposits of not less than a principal amount equal to that which is representative for a single transaction in such market at such time, commencing on the first day of such Series I Dividend Period, which appears on Reuters Screen Page LIBOR 01 as of approximately 11:00 a.m., London time, on the LIBOR Determination Date for such Series I Dividend Period. If on any LIBOR Determination Date no rate appears on Reuters Screen Page LIBOR 01 as of approximately 11:00 a.m., London time, the Corporation will on such LIBOR Determination Date request four major reference banks in the London interbank market selected by the Corporation to provide the Corporation with a quotation of the rate at which three-month deposits in U.S. dollars, commencing on the first day of such Series I Dividend Period, are offered by them to prime banks in the London interbank market as of approximately 11:00 a.m., London time, on such LIBOR Determination Date and in a principal amount equal to that which is representative for a single transaction in such market at such time. If at least two such quotations are provided, 3-Month USD LIBOR for such Series I Dividend Period will be the arithmetic mean (rounded upward if necessary to the nearest .00001 of 1%) of such quotations as calculated by the Corporation. If fewer than two quotations are provided, 3-Month USD LIBOR for such Series I Dividend Period will be the arithmetic mean (rounded upward if necessary to the nearest .00001 of 1%) of the rates quoted as of approximately 11:00 a.m., New York time, on the first day of such Series I Dividend Period by three major banks in New York, New York selected by the Corporation for loans in U.S. dollars to leading European banks, for a three-month period commencing on the first day of such Series I Dividend Period and in a principal amount of not less than $1,000,000.

(xiv) "Treasury Rate" means the rate per year equal to the quarterly equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. The Treasury Rate will be calculated on the third Business Day preceding the redemption date.

(xv) "Reuters Screen Page LIBOR 01" means the display page of Reuters Screen designated as LIBOR 01 (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates comparable to 3-Month USD LIBOR).

(c) In the event the Corporation shall elect to redeem the shares of Series I Preferred Stock, the Corporation shall give notice to the holders of record not less than 30 nor more than 60 days prior to such redemption, by first class mail, postage prepaid, at their addresses as shown on the stock register of the Corporation, that the shares of Series I Preferred Stock are to be redeemed. Each such notice shall state: (i) the redemption date; (ii) the redemption price; (iii) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (iv) that dividends on the shares of Series I Preferred Stock will not be declared after the redemption date.

(d) Notice having been mailed as aforesaid, from and after the applicable redemption date (unless default shall be made by the Corporation in providing money for the payment of the redemption price), dividends on the shares of Series I Preferred Stock called for redemption will not be declared and shall cease to accrue after the redemption date, and said shares shall no longer be deemed to be outstanding, and all rights of the holders thereof as shareholders of the Corporation (except the right to receive from the Corporation the redemption price) shall cease. Upon surrender of the certificates for any shares so redeemed (properly endorsed or assigned for transfer, if the Board of Directors shall so require and the notice shall so state), such shares shall be redeemed by the Corporation at the redemption price aforesaid.

(e) Any shares of Series I Preferred Stock which shall at any time have been redeemed shall, after such redemption, be cancelled and may not be reissued.

(f) In the event that fewer than all outstanding shares of Series I Preferred Stock are to be redeemed, such shares shall be redeemed on a *pro rata* basis, by lot or by any other equitable means determined by the Corporation.

(g) The Series I Preferred Stock is not subject to any sinking fund or other obligation for its repurchase or retirement.

(h) The Series I Preferred Stock shall be perpetual unless redeemed by the Corporation in accordance with this Section 74.

75. *Voting rights*. Except as expressly required by law or as expressly stated in Section 4 hereunder, the holders of shares of Series I Preferred Stock shall have no voting power, and no right to vote on any matter at any time, either as a separate series or class or together with any other series or class of shares, and shall not be entitled to call a meeting of such holders for any purpose, nor shall they be entitled to participate in any meeting of the holders of the Common Stock.

76. *Conversion rights*. The holders of shares of Series I Preferred Stock shall not have any rights to convert such shares into shares of any other class or series of securities of the Corporation.

77. *Legend*. Shares of the Series I Preferred Stock will bear a legend substantially in the form of the following legend on the face thereof:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAWS OR ANY OTHER APPLICABLE SECURITIES LAW. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

COMMON STOCK

78. Each holder of record of Common Stock shall have the right to one vote for each share of Common Stock standing in his name on the books of the Corporation.

PROVISIONS APPLICABLE TO ALL CLASSES OF COMMON STOCK

79. No holder of any class of capital stock of the Corporation shall be entitled to cumulate his votes for the election of directors.

80. No holder of any class of capital stock of the Corporation shall have preemptive rights, and the Corporation shall have the right to issue and to sell to any person or persons any shares of its capital stock or any option rights or any securities having conversion or option rights, without first offering such shares, rights or securities to any holders of any class of capital stock of the Corporation.

Exhibit 10.44

January 8, 2007

Edward J. Kelly, III
Mercantile Bankshares Corporation
Two Hopkins Plaza
Baltimore, Maryland 21201

Dear Ned:

We are pleased to extend to you our offer of employment to join The PNC Financial Services Group, Inc. ("PNC") as Vice Chairman. Your employment will commence as of the closing of the merger (the "Merger") contemplated by the Agreement and Plan of Merger, dated as of October 8, 2006 (the "Merger Agreement"), by and between PNC and Mercantile Bankshares Corporation, a Maryland corporation ("Mercantile Bankshares"). Your employment pursuant to this offer letter is conditioned on the closing of the Merger and your continued employment with Mercantile Bankshares or its affiliates through the Effective Time (as defined in the Merger Agreement). The date on which the Effective Time occurs is defined as the Closing Date.

1. **Base Compensation**: While employed by PNC, you shall receive an annual base salary at a rate of $600,000. The annual base salary shall be payable in accordance with PNC's regular payroll practice for similarly situated executives, as in effect from time to time.

2. **Annual Bonus**: With respect to each calendar year ending during your employment with PNC, you shall be eligible to earn an annual bonus on terms and conditions as PNC shall determine from time to time, with a guaranteed annual bonus for 2007 equal to $1,400,000. Such guaranteed annual bonus shall be paid by March 15, 2008 if you are employed on December 31, 2007 or if, prior to December 31, 2007, your employment is terminated without Cause (as defined below), by reason of your death or Disability (as defined below), you terminate your employment with Good Reason (as defined below), or, with the consent of PNC, due to your retirement. Subsequent annual bonuses shall be paid by March 15 of the year following the year in which a bonus is earned, consistent with the payment schedule applicable to similarly situated executives.

3. **Closing Date Payment**. Within five business days following the Closing Date but in no case later than the date on which you will be required to pay excise taxes, or such excise taxes are required to be withheld, to the Internal Revenue Service, Mercantile Bank or PNC shall pay you a lump sum payment in cash (the "Gross-up Payment") such that after payment of all taxes, including without limitation, income taxes (and any interest and penalties imposed with respect thereto) and excise tax imposed by Section 4999 on the Gross-up Payment, you will retain an amount equal to the excise taxes to which you may become subject, as determined in accordance with the terms of and procedures specified in Section 5 of the Prior Agreement (as defined below), under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") with respect to (i) any payments from Mercantile, including the value of accelerated vesting of equity and otherwise and (ii) payments under this Agreement (including the grant of restricted stock units under Section 4 hereof).

4. **Restricted Shares**: As of the Closing Date, you will be granted 16,000 restricted shares of PNC common stock (the "Restricted Shares"). The Restricted Shares shall vest and no longer be subject to restriction on the second anniversary of the Closing Date, subject to your continued employment through such date. Notwithstanding the foregoing, the Restricted Shares shall vest in full and no longer be subject to forfeiture if, on or prior to the second anniversary of the Closing Date, your employment with PNC is terminated by PNC without Cause (as defined in the Amended and Restated Executive Severance Agreement by and among Mercantile Bankshares, Mercantile-Safe Deposit & Trust Company and you effective as of March 29, 2006 (the "Prior Agreement")), by reason of your death or Disability (as defined in the Prior Agreement), by you for Good Reason (as defined below) or, with the consent of PNC, due to your retirement. Except as otherwise provided in this paragraph, the terms of the Restricted Shares shall be consistent with the terms of the PNC 2006 Incentive Award Plan and award agreements thereunder a form of which award agreement ("Award Agreement") is attached as Exhibit A which will be modified to give effect to this Section 4 of this Agreement, including the vesting and acceleration upon termination of employment provisions and the next following sentence. Notwithstanding the foregoing, (i) Section 14.2(a) of the Award Agreement shall be modified to delete the words "call on, do business with" in the third sentence, (ii) nothing in the Award Agreement shall preclude you from hiring your current administrative assistant, and (iii) nothing in the Award Agreement shall preclude you from providing services to any company in the financial industry or otherwise, so long as you do not directly or indirectly solicit or actively interfere with, or attempt to divert or entice away, any Person identified in Section 14.2(a).

For purposes of this Agreement, "Good Reason" shall mean any of the following actions which is effected by PNC or its affiliates without your consent:

(i) Any reduction in your position as Vice Chairman or any change in the reporting relationships such that you report to an officer other than to the Chief Executive Officer;

(ii) Any reduction in your annual base salary from that set forth herein or failure to pay the guaranteed bonus for 2007 or a failure to provide you with aggregate employee benefits provided to similarly situated executives of PNC and its affiliates or as set forth herein;

(iii) PNC's requiring you to be based at any office or location other than in Washington, D.C.; or

(iv) Any material breach by PNC of the provisions of this letter agreement;

provided, that before resigning for Good Reason: (A) you shall provide PNC with written notice that identifies the event or circumstance described in any of clauses (i) through (iv) that you believe exists within 60 days of the occurrence of the event or circumstance, and (B) except for clause (iii) or any other clauses for which remedial action is not possible, PNC or its affiliates shall have failed to remedy such event or circumstance within 30 days after the PNC receives the written notice from you described in clause (A). Your failure to set forth in a notice of termination any fact or circumstance that contributes to a showing of Good Reason shall not waive any of your rights hereunder or preclude you from asserting such fact or circumstance in enforcing your rights hereunder.

5. **Restricted Stock Units**: As of the Closing Date, you will be granted a number of restricted stock units based on shares of PNC common stock equal to $5,000,000 divided by the average of the reported high and low trading prices on the New York Stock Exchange for a share of PNC common stock on the Closing Date (the “RSUs”). The RSUs shall vest and be settled in shares of PNC stock on the earlier of (1) the second anniversary of the Closing Date, subject to your continued employment through such date and (2) your termination of employment, whether by you or PNC, for any reason other than a termination by PNC for Cause, provided that, to the extent required in order to comply with Section 409A of the Code, such RSUs shall be settled on the first business day after the date that is six months following your “separation from service” within the meaning of Section 409A of the Code. Except as otherwise provided in this paragraph, the terms of the RSUs shall be consistent with the terms of the PNC 2006 Incentive Award Plan and award agreements thereunder a form of which is attached as Exhibit A which will be modified to provide for the grant of a restricted stock unit rather than a restricted share award and to otherwise give effect to this Section 5 of this Agreement, including the vesting and acceleration upon termination of employment provisions and the provisions set forth in the last sentence of the first paragraph of Section 4.

6. **Charitable Match**: During fiscal year 2007, PNC shall match dollar-for-dollar charitable donations by you to charities of your choice up to the aggregate amount of $150,000.

7. **Benefits**: While employed by PNC, you shall be eligible to participate in such benefit plans as are from time to time made generally available to similarly situated executives of PNC and its affiliates, in accordance with the terms thereof other than any severance plans. Without limiting the generality of the foregoing, PNC shall reimburse you for all expenses reasonably incurred by you in connection with the relocation of your office and home to Washington D.C., and, consistent with PNC’s senior executive relocation program without regard to eligibility criteria, will purchase your Baltimore, Maryland residence at its appraised value and will pay for your moving expenses. While employed by PNC, PNC shall permit you to use the PNC-owned or PNC-leased aircraft for roundtrip travel from Washington D.C. to Pittsburgh, Pennsylvania for business purposes and shall reimburse you for reasonable and necessary business expenses incurred by you in the discharge of your duties. In addition, while employed by PNC, you will be entitled to secretarial services on the same basis as other similarly situated executives of PNC and its affiliates generally are provided with such services and you shall be entitled to select your secretary.

8. **Status as “At Will” Employee**: At all times, you will be treated as an “at will” employee, which means that either you or PNC and its affiliates may terminate your employment at any time for any reason or no reason at all. Notwithstanding anything in this agreement to the contrary, if your employment is terminated without “good cause” (as defined in your Executive Employment Agreement) prior to February 2, 2008, you will be entitled to continue health care coverage through February 2, 2008 on terms substantially similar to those you enjoyed prior to your termination of employment.

9. **Withholding**: PNC may withhold from any amounts payable under this agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

10. **Governing Law**: The Agreement is governed by and construed under the laws of the Commonwealth of Pennsylvania, without regard to conflict of laws rules. Any dispute or claim arising out of or relating to the Agreement or claim of breach hereof shall be brought exclusively in the Court of Common Pleas of Allegheny County, Pennsylvania or the Federal District Court of the Western District of Pennsylvania. By execution of the Agreement, you, Mercantile Bankshares and PNC Bank hereby consent to the exclusive jurisdiction of such courts, and waive any right to challenge jurisdiction or venue in such courts with regard to any suit, action, or proceeding under or in connection with the Agreement. Each party to this Agreement also hereby waives any right to trial by jury in connection with any suit, action, or proceeding under or in connection with this Agreement.

11. **Termination of the Prior Agreement**: Subject to the last sentence of this Section 11, this Agreement shall supersede any and all prior oral or written representations, understandings and agreements of the parties with respect to their employment relationship (including, but not limited to all correspondence, memoranda and term sheets and the Prior Agreement and Executive Employment Agreement (the "Executive Employment Agreement") between you and Mercantile Bankshares dated as of February 2, 2001, as amended as of February 21, 2002 and as of March 29, 2006), and it contains the entire agreement of the parties with respect to those matters. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. Subject to the last sentence of this Section 11, you hereby agree that, in consideration for entering into this Agreement, effective as of the Effective Time, the Prior Agreement and Executive Employment Agreement shall be null and void and no person or entity shall be obligated to pay to you or any person any amounts in respect of the Prior Agreements. Further, in consideration of the benefits conferred upon you pursuant to this Agreement, you hereby agree not to terminate your employment with Mercantile Bankshares or any of its subsidiaries prior to the Effective Time. Notwithstanding the foregoing, Section 5 of the Prior Agreement shall survive in its entirety with respect to (a) payments and benefits under nonqualified deferred compensation plans, within the meaning of Section 409A of the Code, of Mercantile Bankshares or Mercantile Bank in which you participated immediately before the Effective Time, (b) any payments made to you pursuant to this Agreement or in connection with the Merger (or deemed to be made for purposes of Section 280G of the Code in connection with the Merger) and (c) the application of Section 280G, in connection with the Merger or any other transaction involving PNC, to any payments made to you under this Agreement and any other payments which are deemed for purposes of Section 280G to be in connection with the Merger or other transaction, as applicable, so long as such payments are taken into account for purposes of determining whether you have "excess parachute payments" within the meaning of Section 280G of the Code, and Section 4(a) of the Prior Agreement shall survive in its entirety.

12. **Miscellaneous**: This Agreement is personal to you and without the prior written consent of PNC shall not be assignable by you otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by your legal representatives. This Agreement shall inure to the benefit of and be binding upon PNC and its successors and assigns. PNC shall require any successor (whether direct or indirect, by purchase, merger, consolidation, share exchange or otherwise) to all or substantially all of the business and/or assets of PNC to assume expressly and agree to perform this Agreement in the same manner and to the same extent that PNC would be required to perform it if no such succession had taken place.

Ned, we are delighted that you are joining PNC. If you agree with the terms outlined in this letter, please sign this offer letter and return it to me. An additional copy of this letter is enclosed for your files.

Very truly yours,

THE PNC FINANCIAL SERVICES GROUP, INC.

By: /s/ James E. Rohr
James E. Rohr
Chairman and Chief Executive Officer

ACCEPTED AND AGREED:

/s/ Edward J. Kelly, III
Edward J. Kelly, III

Date: 1/9/07

PROVISIONS OF PRIOR AGREEMENT
REFERENCED IN SECTION 11
OF EMPLOYMENT LETTER AGREEMENT

Section 5 of Prior Agreement:

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 5(a) (a "Payment") would be subject to any tax imposed by Section 4999 or Section 409A of the Code or any interest or penalties are incurred by the Executive with respect to such tax (such tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), payment (a "Gross-Up Payment") shall be made to the Executive in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing, the Company shall not be obligated to make a gross-Up Payment based on a tax imposed by Section 409A of the Code if such tax is imposed solely as a result of any action, omission nor misrepresentation on the part of the Executive. For purposes of the foregoing sentence, the design, documentation and administration of any compensation arrangement approved by the Compensation Committee after full and accurate disclosure shall not be deemed to constitute the action of the Executive.

(b) Subject to the provisions of Section 5(c), all determinations required to be made under this Section 5 including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Ernst & Young LLP, or such other firm as shall be serving as independent public accountants for Mercshares immediately prior to the Effective Date (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 5, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 and/or Section 409A of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 5(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 5(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 5(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required be to paid.

<u>Section 4(a) of Prior Agreement</u>:

The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement. The Company agrees to pay, to the full extent permitted by law, all legal fees and expenses that the Executive may reasonably incur as a result of any litigation (regardless of the outcome thereof) initiated by the Company or others challenging or contesting the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof.

DEFINITION FROM EXECUTIVE EMPLOYMENT AGREEMENT
REFERENCED IN SECTION 8 OF
EMPLOYMENT LETTER AGREEMENT

For purposes of this Agreement, good cause shall be limited to proven or admitted fraud or material illegal acts by Executive or a breach of any of Executive's covenants of undivided loyalty to and the performance of duties for Employer, as set out in Section 7 of this Agreement.

Continued Employment Performance Goal
Restricted Period: Two Years (100%)

THE PNC FINANCIAL SERVICES GROUP, INC.
2006 INCENTIVE AWARD PLAN
***
RESTRICTED STOCK AGREEMENT
***

GRANTEE:	**Edward J. Kelly, III**
GRANT DATE:	**March 2, 2007**
SHARES:	**16,000**

1. <u>Definitions</u>. Certain terms used in this Restricted Stock Agreement **(the "Agreement")** are defined in Annex A (which is incorporated herein as part of the Agreement) or elsewhere in the Agreement, and such definitions will apply except where the context otherwise indicates.

In the Agreement, **"PNC"** means The PNC Financial Services Group, Inc. and **"Corporation"** means PNC and its Consolidated Subsidiaries.

2. <u>Grant of Restricted Shares</u>. Pursuant to The PNC Financial Services Group, Inc. 2006 Incentive Award Plan **(the "Plan")**, and subject to the terms and conditions of the Agreement, PNC hereby grants to the Grantee named above **("Grantee")** a Restricted Shares Award of the number of shares of PNC common stock set forth above, and, upon acceptance of the Grant by Grantee in accordance with Section 16, will cause the issuance of said shares to Grantee subject to the terms and conditions of the Agreement and the Plan.

The shares granted and issued to Grantee hereby as a Restricted Shares Award subject to the restrictions set forth in and the terms and conditions of the Agreement and the Plan are hereafter referred to as the **"Restricted Shares."**

3. <u>Terms of Grant</u>. The Grant is subject to the following terms and conditions.

Restricted Shares will be subject to a Restricted Period as provided in Section A.26 of Annex A. Once issued in accordance with Section 16, Restricted Shares will be deposited with PNC or its designee, or credited to a book-entry account, during the term of the Restricted Period unless and until forfeited pursuant to the terms of the Agreement.

Any certificate or certificates representing such Restricted Shares will contain the following legend:

“This certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture and restrictions against transfer) contained in The PNC Financial Services Group, Inc. 2006 Incentive Award Plan and an Agreement entered into between the registered owner and The PNC Financial Services Group, Inc. Release from such terms and conditions will be made only in accordance with the provisions of such Plan and such Agreement, a copy of each of which is on file in the office of the Corporate Secretary of The PNC Financial Services Group, Inc.”

Where a book-entry system is used with respect to the issuance of Restricted Shares, appropriate notation of such forfeiture possibility and transfer restrictions will be made on the system with respect to the account or accounts to which the Restricted Shares are credited.

Restricted Shares deposited with PNC or its designee during the term of the Restricted Period that become Awarded Shares as provided in Section A.2 of Annex A will be released and reissued to, or at the proper direction of, Grantee or Grantee’s legal representative pursuant to Section 9 as soon as administratively practicable following the end of the Restricted Period.

4. Rights as Shareholder. Except as provided in Section 6 and subject to Section 16, Grantee will have all the rights and privileges of a shareholder with respect to the Restricted Shares including, but not limited to, the right to vote the Restricted Shares and the right to receive dividends thereon if and when declared by the Board; provided, however, that all such rights and privileges will cease immediately upon any forfeiture of such shares; provided, further, that in no case shall there be a forfeiture of dividends for which there has been a record date prior to the forfeiture of any Restricted Shares, even if such dividends have not been paid prior to such forfeiture of Restricted Shares.

5. Capital Adjustments. Restricted Shares awarded hereunder shall, as issued and outstanding shares of PNC common stock, be subject to such adjustment as may be necessary to reflect corporate transactions, including, without limitation, stock dividends, stock splits, spin-offs, split-offs, recapitalizations, mergers, consolidations or reorganizations of or by PNC; provided, however, that any shares received as distributions on or in exchange for Unvested Shares shall be subject to the terms and conditions of the Agreement as if they were Restricted Shares.

6. Prohibitions Against Sale, Assignment, etc.; Payment to Legal Representative.

(a) Unvested Shares may not be sold, assigned, transferred, exchanged, pledged, hypothecated or otherwise encumbered, other than as may be required pursuant to Section 10.2, unless and until the Restricted Period terminates and the Awarded Shares are released and reissued by PNC pursuant to Section 9.

(b) If Grantee is deceased at the time Restricted Shares become Awarded Shares, PNC will deliver such shares to the executor or administrator of Grantee's estate or to Grantee's other legal representative as determined in good faith by the Committee.

(c) Any delivery of shares or other payment made in good faith by PNC to Grantee's executor, administrator or other legal representative shall extinguish all right to payment hereunder.

7. Forfeiture; Qualifying Terminations; Other Terminations.

7.1 Forfeiture on Termination of Employment. Except as otherwise provided in and subject to the conditions of Section 7.2, Section 7.3, Section 7.4(a), Section 7.5, or Section 8, if applicable, in the event that Grantee's employment with the Corporation terminates prior to the second (2^{nd}) anniversary of the Grant Date, all Restricted Shares that are Unvested Shares on Grantee's Termination Date will be forfeited by Grantee to PNC without payment of any consideration by PNC.

Upon forfeiture of Unvested Shares pursuant to the provisions of this Section 7.1 or the provisions of Section 7.4(b), neither Grantee nor any successors, heirs, assigns or legal representatives of Grantee will thereafter have any further rights or interest in such Unvested Shares or any certificate or certificates representing such Unvested Shares.

7.2 Disability Termination; Termination by the Corporation Without Cause; Termination by Grantee for Good Reason or with PNC's Consent

In the event that Grantee's employment with the Corporation is terminated (other than by the Corporation for Cause) prior to the second (2^{nd}) anniversary of the Grant Date and such termination of employment is (i) by reason of Grantee's Disability, (ii) by the Corporation without Cause, or (iii) by Grantee for Good Reason or with the consent of PNC by PNC's Designated Person, then the Two-Year Continued Employment Performance Goal will be *deemed* to have been achieved, and the Restricted Period with respect to all then outstanding Unvested Shares, if any, will terminate as of the end of the day immediately preceding Grantee's Termination Date.

The Restricted Shares which thereby become Awarded Shares will be released and reissued by PNC pursuant to and in accordance with the terms of Section 9.

7.3 Death. In the event of Grantee's death while an employee of the Corporation and prior to the second (2^{nd}) anniversary of the Grant Date, the Two-Year Continued Employment Performance Goal will be *deemed* to have been achieved, and the Restricted Period with respect to all then outstanding Unvested Shares, if any, will terminate on the date of Grantee's death.

The Restricted Shares which thereby become Awarded Shares will be released and reissued by PNC to, or at the proper direction of, Grantee's legal representative pursuant to Section 9 as soon as administratively practicable following such date.

7.4 Qualifying Retirement.

(a) In the event that Grantee Retires prior to the second (2d) anniversary of the Grant Date and PNC affirmatively consents to the vesting of Grantee's Unvested Shares upon such Retirement, then (i) the Two-Year Continued Employment Performance Goal will be *deemed* to have been achieved, and (ii) the Restricted Period with respect to all then outstanding Unvested Shares, if any, will terminate as of the end of the day immediately preceding Grantee's Termination Date. Restricted Shares that thereby become Awarded Shares will be released and reissued by PNC pursuant to and in accordance with the terms of Section 9.

The determination as to whether or not PNC shall affirmatively consent to the vesting of Grantee's Unvested Shares upon such Retirement shall be made by the Designated Person specified in Section A.13 of Annex A.

(b) If the Designated Person specifically disapproves the vesting of such Unvested Shares or if the Designated Person has neither affirmatively approved nor specifically disapproved the vesting of such Unvested Shares by the time Grantee Retires, then all such Unvested Shares that are still outstanding on Grantee's Termination Date will be forfeited by Grantee to PNC without payment of any consideration by PNC.

7.5 Other Terminations. In the event that Grantee's employment with the Corporation will terminate prior to the second (2d) anniversary of the Grant Date, other than a termination by the Corporation for Cause, but none of the preceding Sections 7.2, 7.3, or 7.4 are applicable to such termination, then the Committee or its delegate may determine, in their sole discretion, with respect to some or all of the Unvested Shares outstanding as of the day prior to Grantee's Termination Date, that (i) the Two-Year Continued Employment Performance Goal will be *deemed* to have been achieved and (ii) the Restricted Period with respect to such shares will terminate as of the end of the day on the day immediately preceding Grantee's Termination Date, in which case such shares will become Awarded Shares as provided in Section A.2 of Annex A prior to Grantee's termination of employment and will be released and reissued by PNC pursuant to and in accordance with the terms of Section 9.

In the alternative, if Grantee's employment with the Corporation will terminate prior to the second (2d) anniversary of the Grant Date, other than a termination by the Corporation for Cause, and Grantee's Unvested Shares, if any, will be forfeited as of Grantee's Termination Date pursuant to Section 7.1, the Committee or its delegate may, in their sole discretion, determine that Grantee will receive, prior to termination of employment, a grant of a number of Share Units or Restricted Share Units **("Units")** equal to all or a portion of the number of Unvested Shares that will be forfeited on

Grantee's Termination Date, such Units to be granted upon such terms and conditions as the Committee or its delegate may provide in the written agreement for such grant; provided, however, that any payment to be made by PNC upon satisfaction of the conditions set forth in the agreement for such Units will be made solely in cash.

Upon the determination of the Committee or its delegate in their discretion that Grantee will be entitled to a grant of Units pursuant to this Section 7.5, such grant will automatically become effective as of the day immediately prior to Grantee's Termination Date, subject to execution by both parties of the Share Unit or Restricted Share Unit agreement for such grant, as applicable, and provided that in no event will the number of Units so granted exceed the number of Unvested Shares that are forfeited by Grantee.

This provision for the grant of Share Units or Restricted Share Units upon such determination by the Committee or its delegate is considered a feature of the Grant of the Restricted Shares, and the determination to make such a grant of Units will be considered an exercise of this feature of the Grant.

8. Change in Control. Notwithstanding anything in the Agreement to the contrary, upon the occurrence of a Change in Control: (i) if Grantee is an employee of the Corporation as of the day immediately preceding the Change in Control, the Two-Year Continued Employment Performance Goal will be *deemed* to have been achieved and the Restricted Period will terminate with respect to all then outstanding Unvested Shares, if any, as of the day immediately preceding the Change in Control; and (ii) all Restricted Shares that thereby become Awarded Shares will be released and reissued by PNC pursuant to Section 9 as soon as administratively practicable following such date.

9. Termination of Prohibitions; Payment to Legal Representative.

Following termination of the Restricted Period, PNC will release and issue or reissue the then outstanding whole Restricted Shares that have become Awarded Shares as provided in Section A.2 of Annex A without the legend referred to in Section 3.

Upon release and issuance of shares that have become Awarded Shares in accordance with the terms of this Section 9, PNC or its designee will deliver such whole shares to, or at the proper direction of, Grantee or Grantee's legal representative. Any delivery of shares or other payment made in good faith by PNC to Grantee's executor, administrator or other legal representative shall extinguish all right to payment hereunder.

10. Payment of Taxes.

10.1 Internal Revenue Code Section 83(b) Election. In the event that Grantee makes an Internal Revenue Code Section 83(b) election with respect to the Restricted Shares, Grantee shall satisfy all then applicable federal, state or local withholding tax obligations arising from that election (a) by payment of cash or (b) if and to the extent then permitted by PNC and subject to such terms and conditions as PNC may from time to time establish, by physical delivery to PNC of certificates for whole shares of PNC common stock that are not subject to any contractual restriction, pledge or other encumbrance and that have been owned by Grantee for at least six (6) months and, in the case of restricted stock, for which it has been at least six (6) months since the restrictions lapsed, or by a combination of cash and such stock. Any such tax election shall be made pursuant to a form to be provided to Grantee by PNC on request. For purposes of this Section 10.1, shares of PNC common stock that are used to satisfy applicable withholding tax obligations will be valued at their Fair Market Value on the date the tax withholding obligation arises. Grantee will provide to PNC a copy of any Internal Revenue Code Section 83(b) election filed by Grantee with respect to the Restricted Shares not later than ten (10) days after the filing of such election.

10.2 Other Tax Liabilities. Where Grantee has not previously satisfied all applicable withholding tax obligations, PNC will, at the time the tax withholding obligation arises, retain sufficient whole shares of PNC common stock from the shares granted pursuant to the Agreement to satisfy the minimum amount of taxes then required to be withheld by the Corporation in connection with the Restricted Shares. For purposes of this Section 10.2, shares of PNC common stock retained to satisfy applicable withholding tax requirements will be valued at their Fair Market Value on the date the tax withholding obligation arises.

PNC will *not* retain more than the number of shares sufficient to satisfy the minimum amount of taxes then required to be withheld in connection with the Restricted Shares. If Grantee desires to have an additional amount withheld above the required minimum, up to Grantee's W-4 obligation if higher, and if PNC so permits, Grantee may elect to satisfy this additional withholding either: (a) by payment of cash; or (b) if and to the extent then permitted by PNC and subject to such terms and conditions as PNC may from time to time establish, using whole shares of PNC common stock (either by physical delivery to PNC of certificates for the shares or through PNC's share attestation procedure) that are not subject to any contractual restriction, pledge or other encumbrance and that have been owned by Grantee for at least six (6) months and, in the case of restricted stock, for which it has been at least six (6) months since the restrictions lapsed. Any such tax election shall be made pursuant to a form provided by PNC. Shares of PNC common stock that are used for this purpose will be valued at their Fair Market Value on the date the tax withholding obligation arises. If Grantee's W-4 obligation does not exceed the required minimum withholding in connection with the Restricted Shares, no additional withholding may be made.

11. Employment. Neither the granting and issuance of the Restricted Shares nor any term or provision of the Agreement shall constitute or be evidence of any understanding, expressed or implied, on the part of PNC or any subsidiary to employ Grantee for any period or in any way alter Grantee's status as an employee at will.

12. Subject to the Plan and the Committee. In all respects the Grant and the Agreement are subject to the terms and conditions of the Plan, which has been made available to Grantee and is incorporated herein by reference; provided, however, the terms of the Plan shall not be considered an enlargement of any benefits under the Agreement. Further, the Grant and the Agreement are subject to any interpretation of, and any rules and regulations issued by, the Committee or its delegate or under the authority of the Committee, whether made or issued before or after the Grant Date.

13. Headings; Entire Agreement. Headings used in the Agreement are provided for reference and convenience only, shall not be considered part of the Agreement, and shall not be employed in the construction of the Agreement. The Agreement constitutes the entire agreement between Grantee and PNC and supersedes all other discussions, negotiations, correspondence, representations, understandings and agreements between the parties with respect to the subject matter hereof. Notwithstanding the foregoing, nothing in the Agreement shall affect the survival of the Employment Letter Agreement, including the provisions in said Employment Letter Agreement providing for the survival of certain provisions of the Amended and Restated Executive Severance Agreement by and among Mercantile Bankshares Corporation, Mercantile-Safe Deposit & Trust Company and Grantee effective as of March 29, 2006.

14. Grantee Covenants.

14.1 General. Grantee and PNC acknowledge and agree that Grantee has received adequate consideration with respect to enforcement of the provisions of Sections 14 and 15 by virtue of receiving this grant of Restricted Shares (regardless of whether such shares ultimately become Awarded Shares); that such provisions are reasonable and properly required for the adequate protection of the business of PNC and its subsidiaries; and that enforcement of such provisions will not prevent Grantee from earning a living.

14.2 Non-Solicitation; No-Hire. Grantee agrees to comply with the provisions of subsections (a) and (b) of this Section 14.2 while employed by the Corporation and for a period of twelve (12) months after Grantee's Termination Date regardless of the reason for such termination of employment.

(a) Non-Solicitation. Grantee shall not, directly or indirectly, either for Grantee's own benefit or purpose or for the benefit or purpose of any Person other than PNC or any of its subsidiaries, solicit or actively interfere with PNC's or any subsidiary's relationship with, or attempt to divert or entice away, any Person that Grantee should reasonably know (i) is a customer of PNC or any subsidiary for which PNC or any subsidiary provides any services as of the Termination Date, or (ii) was a customer of PNC or any subsidiary for which PNC or any subsidiary provided any services at any time during the twelve (12) months preceding the Termination Date, or (iii) was, as of the Termination Date, considering retention of PNC or any subsidiary to provide any services; provided, however, nothing in the Agreement shall preclude Grantee from providing services to any company in the financial industry or otherwise, so long as Grantee does not directly or indirectly solicit or actively interfere with, or attempt to divert or entice away, any Person identified in this Section 14.2(a).

(b) No-Hire. Grantee shall not, directly or indirectly, either for Grantee's own benefit or purpose or for the benefit or purpose of any Person other than PNC or any of its subsidiaries, employ or offer to employ, call on, or actively interfere with PNC's or any subsidiary's relationship with, or attempt to divert or entice away, any employee of PNC or any of its subsidiaries, nor shall Grantee assist any other Person in such activities; provided, however, nothing in the Agreement shall preclude Grantee from hiring Grantee's current administrative assistant.

Notwithstanding the above, if Grantee's employment with the Corporation is terminated by the Corporation without Cause or by Grantee with Good Reason and such Termination Date occurs during a Coverage Period as defined in Section A.12 of Annex A, then commencing immediately after such Termination Date, the provisions of subsections (a) and (b) of this Section 14.2 will no longer apply and will be replaced with the following subsection (c):

(c) No-Hire. Grantee agrees that Grantee shall not, for a period of twelve (12) months after the Termination Date, employ or offer to employ, solicit, actively interfere with PNC's or any PNC affiliate's relationship with, or attempt to divert or entice away, any officer of PNC or any PNC affiliate.

14.3 Confidentiality. During Grantee's employment with the Corporation, and thereafter regardless of the reason for termination of such employment, Grantee will not disclose or use in any way any confidential business or technical information or trade secret acquired in the course of such employment, all of which is the exclusive and valuable property of the Corporation whether or not conceived of or prepared by Grantee, other than (a) information generally known in the Corporation's industry or acquired from public sources, (b) as required in the course of employment by the Corporation, (c) as required by any court, supervisory authority, administrative agency or applicable law, or (d) with the prior written consent of PNC.

14.4 Ownership of Inventions. Grantee shall promptly and fully disclose to PNC any and all inventions, discoveries, improvements, ideas or other works of inventorship or authorship, whether or not patentable, that have been or will be conceived and/or reduced to practice by Grantee during the term of Grantee's employment with the Corporation, whether alone or with others, and that are (a) related directly or indirectly to the business or activities of PNC or any of its subsidiaries or (b) developed with the use of any time, material, facilities or other resources of PNC or any subsidiary ("**Developments**"). Grantee agrees to assign and hereby does assign to PNC or its designee all of Grantee's right, title and interest, including copyrights and patent rights, in and to all Developments. Grantee shall perform all actions and execute all instruments that PNC or any subsidiary shall deem necessary to protect or record PNC's or its designee's interests in the Developments. The obligations of this Section 14.4 shall be performed by Grantee without further compensation and will continue beyond the Termination Date.

15. Enforcement Provisions. Grantee understands and agrees to the following provisions regarding enforcement of the Agreement.

15.1 Governing Law and Jurisdiction. The Agreement is governed by and construed under the laws of the Commonwealth of Pennsylvania, without reference to its conflict of laws provisions. Any dispute or claim arising out of or relating to the Agreement or claim of breach hereof shall be brought exclusively in the federal court for the Western District of Pennsylvania or in the Court of Common Pleas of Allegheny County, Pennsylvania. By execution of the Agreement, Grantee and PNC hereby consent to the exclusive jurisdiction of such courts, and waive any right to challenge jurisdiction or venue in such courts with regard to any suit, action, or proceeding under or in connection with the Agreement.

15.2 Equitable Remedies. A breach of the provisions of any of Sections 14.2, 14.3 or 14.4 will cause the Corporation irreparable harm, and the Corporation will therefore be entitled to issuance of immediate, as well as permanent, injunctive relief restraining Grantee, and each and every person and entity acting in concert or participating with Grantee, from initiation and/or continuation of such breach.

15.3 Tolling Period. If it becomes necessary or desirable for the Corporation to seek compliance with the provisions of Section 14.2 by legal proceedings, the period during which Grantee shall comply with said provisions will extend for a period of twelve (12) months from the date the Corporation institutes legal proceedings for injunctive or other relief.

15.4 No Waiver. Failure of PNC to demand strict compliance with any of the terms, covenants or conditions of the Agreement will not be deemed a waiver of such term, covenant or condition, nor will any waiver or relinquishment of any such term, covenant or condition on any occasion or on multiple occasions be deemed a waiver or relinquishment of such term, covenant or condition.

15.5 Severability. The restrictions and obligations imposed by Sections 14.2, 14.3 and 14.4 are separate and severable, and it is the intent of Grantee and PNC that if any restriction or obligation imposed by any of these provisions is deemed by a court of competent jurisdiction to be void for any reason whatsoever, the remaining provisions, restrictions and obligations will remain valid and binding upon Grantee.

15.6 Reform. In the event any of Sections 14.2, 14.3 and 14.4 are determined by a court of competent jurisdiction to be unenforceable because unreasonable either as to length of time or area to which said restriction applies, it is the intent of Grantee and PNC that said court reduce and reform the provisions thereof so as to apply the greatest limitations considered enforceable by the court.

15.7 Waiver of Jury Trial. Each of Grantee and PNC hereby waives any right to trial by jury with regard to any suit, action or proceeding under or in connection with any of Sections 14.2, 14.3 and 14.4.

15.8 Applicable Law. Notwithstanding anything in the Agreement, PNC will not be required to comply with any term, covenant or condition of the Agreement if and to the extent prohibited by law, including but not limited to federal banking and securities regulations, or as otherwise directed by one or more regulatory agencies having jurisdiction over PNC or any of its subsidiaries. Further, to the extent, if any, applicable to Grantee, Grantee agrees to reimburse PNC for any amounts Grantee may be required to reimburse PNC or its subsidiaries pursuant to Section 304 of the Sarbanes-Oxley Act of 2002, and agrees that PNC need not comply with any term, covenant or condition of the Agreement to the extent that doing so would require that Grantee reimburse PNC or its subsidiaries for such amounts pursuant to Section 304 of the Sarbanes-Oxley Act of 2002.

15.9 Compliance with Internal Revenue Code Section 409A. If any provision of the Agreement contravenes Section 409A of the Internal Revenue Code or any regulations or Treasury guidance promulgated thereunder, PNC shall reform such provision to maintain to the maximum extent practicable the original intent of the applicable provision without violating the provisions of Section 409A of the Internal Revenue Code, and shall take such other actions as may be necessary to preserve the economic result to Grantee as contemplated under this Agreement, provided that nothing herein shall limit any rights that Grantee may have to a Section 409A gross-up under his Employment Letter Agreement.

16. Acceptance of Grant; PNC Right to Cancel. If Grantee does not accept the Grant by executing and delivering a copy of the Agreement to PNC, without altering or changing the terms thereof in any way, within thirty (30) days of receipt by Grantee of a copy of the Agreement, PNC may, in its sole discretion, withdraw its offer and cancel the Grant at any time prior to Grantee's delivery to PNC of a copy of the Agreement executed by Grantee. Otherwise, upon execution and delivery of the Agreement by both PNC and Grantee and, in the event that Grantee is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to PNC securities, the filing with and acceptance by the SEC of a Form 4 reporting the Grant, the Agreement is effective.

Grantee will not have any of the rights of a shareholder with respect to the Restricted Shares as set forth in Section 4, and will not have the right to vote or to receive dividends on such shares, until the date the Agreement is effective and the Restricted Shares are issued in accordance with this Section 16. Notwithstanding the foregoing, Grantee shall have all rights with respect to the Restricted Shares, other than voting rights, as if the Restricted Shares were granted on the Grant Date.

In the event that one or more record dates for dividends on PNC common stock occur after the Grant Date but before the date the Agreement is effective in accordance with this Section 16 and the Restricted Shares are issued, then upon the effectiveness of the Agreement, the Corporation will make a cash payment to Grantee equivalent to the amount of the dividends Grantee would have received had the Agreement been effective and the Restricted Shares had been issued on the Grant Date.

IN WITNESS WHEREOF, PNC has caused the Agreement to be signed on its behalf as of the Grant Date.

THE PNC FINANCIAL SERVICES GROUP, INC.

By: /s/ James E. Rohr
Chairman and Chief Executive Officer

ATTEST:

By: /s/ George P. Long, III
Corporate Secretary

ACCEPTED AND AGREED TO by GRANTEE

/s/ Edward J. Kelly, III
Grantee

ANNEX A
CERTAIN DEFINITIONS

* * *

A.1 "<u>Agreement</u>" means the Restricted Stock Agreement between PNC and Grantee evidencing the Grant of the Restricted Shares Award to Grantee pursuant to the Plan.

A.2 "<u>Awarded Shares</u>." Provided that the Restricted Shares are then outstanding, Restricted Shares become **"Awarded Shares"** when <u>both</u> of the following have occurred: (a) the Two-Year Continued Employment Performance Goal has been achieved or is *deemed* to have been achieved pursuant to the terms of the Agreement; and (b) the Restricted Period has terminated. Restricted Shares that have become Awarded Shares are no longer subject to forfeiture under the terms of the Agreement.

A.3 "<u>Board</u>" means the Board of Directors of PNC.

A.4 "<u>Cause</u>" shall mean, for purposes of the Agreement, (i) an act or acts of personal dishonesty taken by Grantee and intended to result in substantial personal enrichment of Grantee at the expense of the Corporation, (ii) repeated material violations by Grantee of his duties to the Corporation as Vice Chairman and an employee thereof which are demonstrably willful and deliberate on Grantee's part and which are not remedied in a reasonable period of time after receipt of written notice from the Corporation, (iii) a material violation of PNC's Code of Business Conduct and Ethics; or (iv) the conviction of Grantee of a felony.

A.5 "<u>CEO</u>" means the chief executive officer of PNC.

A.6 "<u>Change in Control</u>" means a change of control of PNC of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Exchange Act, whether or not PNC is then subject to such reporting requirement; <u>provided</u>, <u>however</u>, that without limitation, a Change in Control will be *deemed* to have occurred if:

(a) any Person, excluding employee benefits plans of the Corporation, is or becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act or any successor provisions thereto), directly or indirectly, of securities of PNC representing twenty percent (20%) or more of the combined voting power of PNC's then outstanding securities; <u>provided</u>, <u>however</u>, that such an acquisition of beneficial ownership representing between twenty percent (20%) and forty percent (40%), inclusive, of such voting power will not be considered a Change in Control if the Board approves such acquisition either prior to or immediately after its occurrence;

(b) PNC consummates a merger, consolidation, share exchange, division or other reorganization or transaction of PNC**(a "Fundamental Transaction")** with any other corporation, other than a Fundamental Transaction that results in the voting securities of PNC outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least sixty percent (60%) of the combined voting power immediately after such Fundamental Transaction of (i) PNC's outstanding securities, (ii) the surviving entity's outstanding securities, or (iii) in the case of a division, the outstanding securities of each entity resulting from the division;

(c) the shareholders of PNC approve a plan of complete liquidation or winding-up of PNC or an agreement for the sale or disposition (in one transaction or a series of transactions) of all or substantially all of PNC's assets;

(d) as a result of a proxy contest, individuals who prior to the conclusion thereof constituted the Board (including for this purpose any new director whose election or nomination for election by PNC's shareholders in connection with such proxy contest was approved by a vote of at least two-thirds (2/3rds) of the directors then still in office who were directors prior to such proxy contest) cease to constitute at least a majority of the Board (excluding any Board seat that is vacant or otherwise unoccupied);

(e) during any period of twenty-four (24) consecutive months, individuals who at the beginning of such period constituted the Board (including for this purpose any new director whose election or nomination for election by PNC's shareholders was approved by a vote of at least two-thirds (2/3rds) of the directors then still in office who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board (excluding any Board seat that is vacant or otherwise unoccupied); or

(f) the Board determines that a Change in Control has occurred.

Notwithstanding anything to the contrary herein, a divestiture or spin-off of a subsidiary or division of PNC or any of its subsidiaries will not by itself constitute a Change in Control.

A.7 "<u>CIC Failure</u>" means the following:

(a) with respect to a CIC Triggering Event described in Section A.8(a), PNC's shareholders vote against the transaction approved by the Board or the agreement to consummate the transaction is terminated; or

(b) with respect to a CIC Triggering Event described in Section A.8(b), the proxy contest fails to replace or remove a majority of the members of the Board.

A.8 "<u>CIC Triggering Event</u>" means the occurrence of either of the following:

(a) the Board or PNC's shareholders approve a transaction described in Subsection (b) of the definition of Change in Control contained in Section A.6; or

(b) the commencement of a proxy contest in which any Person seeks to replace or remove a majority of the members of the Board.

A.9 "<u>Committee</u>" means the Personnel and Compensation Committee of the Board or such person or persons as may be designated or appointed by that committee as its delegate or designee.

A.10 "<u>Consolidated Subsidiary</u>" means a corporation, bank, partnership, business trust, limited liability company or other form of business organization that (1) is a consolidated subsidiary of PNC under generally accepted accounting principles and (2) satisfies the definition of "service recipient" under Section 409A of the Internal Revenue Code.

A.11 "<u>Corporation</u>" means PNC and its Consolidated Subsidiaries.

A.12 "<u>Coverage Period</u>" means a period (a) commencing on the earlier to occur of (i) the date of a CIC Triggering Event and (ii) the date of a Change in Control and (b) ending on the date that is three (3) years after the date of the Change in Control; <u>provided</u>, <u>however</u>, that in the event that a Coverage Period commences on the date of a CIC Triggering Event, such Coverage Period will terminate upon the earlier to occur of (x) the date of a CIC Failure and (y) the date that is three (3) years after the date of the Change in Control triggered by the CIC Triggering Event. After the termination of any Coverage Period, another Coverage Period will commence upon the earlier to occur of clause (a)(i) and clause (a)(ii) in the preceding sentence.

A.13 "<u>Designated Person</u>" will be either: (a) the Committee, if Grantee was a member of the Corporate Executive Group (or equivalent successor classification) or was subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to PNC securities when he or she ceased to be an employee of the Corporation; or (b) the Chief Human Resources Officer of PNC, if Grantee is not within one of the groups specified in Section A.13(a).

A.14 "<u>Disability</u>" shall mean, for purposes of the Agreement, termination of Grantee's employment on account of disability as determined under any governing agreement between Grantee and the Corporation or, if there is no such agreement or such agreement does not provide a definition of "disability," then "Disability" shall mean disability as defined under the Corporation's long-term disability insurance plan.

A.15 "<u>Employment Letter Agreement</u>" shall mean the employment letter dated January 8, 2007 from PNC to Grantee that was accepted and agreed to by Grantee January 9, 2007 regarding Grantee's employment by PNC conditioned on and commencing upon the closing of the merger of Mercantile Bankshares Corporation into PNC, which closing and merger occurred on March 2, 2007.

A.16 "Exchange Act" means the Securities Exchange Act of 1934 as amended, and the rules and regulations promulgated thereunder.

A.17 "Fair Market Value" as it relates to a share of PNC common stock as of any given date means the average of the reported high and low trading prices on the New York Stock Exchange (or such successor reporting system as PNC may select) for a share of PNC common stock on such date, or, if no PNC common stock trades have been reported on such exchange for that day, the average of such prices on the next preceding day and the next following day for which there were reported trades.

A.18 "GAAP" or "generally accepted accounting principles" means accounting principles generally accepted in the United States of America.

A.19 "Good Reason" shall mean, for purposes of the Agreement, any of the following actions which is effected by PNC or its affiliates without Grantee's consent:

(a) any reduction in Grantee's position as Vice Chairman or any change in the reporting relationships such that Grantee reports to an officer other than to the CEO;

(b) any reduction in Grantee's annual base salary from that set forth in the Employment Letter Agreement or failure to pay the guaranteed bonus for 2007 as set forth in the Employment Letter Agreement or a failure to provide Grantee with aggregate employee benefits provided to similarly situated executives of PNC and its affiliates or as set forth in the Employment Letter Agreement;

(c) PNC's requiring Grantee to be based at any office or location other than in Washington, D.C.; or

(d) any material breach by PNC of the provisions of the Employment Letter Agreement;

provided, that before resigning for Good Reason: (i) Grantee shall provide PNC with written notice that identifies the event or circumstance described in any of clauses (a) through (d) above that Grantee believes exists within 60 days of the occurrence of the event or circumstance, and (ii) except for clause (c) above or any other of the above clauses for which remedial action is not possible, PNC or its affiliates shall have failed to remedy such event or circumstance within 30 days after PNC receives the written notice from Grantee described in clause (i) hereof. Grantee's failure to set forth in a notice of termination any fact or circumstance that contributes to a showing of Good Reason shall not waive any of Grantee's rights under the Agreement or preclude Grantee from asserting such fact or circumstance in enforcing Grantee's rights under the Agreement.

A.20 "Grant" means the Restricted Shares Award granted to Grantee pursuant to Section 2 of the Agreement and pursuant to which the Restricted Shares are issued to Grantee subject to the restrictions set forth in and the terms and conditions of the Agreement and the Plan.

A.21 "Grant Date" means the Grant Date set forth on page 1 of the Agreement and is the date as of which the Restricted Shares Award is authorized to be granted by the Committee or its delegate in accordance with the Plan.

A.22 "Grantee" means the person to whom the Restricted Stock Award is granted and the Restricted Shares are issued, and is identified as Grantee on page 1 of the Agreement.

A.23 "Internal Revenue Code" means the Internal Revenue Code of 1986 as amended, and the rules and regulations promulgated thereunder.

A.24 "Person" has the meaning given in Section 3(a)(9) of the Exchange Act and also includes any syndicate or group *deemed* to be a person under Section 13(d)(3) of the Exchange Act.

A.25 "PNC" means The PNC Financial Services Group, Inc.

A.26 "Restricted Period" means, subject to early termination if so determined by the Committee or its delegate or pursuant to Section 7.5 of the Agreement, if applicable, the period from the Grant Date through (and including) the earlier of: (a) the date of Grantee's death; (b) the day immediately preceding Grantee's Termination Date in the event that the Restricted Shares qualify for vesting pursuant to Section 7.2 or Section 7.4(a) of the Agreement, if applicable; (c) the day immediately preceding the day a Change in Control is *deemed* to have occurred; and (d) the day immediately preceding the second (2^{nd}) anniversary of the Grant Date.

A.27 "Retire" or "Retirement" means termination of Grantee's employment with the Corporation (a) at any time on or after the first (1^{st}) day of the first (1^{st}) month coincident with or next following the date on which Grantee attains age fifty-five (55) and completes five (5) years of service (as determined in the same manner as the determination of five years of Vesting Service under the provisions of The PNC Financial Services Group, Inc. Pension Plan) with the Corporation and (b) for a reason other than termination by reason of Grantee's death or by the Corporation for Cause or, unless the Committee or its delegate determines otherwise, termination in connection with a divestiture of assets or of one or more subsidiaries.

A.28 "Retiree" means a Grantee who has Retired.

A.29 "SEC" means the United States Securities and Exchange Commission.

A.30 "Termination Date" means Grantee's last date of employment with the Corporation. If Grantee is employed by a Consolidated Subsidiary that ceases to be a subsidiary of PNC or ceases to be a consolidated subsidiary of PNC under generally accepted accounting principles and Grantee does not continue to be employed by PNC or a Consolidated Subsidiary, then for purposes of the Agreement, Grantee's employment with the Corporation terminates effective at the time this occurs.

A.31 "Two-Year Continued Employment Performance Goal" means, subject to early achievement if so determined by the Committee or its delegate or to *deemed* achievement pursuant to Section 7.2, Section 7.3, Section 7.4(a), Section 7.5, or Section 8 of the Agreement, if applicable, that Grantee has been continuously employed by the Corporation for the period from the Grant Date through (and including) the day immediately preceding the first of the following to occur: (a) the second (2nd) anniversary of the Grant Date; (b) the date of Grantee's death; and (c) the day a Change in Control is *deemed* to have occurred.

A.32 "Unvested Shares" means any Restricted Shares that are not Awarded Shares.

Exhibit 10.46

THE PNC FINANCIAL SERVICES GROUP, INC.
2006 INCENTIVE AWARD PLAN

* * *

RESTRICTED SHARE UNITS AGREEMENT

* * *

GRANTEE: **Edward J. Kelly, III**

GRANT DATE: **March 2, 2007**

SHARE UNITS: **68,288**

1. Definitions. Certain terms used in this Restricted Share Units Agreement **(the "Agreement")** are defined in Annex A (which is incorporated herein as part of the Agreement) or elsewhere in the Agreement, and such definitions will apply except where the context otherwise indicates.

In the Agreement, **"PNC"** means The PNC Financial Services Group, Inc. and **"Corporation"** means PNC and its Consolidated Subsidiaries.

2. Grant of Restricted Share Units with Dividend Equivalents. Pursuant to The PNC Financial Services Group, Inc. 2006 Incentive Award Plan **(the "Plan")**, and subject to the terms and conditions of the Agreement, PNC hereby grants to the Grantee named above **("Grantee")** an Award of Restricted Share Units **("Restricted Share Units")** of the number of share units of PNC common stock set forth above, together with Dividend Equivalents **("Dividend Equivalents")**, payable in cash, with respect to the same number of shares of PNC common stock as the number of share units set forth above, all subject to acceptance of the Grant by Grantee in accordance with Section 16 and subject to the terms and conditions of the Agreement and the Plan.

3. Terms of Grant. The Grant is subject to the following terms and conditions.

Restricted Share Units and Dividend Equivalents are not transferable. The Restricted Share Units and ongoing Dividend Equivalents are subject to forfeiture pursuant to the terms and conditions of the Agreement prior to vesting; provided, that there shall be no forfeiture of Dividend Equivalents with respect to dividends payments dates that occur prior to a forfeiture of the Restricted Share Units.

Restricted Share Units that vest in accordance with the terms of Section 6 will be settled pursuant to and in accordance with the terms of that Section. Unvested Share

Units that are forfeited by Grantee pursuant to and in accordance with the terms of Section 5 will be cancelled without payment of any consideration by PNC. The right to ongoing Dividend Equivalents is granted in connection with the Restricted Share Units, and therefore shall terminate, without payment of any consideration by PNC, upon the settlement of Vested Share Units or the cancellation of Unvested Share Units, whichever is applicable.

4. Dividend Equivalents. From and after the Grant Date until such time as the Restricted Share Units are either (i) settled pursuant to and in accordance with the terms of Section 6 or (ii) cancelled upon forfeiture in accordance with the terms of Section 5, the Corporation will make cash payments to Grantee equivalent to the amounts of the quarterly cash dividends Grantee would have received, if any, had the Restricted Share Units been shares of PNC common stock issued and outstanding on the record dates for cash dividends on PNC common stock that occur during such period.

The Corporation will make such payments to Grantee pursuant to this Section 4 each quarter on or about the dividend payment date that relates to each such record date, if any, provided that if these Dividend Equivalents terminate because the Restricted Share Units have become Vested Share Units and have been settled in accordance with the terms of Section 6 and such termination occurs after the dividend record date for a quarter but before the related dividend payment date, the Corporation will nonetheless make such a quarterly dividend equivalent payment to Grantee with respect to that record date, if any.

5. Forfeiture Upon Termination for Cause Prior to a Change in Control.

In the event that Grantee's employment with the Corporation is terminated by the Corporation for Cause prior to the second (2^{nd}) anniversary of the Grant Date and prior to the occurrence of a Change in Control, if any and if earlier that the second (2^{nd}) anniversary of the Grant Date, all Restricted Share Units that are Unvested Share Units on Grantee's Termination Date, together with all Dividend Equivalents granted hereunder in connection with such Restricted Share Units, will be forfeited by Grantee to PNC without payment of any consideration by PNC.

Upon forfeiture of Unvested Share Units and Dividend Equivalents pursuant to the provisions of this Section 5, the Grant will terminate and neither Grantee nor any successors, heirs, assigns or legal representatives of Grantee will thereafter have any further rights or interest in such Unvested Share Units or Dividend Equivalents.

6. Vesting; Settlement of Vested Share Units.

Unless Unvested Share Units have been forfeited pursuant to the terms of Section 5, Grantee's Restricted Share Units will vest upon the earlier of (i) the second (2^{nd}) anniversary of the Grant Date, provided that Grantee remains employed by the Corporation through such date, (ii) Grantee's Termination Date, and (iii) the occurrence of a Change in Control.

Vested Share Units will be settled by delivery to Grantee of that number of whole shares of PNC common stock equal to the number of Vested Share Units. No fractional shares will be issued, and if the Vested Share Units include a fractional interest, such fractional interest will be liquidated on the basis of the then current Fair Market Value of PNC common stock and paid to Grantee in cash at the time the shares are issued.

Payment will be made to Grantee with respect to the settlement of Vested Share Units as soon as practicable following the earlier of (i) the second (2nd) anniversary of the Grant Date and (ii) Grantee's Termination Date; provided, however, that to the extent required in order to comply with Section 409A of the Internal Revenue Code, the Vested Share Units shall be settled on the earlier of (i) the first Business Day after the date that is six months following the date of Grantee's "separation from service" within the meaning of Section 409A of the Internal Revenue Code and (ii) the second (2nd) anniversary of the Grant Date.

7. No Rights as Shareholder Until Vesting and Issuance of Shares. Grantee will have no rights as a shareholder by virtue of this Grant unless and until the Restricted Share Units vest and shares are issued and delivered in settlement thereof.

8. Capital Adjustments. Upon the occurrence of a corporate transaction or transaction (including, without limitation, stock dividends, stock splits, spin-offs, split-offs, recapitalizations, mergers, consolidations or reorganizations of or by PNC (each, a "Corporate Transaction")), the Committee shall make those adjustments, if any, in the number, class or kind of Restricted Share Units and related Dividend Equivalents then outstanding under the Grant that it deems appropriate in its discretion to reflect the Corporate Transaction(s) such that the rights of Grantee are neither enlarged nor diminished as a result of such Corporate Transaction or Transactions, including without limitation (a) measuring the value per share unit by reference to the per share value of the consideration payable to a PNC common shareholder in connection with such Corporation Transaction and (b) authorizing payment in settlement of the entire Vested Share Units in cash.

All determinations hereunder shall be made by the Committee in its sole discretion and shall be final, binding and conclusive for all purposes on all parties, including without limitation Grantee.

9. Prohibitions Against Sale, Assignment, etc.; Payment to Legal Representative.

(a) Unvested Restricted Share Units and Dividend Equivalents may not be sold, assigned, transferred, exchanged, pledged, hypothecated or otherwise encumbered.

(b) If Grantee is deceased at the time Restricted Share Units vest and are settled in accordance with the terms of Section 6, such payment will be made to the executor or administrator of Grantee's estate or to Grantee's other legal representative as determined in good faith by the Committee.

(c) Any delivery of shares or other payment made in good faith by PNC to Grantee's executor, administrator or other legal representative shall extinguish all right to payment hereunder.

10. Withholding Taxes; Compliance with Internal Revenue Code Section 409A.

Where Grantee has not previously satisfied all applicable withholding tax obligations, PNC will, at the time the tax withholding obligation arises in connection herewith, retain an amount sufficient to satisfy the minimum amount of taxes then required to be withheld by the Corporation in connection therewith from any amounts then payable hereunder to Grantee. To the extent that any payment hereunder is settled in cash, the Corporation will withhold first from such cash portion of the payment and, if that is not sufficient or if there is no such cash portion, the Corporation will then retain whole shares of PNC common stock from amounts payable to Grantee hereunder in the form of shares, until such withholdings in the aggregate are sufficient to satisfy such minimum required withholding obligations.

For purposes of this Section 10, shares of PNC common stock retained to satisfy applicable withholding tax requirements will be valued at their Fair Market Value on the date the tax withholding obligation arises.

PNC will not retain more than the number of shares sufficient to satisfy the minimum amount of taxes then required to be withheld in connection herewith after any cash portion of the amounts payable hereunder has already been withheld for such purpose. If Grantee desires to have an additional amount withheld above the required minimum, up to Grantee's W-4 obligation if higher, and if PNC so permits, Grantee may elect to satisfy this additional withholding by payment of cash. If Grantee's W-4 obligation does not exceed the required minimum withholding in connection herewith, no additional withholding may be made.

If any provision of the Agreement contravenes Section 409A of the Internal Revenue Code or any regulations or Treasury guidance promulgated thereunder, PNC shall reform such provision to maintain to the maximum extent practicable the original intent of the applicable provision without violating the provisions of Section 409A of the Internal Revenue Code, and shall take such other actions as may be necessary to preserve the economic result to Grantee as contemplated under this Agreement, provided that nothing herein shall limit any rights that Grantee may have to a Section 409A gross-up under his Employment Letter Agreement.

11. Employment. Neither the granting of the Restricted Share Units with Dividend Equivalents nor any term or provision of the Agreement shall constitute or be evidence of any understanding, expressed or implied, on the part of PNC or any subsidiary to employ Grantee for any period or in any way alter Grantee's status as an employee at will.

12. Subject to the Plan and the Committee. In all respects the Grant and the Agreement are subject to the terms and conditions of the Plan, which has been made available to Grantee and is incorporated herein by reference; provided, however, the terms of the Plan shall not be considered an enlargement of any benefits under the Agreement. Further, the Grant and the Agreement are subject to any interpretation of, and any rules and regulations issued by, the Committee or its delegate or under the authority of the Committee, whether made or issued before or after the Grant Date.

13. Headings; Entire Agreement. Headings used in the Agreement are provided for reference and convenience only, shall not be considered part of the Agreement, and shall not be employed in the construction of the Agreement. The Agreement constitutes the entire agreement between Grantee and PNC and supersedes all other discussions, negotiations, correspondence, representations, understandings and agreements between the parties with respect to the subject matter hereof. Notwithstanding the foregoing, nothing in the Agreement shall affect the survival of the Employment Letter Agreement, including the provisions in said Employment Letter Agreement providing for the survival of certain provisions of the Amended and Restated Executive Severance Agreement by and among Mercantile Bankshares Corporation, Mercantile-Safe Deposit & Trust Company and Grantee effective as of March 29, 2006.

14. Grantee Covenants.

14.1 General. Grantee and PNC acknowledge and agree that Grantee has received adequate consideration with respect to enforcement of the provisions of Sections 14 and 15 by virtue of receiving this Grant of Restricted Share Units with Dividend Equivalents (regardless of whether such share units ultimately vest); that such provisions are reasonable and properly required for the adequate protection of the business of PNC and its subsidiaries; and that enforcement of such provisions will not prevent Grantee from earning a living.

14.2 Non-Solicitation; No-Hire. Grantee agrees to comply with the provisions of subsections (a) and (b) of this Section 14.2 while employed by the Corporation and for a period of twelve (12) months after Grantee's Termination Date regardless of the reason for such termination of employment.

(a) Non-Solicitation. Grantee shall not, directly or indirectly, either for Grantee's own benefit or purpose or for the benefit or purpose of any Person other than PNC or any of its subsidiaries, solicit or actively interfere with PNC's or any subsidiary's relationship with, or attempt to divert or entice away, any Person that Grantee should reasonably know (i) is a customer of PNC or any subsidiary for which PNC or any subsidiary provides any services as of the Termination Date, or (ii) was a customer of PNC or any subsidiary for which PNC or any subsidiary provided any services at any time during the twelve (12) months preceding the Termination Date, or (iii) was, as of the

Termination Date, considering retention of PNC or any subsidiary to provide any services; provided, however, nothing in the Agreement shall preclude Grantee from providing services to any company in the financial industry or otherwise, so long as Grantee does not directly or indirectly solicit or actively interfere with, or attempt to divert or entice away, any Person identified in this Section 14.2(a).

(b) No-Hire. Grantee shall not, directly or indirectly, either for Grantee's own benefit or purpose or for the benefit or purpose of any Person other than PNC or any of its subsidiaries, employ or offer to employ, call on, or actively interfere with PNC's or any subsidiary's relationship with, or attempt to divert or entice away, any employee of PNC or any of its subsidiaries, nor shall Grantee assist any other Person in such activities; provided, however, nothing in the Agreement shall preclude Grantee from hiring Grantee's current administrative assistant.

Notwithstanding the above, if Grantee's employment with the Corporation is terminated by the Corporation without Cause or by Grantee with Good Reason and such Termination Date occurs during a Coverage Period as defined in Section A.12 of Annex A, then commencing immediately after such Termination Date, the provisions of subsections (a) and (b) of this Section 14.2 will no longer apply and will be replaced with the following subsection (c):

(c) No-Hire. Grantee agrees that Grantee shall not, for a period of twelve (12) months after the Termination Date, employ or offer to employ, solicit, actively interfere with PNC's or any PNC affiliate's relationship with, or attempt to divert or entice away, any officer of PNC or any PNC affiliate.

14.3 Confidentiality. During Grantee's employment with the Corporation, and thereafter regardless of the reason for termination of such employment, Grantee will not disclose or use in any way any confidential business or technical information or trade secret acquired in the course of such employment, all of which is the exclusive and valuable property of the Corporation whether or not conceived of or prepared by Grantee, other than (a) information generally known in the Corporation's industry or acquired from public sources, (b) as required in the course of employment by the Corporation, (c) as required by any court, supervisory authority, administrative agency or applicable law, or (d) with the prior written consent of PNC.

14.4 Ownership of Inventions. Grantee shall promptly and fully disclose to PNC any and all inventions, discoveries, improvements, ideas or other works of inventorship or authorship, whether or not patentable, that have been or will be conceived and/or reduced to practice by Grantee during the term of Grantee's employment with the Corporation, whether alone or with others, and that are (a) related directly or indirectly to the business or activities of PNC or any of its subsidiaries or (b) developed with the use of any time, material, facilities or other resources of PNC or any subsidiary **("Developments")**. Grantee agrees to assign and hereby does assign to PNC or its designee all of Grantee's right, title and interest, including copyrights and patent rights, in and to all Developments. Grantee shall perform all actions and execute all instruments that PNC or any subsidiary shall deem necessary to protect or record PNC's or its designee's interests in the Developments. The obligations of this Section 14.4 shall be performed by Grantee without further compensation and will continue beyond the Termination Date.

15. Enforcement Provisions. Grantee understands and agrees to the following provisions regarding enforcement of the Agreement.

15.1 Governing Law and Jurisdiction. The Agreement is governed by and construed under the laws of the Commonwealth of Pennsylvania, without reference to its conflict of laws provisions. Any dispute or claim arising out of or relating to the Agreement or claim of breach hereof shall be brought exclusively in the federal court for the Western District of Pennsylvania or in the Court of Common Pleas of Allegheny County, Pennsylvania. By execution of the Agreement, Grantee and PNC hereby consent to the exclusive jurisdiction of such courts, and waive any right to challenge jurisdiction or venue in such courts with regard to any suit, action, or proceeding under or in connection with the Agreement.

15.2 Equitable Remedies. A breach of the provisions of any of Sections 14.2, 14.3 or 14.4 will cause the Corporation irreparable harm, and the Corporation will therefore be entitled to issuance of immediate, as well as permanent, injunctive relief restraining Grantee, and each and every person and entity acting in concert or participating with Grantee, from initiation and/or continuation of such breach.

15.3 Tolling Period. If it becomes necessary or desirable for the Corporation to seek compliance with the provisions of Section 14.2 by legal proceedings, the period during which Grantee shall comply with said provisions will extend for a period of twelve (12) months from the date the Corporation institutes legal proceedings for injunctive or other relief.

15.4 No Waiver. Failure of PNC to demand strict compliance with any of the terms, covenants or conditions of the Agreement will not be deemed a waiver of such term, covenant or condition, nor will any waiver or relinquishment of any such term, covenant or condition on any occasion or on multiple occasions be deemed a waiver or relinquishment of such term, covenant or condition.

15.5 Severability. The restrictions and obligations imposed by Sections 14.2, 14.3 and 14.4 are separate and severable, and it is the intent of Grantee and PNC that if any restriction or obligation imposed by any of these provisions is deemed by a court of competent jurisdiction to be void for any reason whatsoever, the remaining provisions, restrictions and obligations will remain valid and binding upon Grantee.

15.6 Reform. In the event any of Sections 14.2, 14.3 and 14.4 are determined by a court of competent jurisdiction to be unenforceable because unreasonable either as to length of time or area to which said restriction applies, it is the intent of Grantee and PNC that said court reduce and reform the provisions thereof so as to apply the greatest limitations considered enforceable by the court.

15.7 Waiver of Jury Trial. Each of Grantee and PNC hereby waives any right to trial by jury with regard to any suit, action or proceeding under or in connection with any of Sections 14.2, 14.3 and 14.4.

15.8 Applicable Law. Notwithstanding anything in the Agreement, PNC will not be required to comply with any term, covenant or condition of the Agreement if and to the extent prohibited by law, including but not limited to federal banking and securities regulations, or as otherwise directed by one or more regulatory agencies having jurisdiction over PNC or any of its subsidiaries. Further, to the extent, if any, applicable to Grantee, Grantee agrees to reimburse PNC for any amounts Grantee may be required to reimburse PNC or its subsidiaries pursuant to Section 304 of the Sarbanes-Oxley Act of 2002, and agrees that PNC need not comply with any term, covenant or condition of the Agreement to the extent that doing so would require that Grantee reimburse PNC or its subsidiaries for such amounts pursuant to Section 304 of the Sarbanes-Oxley Act of 2002.

16. Acceptance of Grant; PNC Right to Cancel. If Grantee does not accept the Grant by executing and delivering a copy of the Agreement to PNC, without altering or changing the terms thereof in any way, within thirty (30) days of receipt by Grantee of a copy of the Agreement, PNC may, in its sole discretion, withdraw its offer and cancel the Grant at any time prior to Grantee's delivery to PNC of a copy of the Agreement executed by Grantee. Otherwise, upon execution and delivery of the Agreement by both PNC and Grantee and, in the event that Grantee is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to PNC securities, the filing with and acceptance by the SEC of a Form 4 reporting the Grant, the Agreement is effective. Notwithstanding the foregoing, Grantee shall have all rights with respect to the Restricted Share Units as if the Restricted Share Units were granted on the Grant Date.

In the event that one or more record dates for dividends on PNC common stock occur after the Grant Date but before the date the Agreement is effective in accordance with this Section 16, then upon the effectiveness of the Agreement, the Corporation will make a cash payment to Grantee equivalent to the dividend equivalent payment Grantee would have received had the Agreement been effective and the Restricted Share Units been issued on the Grant Date.

IN WITNESS WHEREOF, PNC has caused the Agreement to be signed on its behalf as of the Grant Date.

THE PNC FINANCIAL SERVICES GROUP, INC.

By: /s/ James E. Rohr
Chairman and Chief Executive Officer

ATTEST:

By: /s/ George P. Long, III
Corporate Secretary

ACCEPTED AND AGREED TO by GRANTEE

/s/ Edward J. Kelly, III
Grantee

ANNEX A
CERTAIN DEFINITIONS

* * *

A.1 "Agreement" means the Restricted Share Units Agreement between PNC and Grantee evidencing the Grant of the Restricted Share Units with Dividend Equivalents to Grantee pursuant to the Plan.

A.2 "Board" means the Board of Directors of PNC.

A.3 "Business Day" means a day that is a business day for PNC Bank, National Association in Pittsburgh, PA.

A.4 "Cause" shall mean, for purposes of the Agreement, (i) an act or acts of personal dishonesty taken by Grantee and intended to result in substantial personal enrichment of Grantee at the expense of the Corporation, (ii) repeated material violations by Grantee of his duties to the Corporation as Vice Chairman and an employee thereof which are demonstrably willful and deliberate on Grantee's part and which are not remedied in a reasonable period of time after receipt of written notice from the Corporation, (iii) a material violation of PNC's Code of Business Conduct and Ethics; or (iv) the conviction of Grantee of a felony.

A.5 "CEO" means the chief executive officer of PNC.

A.6 "Change in Control" means a change of control of PNC of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Exchange Act, whether or not PNC is then subject to such reporting requirement; provided, however, that without limitation, a Change in Control will be *deemed* to have occurred if:

(a) any Person, excluding employee benefits plans of the Corporation, is or becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act or any successor provisions thereto), directly or indirectly, of securities of PNC representing twenty percent (20%) or more of the combined voting power of PNC's then outstanding securities; provided, however, that such an acquisition of beneficial ownership representing between twenty percent (20%) and forty percent (40%), inclusive, of such voting power will not be considered a Change in Control if the Board approves such acquisition either prior to or immediately after its occurrence;

(b) PNC consummates a merger, consolidation, share exchange, division or other reorganization or transaction of PNC **(a "Fundamental Transaction")** with any other corporation, other than a Fundamental Transaction that results in the voting securities of PNC outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least sixty percent (60%) of the combined voting power immediately after such Fundamental Transaction of (i) PNC's outstanding securities, (ii) the surviving entity's outstanding securities, or (iii) in the case of a division, the outstanding securities of each entity resulting from the division;

(c) the shareholders of PNC approve a plan of complete liquidation or winding-up of PNC or an agreement for the sale or disposition (in one transaction or a series of transactions) of all or substantially all of PNC's assets;

(d) as a result of a proxy contest, individuals who prior to the conclusion thereof constituted the Board (including for this purpose any new director whose election or nomination for election by PNC's shareholders in connection with such proxy contest was approved by a vote of at least two-thirds (2/3rds) of the directors then still in office who were directors prior to such proxy contest) cease to constitute at least a majority of the Board (excluding any Board seat that is vacant or otherwise unoccupied);

(e) during any period of twenty-four (24) consecutive months, individuals who at the beginning of such period constituted the Board (including for this purpose any new director whose election or nomination for election by PNC's shareholders was approved by a vote of at least two-thirds (2/3rds) of the directors then still in office who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board (excluding any Board seat that is vacant or otherwise unoccupied); or

(f) the Board determines that a Change in Control has occurred.

Notwithstanding anything to the contrary herein, a divestiture or spin-off of a subsidiary or division of PNC or any of its subsidiaries will not by itself constitute a Change in Control.

A.7 "CIC Failure" means the following:

(a) with respect to a CIC Triggering Event described in Section A.8(a), PNC's shareholders vote against the transaction approved by the Board or the agreement to consummate the transaction is terminated; or

(b) with respect to a CIC Triggering Event described in Section A.8(b), the proxy contest fails to replace or remove a majority of the members of the Board.

A.8 "CIC Triggering Event" means the occurrence of either of the following:

(a) the Board or PNC's shareholders approve a transaction described in Subsection (b) of the definition of Change in Control contained in Section A.6; or

(b) the commencement of a proxy contest in which any Person seeks to replace or remove a majority of the members of the Board.

A.9 "Committee" means the Personnel and Compensation Committee of the Board or such person or persons as may be designated or appointed by that committee as its delegate or designee.

A.10 "Consolidated Subsidiary" means a corporation, bank, partnership, business trust, limited liability company or other form of business organization that (1) is a consolidated subsidiary of PNC under generally accepted accounting principles and (2) satisfies the definition of "service recipient" under Section 409A of the Internal Revenue Code.

A.11 "Corporation" means PNC and its Consolidated Subsidiaries.

A.12 "Coverage Period" means a period (a) commencing on the earlier to occur of (i) the date of a CIC Triggering Event and (ii) the date of a Change in Control and (b) ending on the date that is three (3) years after the date of the Change in Control; provided, however, that in the event that a Coverage Period commences on the date of a CIC Triggering Event, such Coverage Period will terminate upon the earlier to occur of (x) the date of a CIC Failure and (y) the date that is three (3) years after the date of the Change in Control triggered by the CIC Triggering Event. After the termination of any Coverage Period, another Coverage Period will commence upon the earlier to occur of clause (a)(i) and clause (a)(ii) in the preceding sentence.

A.13 "Disability" shall mean, for purposes of the Agreement, termination of Grantee's employment on account of disability as determined under any governing agreement between Grantee and the Corporation or, if there is no such agreement or such agreement does not provide a definition of "disability," then "Disability" shall mean disability as defined under the Corporation's long-term disability insurance plan.

A.14 "Employment Letter Agreement" shall mean the employment letter dated January 8, 2007 from PNC to Grantee that was accepted and agreed to by Grantee January 9, 2007 regarding Grantee's employment by PNC conditioned on and commencing upon the closing of the merger of Mercantile Bankshares Corporation into PNC, which closing and merger occurred on March 2, 2007.

A.15 "Exchange Act" means the Securities Exchange Act of 1934 as amended, and the rules and regulations promulgated thereunder.

A.16 "Fair Market Value" as it relates to a share of PNC common stock as of any given date means the average of the reported high and low trading prices on the New York Stock Exchange (or such successor reporting system as PNC may select) for a share of PNC common stock on such date, or, if no PNC common stock trades have been reported on such exchange for that day, the average of such prices on the next preceding day and the next following day for which there were reported trades.

A.17 "<u>GAAP" or "generally accepted accounting principles</u>" means accounting principles generally accepted in the United States of America.

A.18 "<u>Grant</u>" means the Award of Restricted Share Units with Dividend Equivalents granted to Grantee pursuant to Section 2 of the Agreement.

A.19 "<u>Grant Date</u>" means the Grant Date set forth on page 1 of the Agreement and is the date as of which the Restricted Share Units with Dividend Equivalents are authorized to be granted by the Committee or its delegate in accordance with the Plan.

A.20 "<u>Grantee</u>" means the person to whom the Award of Restricted Share Units with Dividend Equivalents is granted, and is identified as Grantee on page 1 of the Agreement.

A.21 "<u>Internal Revenue Code</u>" means the Internal Revenue Code of 1986 as amended, and the rules and regulations promulgated thereunder.

A.22 "<u>Person</u>" has the meaning given in Section 3(a)(9) of the Exchange Act and also includes any syndicate or group *deemed* to be a person under Section 13(d)(3) of the Exchange Act.

A.23 "<u>PNC</u>" means The PNC Financial Services Group, Inc.

A.24 "<u>SEC</u>" means the United States Securities and Exchange Commission.

A.25 "<u>Termination Date</u>" means Grantee's last date of employment with the Corporation. If Grantee is employed by a Consolidated Subsidiary that ceases to be a subsidiary of PNC or ceases to be a consolidated subsidiary of PNC under generally accepted accounting principles and Grantee does not continue to be employed by PNC or a Consolidated Subsidiary, then for purposes of the Agreement, Grantee's employment with the Corporation terminates effective at the time this occurs.

A.26 "<u>Unvested Share Units</u>" means any Restricted Share Units that have not vested in accordance with the terms of Section 6 of the Agreement.

A.27 "<u>Vested Share Units</u>." Provided that the Restricted Share Units have not been forfeited pursuant to the terms of Section 5 of the Agreement and are then outstanding, Restricted Share Units vest in accordance with the terms of Section 6 of the Agreement. Restricted Share Units that have vested and become Vested Share Units are no longer subject to forfeiture under the terms of the Agreement.

Exhibit 10.47

PNC

March 1,2007

Edward J. Kelly, III
Chairman and Chief Executive Officer
Mercantile Bankshares Corporation
2 Hopkins Plaza
Baltimore, MD 21201

Dear Mr. Kelly,

This letter will confirm our understanding with respect to the Supplemental Retirement Agreement dated as of February 2, 2001 (and as amended February 27, 2007) by and between you, Mercantile Bankshares Corporation ("Mercantile") and Mercantile-Safe Deposit and Trust Company (the "Agreement"). A copy of the Agreement is attached hereto.

We acknowledge and agree as follows:

- Upon the effective date of the merger (the "Merger") between Mercantile and The PNC Financial Services Group, Inc. ("PNC"), the Agreement will be binding on PNC as successor to Mercantile in accordance with Section 11.2 of the Agreement.
- Solely for the purposes of the Agreement, upon the effective date of the Merger your employment with Mercantile and/or PNC shall be deemed to have been terminated as of February 28,2007.
- Based upon the foregoing, and the terms of the Agreement, upon your attainment of age 60, PNC's obligation to you pursuant to the Agreement will be the payment of a retirement benefit, commencing June 1,2013 and continuing for the remainder of your life, in the amount of $247,951 annually, payable monthly (subject to your right to elect to receive such benefit in either a Joint and Survivor Option or a Guaranteed Period Option, in which case the foregoing amount shall be a reduced amount which is the Actuarial Equivalent of a straight life annuity of $247,951 commencing on such date).
- Based upon the foregoing, and the terms of the Agreement, in the event PNC elects to defer payment of your retirement benefit until your attainment of age 65 (in accordance with Section 2.4 of the Agreement), PNC's obligation to you

pursuant to the Agreement will be the payment of a retirement benefit, commencing June 1, 2018 and continuing for the remainder of your life, in the amount of $230,792 annually, payable monthly (subject to your right to elect to receive such benefit in either a Joint and Survivor Option or a Guaranteed Period Option, in which case the foregoing amount shall be a reduced amount which is the Actuarial Equivalent of a straight life annuity of $230,792 commencing on such date).

- In accordance with the terms of the Agreement, in the event of your death before commencement of the payment of your retirement benefit under the Agreement, PNC’s obligation to your beneficiary will be the payment of a death benefit in the amount of $208,907 annually, payable monthly, commencing on the first day of the month next following your death and continuing thereafter for a period of ten years.
- Nothing herein shall be construed as an amendment to or modification of the Agreement. Without limiting the foregoing, nothing herein shall be construed as limiting or restricting your options, as set forth in the Agreement, to elect the form of benefit or designate (or change the designation of) a beneficiary,
- Your currently designations and elections under the agreement are set forth in Exhibit A attached hereto.

Should you have any questions regarding the agreement, please call Kenneth (Mike) Beatty at 412-768-8316.

Sincerely,

THE PNC FINANCIAL SERVICES GROUP, INC.

By: /s/ Richard J. Johnson
Name: Richard J. Johnson
Title: CFO

Edward J. Kelly, III
Supplemental Retirement Agreement dated February 2, 2001
Election/Designation worksheet
Date: February 28, 2007

Mail to: The PNC Financial Services Company, Inc.
One PNC Plaza
249 Fifth Avenue
Pittsburgh, PA 15222-2707
ATTN: Director of Human Resources

1. Designated beneficiary: ________________________________

2. Contingent beneficiary: ________________________________

3. Form of Retirement Benefit *(select one):*

   a. Straight Life Annuity: ☐

   b. Joint and Survivor Option: ☐

      i. Post-death rate *(select one);*

         1. 100% ☐

         2. 75% ☐

         3, 66.7% ☐

         4. 50% ☐

   c. Guaranteed Benefit Option:

      i. Period Certain *(select one)*

         1. 5 yrs ☐

         2. 10 yrs ☐

         3. 15 yrs ☐

         4. 20 yrs ☐

____
Edward J. Kelly, III

Date: ________________________________

SUPPLEMENTAL RETIREMENT AGREEMENT

THIS SUPPLEMENTAL RETIREMENT AGREEMENT, entered into this 2nd day of February, 2001, by and between MERCANTILE BANKSHARES CORPORATION ("Mercshares") and MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY ("Merc-Safe"), both corporations of the State of Maryland, Two Hopkins Plaza, Baltimore, Maryland 21201, hereinafter collectively referred to as "Employer," and EDWARD J. KELLY, III, hereinafter referred to as "Executive."

WHEREAS, Employer has employed Executive pursuant to an Executive Employment Agreement entered into on the 2nd day of February, 2001; and

WHEREAS, pursuant to such Executive Employment Agreement, Employer has represented to Executive that he will be eligible to participate in a supplemental executive retirement plan; and

WHEREAS, Employer and Executive wish to set forth the specific terms of such supplemental executive retirement plan.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and undertakings hereinafter set forth, and other good and valuable consideration, receipt of which is hereby acknowledged, Employer and Executive hereby agree as follows:

SECTION 1 - DEFINITIONS

1.1 Definitions

(a) Actuarial Assumptions

"Actuarial Assumptions" shall mean, with respect to mortality, 1983 Group Mortality Table, and with respect to interest, 7.5%, or such other assumptions as may be described in the Agreement.

(b) Actuarial Equivalent

"Actuarial Equivalent" shall mean a benefit of equivalent dollar value on a specified date, computed on the basis of Actuarial Assumptions.

(c) Agreement

"Agreement" shall mean the Supplemental Retirement Agreement between Executive and Employer, as set forth herein, as amended from time to time.

(d) Beneficiary

"Beneficiary" shall mean such person, persons, entity or entities as may be designated by Executive to receive benefits after the death of Executive, all as provided for in Section 3.

(e) Cash Balance Plan

"Cash Balance Plan" shall mean the Cash Balance Plan for Employees of Mercantile Bankshares Corporation and Participating Affiliates, as amended from time to time.

(f) Cash Balance SERP

"Cash Balance SERP" shall mean the Mercantile Bankshares Corporation and Participating Affiliates Supplemental Cash Balance Executive Retirement Plan, as amended from time to time.

(g) Code

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(h) Committee

"Committee" shall mean the Compensation Committee of Mercantile Bankshares Corporation.

(i) Compensation

"Compensation" shall mean Executive's base salary and such bonus as may be received pursuant to Employer's Annual Incentive Compensation Plan or as may otherwise be paid by Employer, in each case prior to reductions for elective contributions under Sections 401(k), 125 or 132(f) of the Code, or under any nonqualified deferred compensation plan of Employer.

(j) Disability or Disabled

"Disability" or "Disabled" shall mean disability as defined under the long-term disability plan of Mercshares.

(k) Early Retirement Date

"Early Retirement Date" shall mean the first day of the month coincident with or next following the date on which Executive attains age 60.

(l) Final Average Compensation

"Final Average Compensation" shall mean Executive's average annual compensation during the three consecutive 12-month periods contained within the last five consecutive 12-month periods immediately prior to the month in which Executive's termination of employment occurs, affording the highest such Final Average Compensation. In the event that Executive's entire period of employment consists of less than three consecutive 12-month periods, his Final Average Compensation shall be determined by averaging (on an annual basis) his Compensation during his entire period of employment with Employer.

(m) 401(k) SERP

"401(k) SERP" shall mean the Mercantile Bankshares Corporation and Participating Affiliates Supplemental 401(k) Executive Retirement Plan, as amended from time to time.

(n) Late Retirement Date

"Late Retirement Date" shall mean the first day of the month coincident with or next following the date on which Executive's termination of employment occurs after his Normal Retirement Date.

(o) Normal Retirement Date

"Normal Retirement Date" shall mean the first day of the month coincident with or next following the date on which Executive attains age 65.

(p) Primary Social Security Benefit

"Primary Social Security Benefit" shall mean the benefit to which Executive is entitled at age 65 as if he terminated employment at age 65. If Executive terminates employment prior to age 65, his Primary Social Security Benefit commencing at age 65 shall be estimated by assuming no future earnings and by using the applicable provisions of the federal Social Security Act as in effect on the date Executive terminates employment. The Primary Social Security Benefit shall be determined without taking into consideration any benefits to which he may be entitled by reason of his dependents, his spouse's age, or any disability which he, his spouse or any dependent may suffer, or any income earned by him which may reduce the amount of federal Social Security benefits to which he might otherwise be entitled.

(q) Retirement Benefit

"Retirement Benefit" shall mean Executive's supplemental retirement benefit, as described in Section 2.1.

(r) Thrift Plan

"Thrift Plan" shall mean the Employees' Thrift Plan of Mercantile Bankshares Corporation and Participating Affiliates, as amended from time to time.

(s) Year of Service

"Year of Service" shall mean each full and fractional 12-month period, measured from the date on which Executive commenced employment with Employer, during which Executive works on a full-time basis for Employer. In addition, a Year of Service shall include each full and fractional 12-month period, measured from the date on which Executive attained age 25 and ending on the date Executive commenced employment with Employer.

SECTION 2 - AMOUNT AND FORM OF BENEFITS

2.1 Normal Retirement Date

(a) Upon Executive's retirement on his Normal Retirement Date, he shall receive a Retirement Benefit which shall be an annual benefit, payable monthly, commencing on his Normal Retirement Date and continuing for his life in an amount equal to the sum of (1), (2) and (3) (the "gross benefit") <u>minus</u> the sum of (4), (5), (6), (7) and (8) (the "offsets"), where:

(1) is 0.5% of his Final Average Compensation multiplied by his first 10 Years of Service;

(2) is 1% of his Final Average Compensation multiplied by his next 15 Years of Service;

(3) is 3% of his Final Average Compensation multiplied by his next 15 Years of Service;

(4) is Executive's benefit under the Cash Balance Plan;

(5) is Executive's benefit under the Thrift Plan;

(6) is Executive's benefit under the 401(k) SERP;

(7) is Executive's benefit under the Cash Balance SERP; and

(8) is Executive's Primary Social Security Benefit.

(b) The offsets provided for in Sections 2.1(a)(4) through (8) above shall be implemented by reducing on a dollar for dollar basis the annual benefit payable to Executive pursuant to Sections 2.1(a)(1) through (3) above. Each such offset shall be expressed as an annual straight life annuity payment commencing on Executive's Normal Retirement date regardless of whether Executive elects to receive such benefit in the form of a straight life annuity or to commence receiving such benefit on his Normal Retirement Date. The annual life annuity payments which are the Actuarial Equivalent of the benefits described in Sections 2.1(a)(5) through (7), and thus the offsets to be used pursuant to this Section 2.1, shall be calculated pursuant to the Actuarial Assumptions. Such offsets described in Sections 2.1(a)(5) through (7) shall be calculated as if amounts which had previously been withdrawn or paid from any such arrangement prior to Executive's Normal Retirement Date had not been so withdrawn or paid; this calculation shall be done by determining the Actuarial Equivalent of any such withdrawal or payment as of the Participant's Normal Retirement Date and then by applying such Actuarial Equivalent as an offset as described above.

2.2 Early Retirement Date

Upon Executive's termination of employment on or after his Early Retirement Date (but prior to his Normal Retirement Date), he shall receive a Retirement Benefit, as described in Section 2.1, which shall be an annual benefit, payable monthly, commencing on the first day of the month following his termination of employment and continuing for his life, calculated as follows: Executive's gross benefit, as described in Sections 2.1(a)(1) through (3), shall be reduced, in order to reflect early payment, by 4% for each full year (and proportionately for each fractional year) by which his benefit commencement date precedes his Normal Retirement Date. The offsets, as described in Sections 2.1(a)(4) through (8), to be used in such calculation shall be determined as of the date Executive's benefit commences. For purposes of calculating the offset described in Section 2.1(a)(4), the early retirement reduction factors in the Cash Balance Plan shall be utilized to reflect early payment. For purposes of calculating the offset described in Section 2.1(a)(8), Actuarial Assumptions shall be utilized to reflect early payment.

2.3 Late Retirement Date

If Executive is permitted to continue in employment subsequent to his Normal Retirement Date, then upon his termination of employment after his Normal Retirement Date, he shall receive a Retirement Benefit, as described in Section 2.1, which shall be an annual benefit, payable monthly, commencing on his Late Retirement Date and continuing for his life. The Retirement Benefit payable to Executive at his Late Retirement Date shall be the Actuarial Equivalent of what Executive's Retirement Benefit would have been had his employment terminated on his Normal Retirement Date and had he commenced receiving his Retirement Benefit on his Normal Retirement Date.

2.4 Other Termination of Employment

Upon Executive's termination of employment prior to his Early Retirement Date, he shall be entitled to receive a Retirement Benefit, as described in Section 2.1, which shall be an annual benefit, payable monthly, commencing on his Normal Retirement Date and continuing for his life in an amount calculated pursuant to Section 2.1 hereof; provided, however, that the offsets described in Sections 2.1(a)(5) through (7) to be applied at Executive's Normal Retirement Date shall be fixed as of the date of Executive's termination of employment and shall be the Actuarial Equivalent of such offsets determined as of Executive's termination of employment. The Committee, in its sole discretion, may determine to commence Executive's Retirement Benefit at any time after he attains age 60 (but prior to his Normal Retirement Date), in which case his Retirement Benefit shall be calculated as provided in Section 2.2; provided, however, that the offsets described in Sections 2.1(a)(5) through (7) to be applied at Executive's benefit commencement date shall be fixed as of the date of Executive's termination of employment and shall be the Actuarial Equivalent of such offsets determined as of Executive's termination of employment.

2.5 Disability

(a) In the event Executive incurs a Disability prior to the termination of his employment, and thereby ceases to be actively employed, he will receive benefits under the long-term disability plan of Mercshares until he is no longer Disabled or until he attains the age of 65, whichever is sooner. If Executive remains Disabled until age 65, or ceases to be Disabled but does not return to active employment in his current position, he shall receive a Retirement Benefit under this Agreement, commencing on what would have been his Normal Retirement Date (or, in the Committee's sole discretion, on any date after what would have been his Early Retirement Date, assuming the long-term disability plan of Mercshares had ceased paying benefits to Executive at such time), based on his Final Average Compensation and Years of Service as of the date he incurred a Disability and calculated pursuant to Section 2.4.

(b) If Executive's Disability ends and he returns to active employment in his current position, he will again commence accruing benefits under this Agreement and the calculation of his Retirement Benefit shall be governed by the terms of this Agreement; provided, however, that the period of time during which he was Disabled shall not count as Years of Service hereunder; and further provided, that the period of time during which he was Disabled shall not be deemed to interrupt his consecutive Years of Service for purposes of calculating his Final Average Compensation.

2.6 Form of Benefit

In lieu of a straight life annuity form of benefit, Executive may elect, with the consent of the Committee, to receive his Retirement Benefit in one of the following forms:

(a) Joint and Survivor Option

(1) Executive may elect to receive, in lieu of a straight life annuity, a reduced annual benefit, payable monthly, which is the Actuarial Equivalent of such straight life annuity, payable during Executive's life and continuing after his death at a full, 75%, 66-2/3%, or 50% rate (according to the election of Executive) to the Executive's surviving Beneficiary for the remainder of such Beneficiary's life. For purposes of the Joint and Survivor Option, only one natural person may be designated as a beneficiary.

(2) If Executive's Beneficiary dies before commencement of benefit payment to Executive, the election of a joint and survivor option shall thereupon become void. If Executive's Beneficiary dies after commencement of benefit payments to Executive, but before the date of Executive's death, the election of a joint and survivor option shall remain effective and Executive shall receive the reduced retirement benefit payable to him under such option.

(b) Guaranteed Period Option

(1) Executive may elect to receive, in lieu of a straight life annuity, a reduced annual benefit, payable monthly, which is the Actuarial Equivalent of such straight life annuity, payable during Executive's life and guaranteed to continue to Executive or his designated Beneficiary for a period certain of 5, 10, 15 or 20 years, according to the election of Executive, after the commencement of benefit payments to Executive, regardless of whether Executive survives such period certain.

(2) If Executive's Beneficiary dies before Executive, Executive shall have the right to designate another Beneficiary. If Executive's Beneficiary dies after Executive and after benefits have commenced, benefits for the remainder of the period certain will be continued to the estate of the Beneficiary, unless Executive shall have designated another Beneficiary to receive such benefits.

SECTION 3 - DEATH BENEFITS

3.1 Death Before Commencement of Retirement Benefit

If Executive dies prior to the commencement of his Retirement Benefit, his Beneficiary shall be entitled to receive, commencing on the first day of the month next following Executive's death, a death benefit. The death benefit shall initially be calculated, pursuant to Section 2 hereof, as if Executive had terminated employment as of the date of his death and commenced receiving his Retirement Benefit as of such date in the form of a straight life annuity; for purposes of reducing Executive's gross benefit in the event Executive dies prior to attaining age 60, the reduction percentage described in Section 2.2 shall be used to reduce such benefit to an age-60 benefit and Actuarial Assumptions shall be used thereafter to reduce such benefit to a benefit commencing as of the date of his death. Such straight life annuity shall then be converted, pursuant to Actuarial Assumptions, to a 10-year period certain annuity, and Executive's Beneficiary shall receive monthly payments of such 10-year period certain annuity until the end of the term. If Executive's Beneficiary dies before the end of the 10-year term, benefits for the remainder of the period certain will be continued to the estate of the Beneficiary, unless the Executive shall have designated another Beneficiary to receive such benefits.

3.2. Death After Commencement of Retirement Benefit

If Executive dies subsequent to the commencement of his Retirement Benefit in accordance with a method described in Section 2, the death benefit, if any, payable to his Beneficiary shall be distributed in accordance with the method of distribution already in effect.

3.3 Designation of Beneficiary

(a) Executive shall have the right to designate a Beneficiary to receive the sums to which he may be entitled upon his death. Such designation of Beneficiary shall be in writing and delivered to the Committee, and shall be effective upon receipt by the Committee. Executive shall have the right to change such designation by notice in writing to the Committee. Any such change shall be deemed to revoke all prior designations.

(b) If Executive shall fail to validly designate a Beneficiary or if no designated Beneficiary survives Executive, any sums payable upon his death shall be paid to the person or persons in the first of the following classes of successive preference beneficiaries surviving at the death of Executive: Executive's (1) surviving spouse, (2) lineal descendants, per stirpes, and (3) estate. The Committee shall decide what Beneficiaries, if any, have been validly designated, and its decision shall be binding and conclusive on all persons.

SECTION 4 - OBLIGATION TO BE UNSECURED

It is understood and agreed that Employer's obligations under this Agreement shall not be secured in any manner. Neither Executive nor any Beneficiary shall be deemed to have any property interest, legal or equitable, in any asset of Employer, and neither Executive's right to his Retirement Benefit nor any other Beneficiary's right to benefits under this Agreement shall be greater than, nor shall it have any preference or priority over, the rights of any unsecured general creditor of Employer. Anything in this Section to the contrary notwithstanding, Employer may establish a rabbi trust to accumulate assets for the purpose of providing benefits under this Agreement.

SECTION 5 - ALIENATION OR ENCUMBRANCE

No payments, benefits or rights under this Agreement shall be subject in any manner to anticipation, sale, transfer, assignment, mortgage, pledge, encumbrance, charge or alienation by Executive or other Beneficiary.

SECTION 6 - CLAIMS PROCEDURE

6.1 Benefit Claim

Any claim for a benefit under this Agreement by Executive or other Beneficiary shall be made in writing and delivered to the Committee at Mercshares' principal office. If Executive or other Beneficiary believes he has incorrectly been denied any benefit under this Agreement, either in whole or in part, the Committee shall advise the claimant in writing of the proper amount of the benefit, if any, and the specific reasons for the denial. The Committee shall also furnish the claimant at that time with a written notice containing:

(a) A specific reference to pertinent provisions of the Agreement;

(b) A description of any additional material or information necessary for the claimant to perfect this claim, if possible, and an explanation of why such material or information is needed; and

(c) An explanation of the following claims review procedure.

6.2 Claims Review Procedure

Within 60 days of receipt of the information described above, the claimant shall, if further review is desired, file a written request for reconsideration with the Committee at Mercshares' principal office. So long as the claimant's request for review is pending (including such 60-day period), the claimant or his duly authorized representative may review pertinent documents and may submit issues and comments in writing to the Committee.

6.3 Final Decision

A final decision shall be made by the Committee within 60 days of the filing by the claimant of the request for reconsideration; provided, however, that if the Committee in its discretion, feels that a hearing with the claimant or his representative present is necessary or desirable, this period shall be extended an additional 60 days. The decision by the Committee shall be conveyed to the claimant in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, with specific references to the pertinent provisions of the Agreement on which the decision is based. This claims review procedure shall not deprive Executive of any judicial remedy to which he may otherwise be entitled.

6.4 Obligations of Committee

The members of the Committee shall use ordinary care and diligence in the performance of their duties. They shall be entitled to rely conclusively, and shall be fully protected in any action or omission taken by them in good faith reliance, upon the advice or opinions of any persons, firms or agents retained by them, including, but not limited to, accountants, actuaries, counsel and other specialists. Nothing contained herein shall preclude Employer from indemnifying any member for all actions under this Agreement, or from purchasing liability insurance to protect such members with respect to their duties pursuant to this Agreement.

SECTION 7 - NONGUARANTEE OF EMPLOYMENT

Nothing contained in this Agreement shall be construed as a contract of employment between Employer and Executive, or as a right of Executive to be continued in the employment of Employer or as a limitation of the right of Employer to discharge Executive, with or without cause, at any time.

SECTION 8 - INCAPACITY OF RECIPIENT

If any person entitled to a distribution under this Agreement is deemed by the Committee to be incapable of personally receiving and giving a valid receipt for such payment, then, unless and until claim therefore shall have been made by a duly appointed guardian or other legal representative of such person, the Committee may provide for such payment or any part thereof to be made to any other person or institution then contributing toward or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such person and a complete discharge of any liability of the Employer therefore.

SECTION 9 - WITHHOLDING

Employer shall have the right to deduct from any payment made hereunder any taxes required by law to be withheld from Executive or any Beneficiary with respect to such payment.

SECTION 10 - COOPERATION OF PARTIES

Each party to this Agreement agrees to perform any and all acts and execute any and all documents and papers which are necessary or desirable for carrying out this Agreement or any of its provisions.

SECTION 11 - BINDING ON SUCCESSORS

11.1 With Respect to Executive

This Agreement is personal to Executive and may not be assigned by him. This Agreement shall, however, inure to the benefit of, and be enforceable by, Executive’s personal representatives.

11.2 With Respect to Employer

This Agreement shall insure to the benefit of and be binding upon Employer and its successors and assigns, whether by merger, consolidation, reorganization, share exchange, transfer of assets or otherwise. Employer shall require any business successors to assume and agree to be bound by and perform this Agreement in the same manner and to the same extent as Employer would be required to perform if no such succession had taken place.

SECTION 12 - MODIFICATION AND WAIVER

This Agreement may not be modified, altered or amended except by a subsequent written instrument executed by all of the parties hereto. No waiver of any provision of this Agreement shall be binding unless evidenced by a subsequent written instrument executed by that party against whom it is sought to be enforced.

SECTION 13 - GENERAL PROVISIONS

13.1 Plurals and Gender

Where appearing in this Agreement, the masculine gender shall include the feminine and neuter genders, and the singular shall include the plural, and vice versa, unless the context clearly indicates a different meaning.

13.2 Counterparts

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original.

13.3 Entire Agreement

This Agreement represents the entire agreement between the parties, and all prior representations, agreements and understandings between the parties as to its subject matter are of no further force or validity.

13.4 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the State of Maryland, without reference to principles of conflict of laws, except to the extent superseded by the Employee Retirement Income Security Act of 1974, as amended from time to time.

13.5 Severability

In the event that one or more provisions of this Agreement are found to be unenforceable or illegal, the remaining provisions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Supplemental Retirement Agreement the day and year first above written.

WITNESS:

/s/ Alan D. Yarbro	/s/ Edward J. Kelly, III
ALAN D. YARBRO	EDWARD J. KELLY, III
ATTEST:	MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY
/s/ Alan D. Yarbro	By: /s/ H. Furlong Baldwin (SEAL)
ALAN D. YARBRO Secretary	H. FURLONG BALDWIN Chief Executive Officer
ATTEST:	MERCANTILE BANKSHARES CORPORATION
/s/ Alan D. Yarbro	By: /s/ H. Furlong Baldwin (SEAL)
ALAN D. YARBRO Secretary	H. FURLONG BALDWIN President and Chief Executive Officer

FIRST AMENDMENT TO SUPPLEMENTAL RETIREMENT AGREEMENT

WHEREAS, MERCANTILE BANKSHARES CORPORATION and **MERCANTILE SAFE-DEPOSIT AND TRUST COMPANY** (collectively, the "Employer") and Edward J. Kelly, III (the "Executive") entered into a Supplemental Retirement Agreement dated February 2, 2001; and

WHEREAS, the Employer and the Executive wish to amend the Supplemental Retirement Agreement in order that it may comply with Section 409A of the Internal Revenue Code of 1986, as amended.

NOW THEREFORE, the Supplemental Retirement Agreement is amended as follows:

FIRST CHANGE

Section 2.4 shall be deleted in its entirety and the following substituted in lieu thereof:

"2.4 Other Termination of Employment

Upon Executive's termination of employment prior to his Early Retirement Date, he shall be entitled to receive a Retirement Benefit, as described in Section 2.1, which shall be an annual benefit, payable monthly, commencing on his Early Retirement Date and continuing for his life in an amount calculated pursuant to Section 2.2 hereof; provided, however, that the offsets described in Sections 2.1(a)(5) through (7) to be applied at Executive's Early Retirement Date shall be fixed as of the date of Executive's termination of employment and shall be the Actuarial Equivalent of such offsets determined as of Executive's termination of employment. The Committee, in its sole discretion, may instead determine to commence Executive's Retirement Benefit on his Normal Retirement Date, in which case his Retirement Benefit shall be calculated as provided in Section 2.1; provided, however, that (a) the offsets described in Sections 2.1(a)(5) through (7) to be applied at Executive's Normal Retirement Date shall be fixed as of the date of Executive's termination of employment and shall be the Actuarial Equivalent of such offsets determined as of Executive's termination of employment, and (b) any such election to defer Executive's benefit shall be made in writing by the Committee and communicated to Executive NO LATER THAN the date of Executive's 59th birthday (or within such other limits as may be provided under Section 409A of the Code)."

SECOND CHANGE

Section 2.5 (a) shall be deleted in its entirety and the following substituted in lieu thereof:

"(a) In the event Executive incurs a Disability prior to the termination of his employment, and thereby ceases to be actively employed, he will receive benefits under the long-term disability plan of Mercshares until he is no longer Disabled or until he attains the age of 65, whichever is sooner. If Executive remains Disabled until age 65, or ceases to be Disabled but does not return to active employment in his current position, he shall receive a Retirement Benefit under this Agreement, commencing on what would have been his Normal Retirement Date, based on his Final Average Compensation and Years of Service as of the date he incurred a Disability and calculated as provided in Section 2.1; provided, however, that the offsets described in Sections 2.1(a)(5) through (7) to be applied at Executive's Normal Retirement Date shall be fixed as of the date of the date Executive incurred such Disability and shall be the Actuarial Equivalent of such offsets determined as of Executive's Disability date."

THIRD CHANGE

A new Section 14 shall be added to the Supplemental Retirement Agreement, to read as follows:

"SECTION 14 – SECTION 409A

14.1 Section 409A Rules

If at the time of his "separation from service" Executive is a "specified employee" (both as defined in Section 409A of Code), Executive shall not be entitled to any payments under this Agreement upon such separation until the earlier of (a) the date which is six months after Executive's separation from service for any reason other than death, or (b) Executive's date of death. Anything contained herein to the contrary notwithstanding, no distribution shall be made pursuant to this Agreement unless such distribution is made with respect to one of the permissible distribution events set forth in Section 409A, as applicable. In addition, if any provision of the Agreement contravenes Section 409A of the Code or any regulations or Treasury guidance promulgated thereunder, Mercshares shall reform such provision to maintain to the maximum extent practicable the original intent of the applicable provision without violating the provisions of Section 409A of the Code, and shall take such other actions as may be necessary to preserve the economic result to Executive as contemplated under this Agreement."

The Supplemental Retirement Agreement dated as of February 2, 2001, as amended by the foregoing changes, remains in full force and effect.

IN WITNESS WHEREOF, the parties have executed this First Amendment as of the 27th day of February, 2007.

WITNESS:	**Edward J. Kelly, III**
/s/ John L. Unger	/s/ Edward J. Kelly, III
ATTEST:	**MERCANTILE BANKSHARES CORPORATION**
/s/ John L. Unger	**By:** /s/ Jay M. Wilson
ATTEST:	**MERCANTILE SAFE- DEPOSIT AND TRUST COMPANY**
/s/ John L. Unger	**By:** /s/ Jay M. Wilson

Exhibit 10.48

MERCANTILE BANKSHARES CORPORATION
AND PARTICIPATING AFFILIATES

SUPPLEMENTAL 401(k) EXECUTIVE RETIREMENT PLAN

Effective January 1, 1995

MERCANTILE BANKSHARES CORPORATION
AND PARTICIPATING AFFILIATES

SUPPLEMENTAL 401(k) EXECUTIVE RETIREMENT PLAN

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MERCANTILE BANKSHARES CORPORATION
AND PARTICIPATING AFFILIATES

SUPPLEMENTAL 401(k) EXECUTIVE RETIREMENT PLAN

ARTICLE I
PURPOSE AND EFFECTIVE DATE

1.1 Purpose. The Plan is intended to provide deferred compensation for a select group of management or highly compensated employees of the Employer. The Plan is an unfunded plan that is not intended to be (i) subject to Parts 2, 3 or 4 of Title I, Subtitle B of the Employee Retirement Income Security Act of 1974, or (ii) qualified under Section 401(a) of the Internal Revenue Code.

1.2 Effective Date. The effective date for this Plan shall be January 1, 1995.

ARTICLE II
DEFINITIONS

2.1 Definitions. As used herein, the following terms shall have the following meanings:

(a) Account. The bookkeeping reserve account established and maintained for each Participant pursuant to Section 4.1 for purposes of determining the amount payable to the Participant pursuant to Article V.

(b) Administrator. The Employee Benefit Administration Committee, the members of which shall be appointed from time to time by the Employee Benefit Committee of the Board of Directors of the Sponsor, which shall be responsible for the general administration of the Plan except as otherwise specified.

(c) Basic Contributions. Amounts credited to the Participant's Account pursuant to Section 4.2.

(d) Beneficiary. The person(s) or entity(ies) designated by a Participant to receive Plan benefits in the event of the Participant's death, such designation to be made in writing on a form satisfactory to the Administrator and effective when received by the Administrator. Any such designation shall be deemed to revoke any and all prior designations. If the Participant has not designated a Beneficiary, or if no Beneficiary survives the Participant, the aggregate amount then credited to the Participant's Account shall be paid pursuant to Article V to the person or persons in the first of the following classes of successive preference Beneficiaries surviving at the death of the Participant: the Participant's (1) widow or widower, (2) lineal descendants, per stirpes, (3) parents, (4) estate. The Administrator shall decide which Beneficiaries, if any, shall have been validly designated and the Administrator's decision shall be binding and conclusive on all persons.

(e) Board. The Board of Directors of the Sponsor or, if the Board so directs, the Employee Benefit Committee of such Board of Directors acting on behalf of the Board in the exercise of any and all powers and duties of the Board pursuant to this Plan.

(f) Code. The Internal Revenue Code of 1986, as amended.

(g) Committee. The Employee Benefit Committee of the Board of Directors of the Sponsor.

(h) Compensation. Compensation shall mean Compensation as such term may be defined from time to time in the Thrift Plan for purposes of calculating contributions thereunder as set forth in Section 1.1(o)(1) of the Thrift Plan or any successor Section (See Exhibit A); provided, however, that for purposes of this Plan, Compensation shall include any amount which would otherwise be deemed to be Compensation under the Thrift Plan but for the fact that it is voluntarily deferred by the Participant under a nonqualified deferred compensation agreement or plan. Notwithstanding the foregoing, Compensation under this Plan shall not be limited by any monetary denomination specified from time to time by the Secretary of the Treasury with respect to the application of Code §401(a)(17) to qualified retirement plans.

(i) Employer. The Sponsor, its successors and assigns, any affiliated corporation or business organization of the Sponsor, and any organization into which an Employer may be merged or consolidated or to which all or substantially all of its assets may be transferred.

(j) Interest Credits. Amounts credited to the Participant's Account pursuant to Section 4.3.

(k) Participant. An individual who is eligible to participate pursuant to Article III.

(1) Plan. The Mercantile Bankshares Corporation And Participating Affiliates Supplemental 401(k) Executive Retirement Plan as set forth herein and as amended from time to time.

(m) Sponsor. Mercantile Bankshares Corporation and any successor.

(n) Thrift Plan. The Employees' Thrift Plan Of Mercantile Bankshares Corporation And Participating Affiliates, amended and restated as of January 1, 1989, and as amended from time to time.

(o) Valuation Date. The last business day of each calendar year, or such other or additional days as the Administrator may deem necessary or appropriate.

(p) Year of Service. Year of Service shall mean Year of Service as such term may be defined from time to time in the Thrift Plan for purposes of determining eligibility thereunder as set forth in Section 1.1(tt) of the Thrift Plan or any successor Section.

ARTICLE III
ELIGIBILITY

3.1 Eligibility to Participate.

(a) Initial Eligibility. All employees of the Employer who satisfy all of the following eligibility criteria:

(1) have the title of vice president or a more senior position, and

(2) have Compensation payable for services rendered during the calendar year in excess of $150,000 (as indexed by the Secretary of the Treasury pursuant to Code §401(a)(17)(B)), and

(3) have completed one Year of Service (or other period of service as may be determined from time to time in the discretion of the Committee, which discretion may be exercised with respect to individual employees without affecting the eligibility criteria for other employees), and

(4) have been approved by the Committee for participation,

shall be eligible to participate in the Plan; provided, however, that any such employees who have entered into individual deferred compensation agreements (pursuant to which such employees voluntarily elect to defer any portion of their current compensation) with the Employer on or before January 1, 1994, shall not be eligible to participate in the Plan (unless or until otherwise determined by the Board).

(b) Continued Participation. A Participant's participation in the Plan shall continue until the Participant terminates services as an employee for all Employers under the Plan, unless such participation is sooner terminated in the discretion of the Committee.

ARTICLE IV
CONTRIBUTIONS, INTEREST CREDITS AND VESTING

4.1 Accounts. The Administrator shall establish an Account on behalf of each Participant which shall be credited or debited, as the case may be, with Basic Contributions pursuant to Section 4.2, Interest Credits pursuant to Section 4.3, and payments pursuant to Article V. Each such Account shall consist of such subaccounts as are necessary or desirable to the Administrator for the convenient administration of the Plan. The Accounts and subaccounts shall be bookkeeping reserve accounts only and shall not require segregation of any funds of the Sponsor or the Employer or provide any Participant with any rights to any assets of the Sponsor or the Employer, except, to the extent applicable, as a general creditor thereof. Neither a Participant nor a Participant's Beneficiary shall have any right to receive payment of any amount credited to the Participant's Account except as expressly provided in Article V of this Plan.

4.2 Basic Contributions.

(a) In General. As of the last business day of each calendar year beginning on or after January 1, 1995, the Account of each eligible Participant under this Plan shall be credited with Basic Contributions in an amount equal to 3% (or such other percentage as may be determined from time to time in the discretion of the Committee with respect to all eligible Participants collectively) of that portion of the Participant's Compensation for such calendar year that exceeds $150,000 (as indexed by the Secretary of the Treasury pursuant to Code §401(a)(17)(B)). Subject to the provisions of Article IX, Basic Contributions shall be credited to each eligible Participant's Account each calendar year regardless of whether such Participant is employed by the Employer on the last day of such calendar year.

(b) Opening Account Balance. Each employee eligible to participate in this Plan on January 1, 1995, shall have Basic Contributions credited to his Account as of January 1, 1995, equal to 3% of that portion of the Participant's 1994 Compensation that exceeded $150,000.

4.3 Interest Credits. As of each Valuation Date (and such other dates as the Administrator, in its discretion, may determine), the Account of each Participant shall be credited with interest (Interest Credits) at the per annum rate of 5%, with respect to all amounts credited to the Participant's Account. The Interest Credit under this Section 4.3 for any Valuation Date shall be determined prior to crediting a Participant's Account with any amount determined under Section

4.2 with respect to such calendar year and shall be based on the balance of the Participant's Account as of the immediately preceding Valuation Date, with appropriate adjustments for payments made therefrom since such Valuation Date. Notwithstanding anything in the Plan to the contrary, in the event that the balance of a Participant's Account shall be distributed prior to the last day of a calendar year (as of which the interest would ordinarily be credited), the Interest Credit otherwise allocable to such Participant's Account for such year shall be prorated, based upon the number of complete calendar months which have elapsed from the first day of such calendar year to the date of distribution.

4.4 Vesting. Each Participant shall be at all times fully vested in and have a nonforfeitable right to the aggregate amount credited to the Participant's Account.

ARTICLE V
PAYMENT OF BENEFITS

5.1 Time and Manner of Distributions. Upon the earlier of a Participant's termination of employment or death, the Administrator shall distribute in a single-sum payment to the Participant or the Participant's Beneficiary, as applicable, as soon as practicable thereafter an amount equal to the aggregate amount credited to the Participant's Account under the Plan; provided, however, that the Committee may determine in its sole and absolute discretion to delay distribution to any Participant if necessary to avoid application of the deduction limitation of Code §162(m) to the Employer. All distributions shall be based on the value of a Participant's Account measured as of the Valuation Date immediately preceding the date of distribution.

5.2 Incapacity of Recipient. If any person entitled to a distribution under this Plan is deemed by the Administrator to be incapable of personally receiving and giving a valid receipt for such payment, then, unless and until claim therefor shall have been made by a duly appointed guardian or other legal representative of such person, the Administrator may provide for such payment or any part thereof to be made to any other person or institution then contributing toward or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such person and a complete discharge of any liability of the Sponsor, the Employer and the Plan therefor.

ARTICLE VI
FUNDING

The obligations of the Employer to pay benefits under this Plan shall be interpreted solely as an unfunded, but binding, contractual obligation of the Employer to pay only those amounts credited to the Participant's Account pursuant to Article IV in the manner and under the conditions prescribed in Article V. Any assets set aside, including any assets transferred to a rabbi trust or purchased by the Employer with respect to amounts payable under the Plan, shall be subject to the claims of the Employer's general creditors, and no person other than the Employer shall, by virtue of the provisions of the Plan, have any interest in such assets.

ARTICLE VII
ADMINISTRATION

7.1 Administration. Except as otherwise provided herein, the Plan shall be administered by the Administrator. The Administrator shall be the named fiduciary for purposes of the claims procedure pursuant to Article VIII only and shall, except as the Committee may otherwise determine, have authority to act to the full extent of its absolute discretion to:

(a) interpret the Plan, including any ambiguities therein;

(b) resolve and determine all disputes or questions arising under the Plan, including the power to determine the rights of Participants and Beneficiaries, and their respective benefits, and to remedy any ambiguities, inconsistencies or omissions in the Plan;

(c) create and revise rules and procedures for the administration of the Plan and prescribe such forms as may be required for Participants to make elections under, and otherwise participate in, the Plan; and

(d) take any other actions and make any other determinations as it may deem necessary and proper for the administration of the Plan.

Any expenses incurred in the administration of the Plan shall be paid by the Sponsor or the Employer.

7.2 Determinations. Except as the Committee may otherwise determine (and subject to the claims procedure set forth in Article VIII), all decisions and determinations by the Administrator shall be final and binding upon all Participants and Beneficiaries.

7.3 General. No member of the Administrator or of the Committee shall participate in any matter involving any questions relating solely to such member's own participation or benefits under this Plan. The Administrator and the Committee shall be entitled to rely conclusively upon, and shall be fully protected in any action or omission taken by it in good faith reliance upon, the advice or opinion of any persons, firms or agents retained by it, including but not limited to accountants, actuaries, counsel and other specialists. Nothing in this Plan shall preclude the Sponsor or any Employer from indemnifying the members of the Administrator and of the Committee for all actions under this Plan, or from purchasing liability insurance to protect such persons with respect to the Plan.

ARTICLE VIII
CLAIMS PROCEDURE

8.1 Claim for Benefits. Each person eligible for a benefit under the Plan shall apply for such benefit by filing a claim with the Administrator on a form or forms prescribed by the Administrator. If no form or forms have been prescribed, a claim for benefits shall be made in writing to the Administrator setting forth the basis for the claim. Each person making a claim for benefits shall furnish the Administrator with such documents, evidence, data, or information in support of such claim as the Administrator considers necessary or desirable.

8.2 Notice of Denial. If a claim for benefits under this Plan is denied, either in whole or in part, the Administrator shall advise the claimant in writing of the amount of the claimant's benefit, if any, and the specific reasons for the denial. The Administrator shall also furnish the claimant at that time with a written notice containing:

(a) a specific reference to pertinent Plan provisions;

(b) a description of any additional material or information necessary for the claimant to perfect the claim, if possible, and an explanation of why such material or information is needed; and

(c) an explanation of the Plan's claim review procedure.

The written notice of claim denial shall be provided to the claimant within a reasonable period of time, but not more than 90 days after receipt of the claim by the Administrator, unless special circumstances require an extension of time for processing the claim, in which case the Administrator shall provide a written notice of such extension to the claimant before the expiration of the initial 90-day period. In no event shall such extension exceed 90 days from the end of such initial period.

8.3 Right to Reconsideration. Within 60 days of receipt of the information described in Section 8.2 above, the claimant shall, if the claimant desires further review, file a written request for reconsideration with the Administrator.

8.4 Review of Documents. So long as the claimant's request for review is pending (including the 60-day period described in Section 8.3 above), the claimant or the claimant's duly authorized representative may review pertinent Plan documents (and any pertinent related documents) and may submit issues and comments in writing to the Administrator.

8.5 Decision by the Administrator. Subject to Section 8.7, a final and binding decision shall be made by the Administrator within 60 days of the filing by the claimant of the request for reconsideration; provided, however, that if the Administrator, in its discretion, feels that a hearing with the claimant or the claimant's representative present is necessary or desirable, this period shall be extended an additional 60 days.

8.6 Notice by the Administrator. The Administrator's decision shall be conveyed to the claimant in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, with specific references to the pertinent Plan provisions on which the decision is based.

8.7 Committee Review. Anything in this Plan to the contrary notwithstanding, the Committee may determine, in its sole and absolute discretion, to review any claim for benefits submitted by a claimant under this Plan.

ARTICLE IX
AMENDMENT, DISCONTINUANCE, AND TERMINATION

The Committee retains the right to modify or amend the Plan at any time and from time to time, and the Board retains the right to discontinue or terminate the Plan at any time and from time to time; provided, however, that no modification, amendment, discontinuance or termination shall adversely affect the rights of Participants to receive in accordance with the Plan amounts credited to the Accounts maintained on their behalf before such modification, amendment, discontinuance or termination. Notice of every such modification, amendment, discontinuance or termination shall be given in writing to each Participant. In the case of termination of the Plan, any amounts credited to the Account of a Participant may, in the sole discretion of the Committee, be distributed in full to such Participant as soon as reasonably practicable following such termination.

ARTICLE X
MISCELLANEOUS

10.1 Non-Guarantee of Employment. Participation in the Plan does not give any person any right to be retained in the service of the Employer. The right and power of the Employer to terminate any employee is expressly reserved.

10.2 Rights of Participants to Benefits. All rights of a Participant under the Plan to amounts credited to the Participant's Account are unsecured contractual rights of the Participant against the Employer. Each Employer shall be primarily responsible for payment of benefits hereunder to the Participants it employs and the Beneficiaries of such Participants. In the event an Employer fails to pay such benefits for any reason, the Sponsor shall be jointly and severally liable for the payment of such benefits.

10.3 No Assignment. No rights or benefits under the Plan nor amounts credited to Accounts shall be subject in any way to voluntary or involuntary alienation, sale, transfer, assignment, pledge, attachment, garnishment, execution, or encumbrance, and any attempt to accomplish the same shall be void.

10.4 Withholding. The Employer shall have the right to deduct from any payment made hereunder any taxes required by law to be withheld from a Participant with respect to such payment.

10.5 Account Statements. Periodically (as determined by the Administrator), each Participant shall receive a statement indicating the amounts credited to and payable from the Participant's Account.

10.6 Masculine, Feminine, Singular and Plural. The masculine shall be read in the feminine, the singular in the plural, and vice versa, whenever the context shall so require.

10.7 Governing Law. Except to the extent preempted by applicable Federal laws, the Plan shall be construed according to the laws of the State of Maryland, other than its conflict of laws principles.

10.8 Titles. The titles to Articles and Sections in this Plan are placed herein for convenience of reference only, and the Plan is not to be construed by reference thereto.

10.9 Other Plans. Nothing in this Plan shall be construed to affect the rights of a Participant, Participant's beneficiaries, or Participant's estate to receive any retirement or death benefit under any tax-qualified or nonqualified pension plan, deferred compensation agreement, insurance agreement or other retirement plan of the Sponsor or the Employer.

This Plan was adopted by the Board of Directors of Mercantile Bankshares Corporation on the 13th day of December, 1994, and is hereby executed on behalf of the Sponsor this 13th day of December, 1994.

ATTEST:

/s/ Illegible
Secretary
[Seal]

MERCANTILE BANKSHARES CORPORATION

By: /s/ Illegible

Title: PRESIDENT

EXHIBIT A

The definition of Compensation as set forth in this Plan cross references to the definition of Compensation as it appears from time to time under the Employees' Thrift Plan Of Mercantile Bankshares Corporation And Participating Affiliates ("Thrift Plan"). The definition of Compensation under the Thrift Plan, as set forth in Section 1.1(o)(1) thereof, in effect on January 1, 1995, is as follows:

(o) "Compensation" shall mean an Employee's pay determined as follows:

(1) Compensation shall mean the total remuneration received by an Employee from the Employer during a Plan Year for personal services rendered, and currently includible in his gross income for income tax purposes, including base salary, overtime, bonuses and other extra compensation. Notwithstanding the foregoing, Compensation shall not include (A) contributions, credits or benefits paid or accrued under this Plan or any other qualified or nonqualified retirement plan, deferred compensation plan, stock-related plan, welfare benefit plan or fringe benefit plan of the Employer, (B) any lump sum settlement payments with respect to any employment agreement under rules uniformly applicable to all Employees similarly situated, (C) compensation (whether in cash, stock or otherwise) resulting from the grant, exercise or cancellation of or election, vesting, or lapse of restrictions with respect to stock awards, stock options, stock appreciation rights or disposition of the underlying stock, (D) payments under any individual contractual arrangement for deferred compensation unless such contract otherwise provides, or (E) direct reimbursement for expenses. In all cases, however, notwithstanding any exclusions specified above, Compensation shall include any amount which would otherwise be deemed Compensation under this Section 1.1(o)(1) but for the fact that it is deferred under a salary reduction agreement under this Plan or any plan described in Section 401(k), 402(h) or 125 of the Code.

This definition of Compensation is included in this Exhibit A for convenience, of reference only. Insofar as the definition of Compensation under the Thrift Plan is modified from time to time, such modification shall be effective with respect to this Plan at the same time and shall supersede the definition set forth in this Exhibit A.

MERCANTILE BANKSHARES CORPORATION
AND PARTICIPATING AFFILIATES

SUPPLEMENTAL CASH BALANCE EXECUTIVE RETIREMENT PLAN

Effective January 1, 1994

MERCANTILE BANKSHARES CORPORATION
AND PARTICIPATING AFFILIATES

SUPPLEMENTAL CASH BALANCE EXECUTIVE RETIREMENT PLAN

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MERCANTILE BANKSHARES CORPORATION
AND PARTICIPATING AFFILIATES

SUPPLEMENTAL CASH BALANCE EXECUTIVE RETIREMENT PLAN

ARTICLE I
PURPOSE AND EFFECTIVE DATE

1.1 Purpose. The Plan is intended to provide deferred compensation for a select group of management or highly compensated employees of the Employer. The Plan is an unfunded plan that is not intended to be (i) subject to Parts 2, 3 or 4 of Title I, Subtitle B of the Employee Retirement Income Security Act of 1974, or (ii) qualified under Section 401(a) of the Internal Revenue Code.

1.2 Effective Date. The effective date for this Plan shall be January 1, 1994.

ARTICLE II
DEFINITIONS

2.1 Definitions. As used herein, the following terms shall have the following meanings:

(a) Account. The bookkeeping reserve account established and maintained for each Participant pursuant to Section 4.1 for purposes of determining the amount payable to the Participant pursuant to Article V.

(b) Administrator. The Employee Benefit Administration Committee, the members of which shall be appointed from time to time by the Employee Benefit Committee of the Board of Directors of the Sponsor, which shall be responsible for the general administration of the Plan except as otherwise specified.

(c) Beneficiary. The person(s) or entity(ies) designated by a Participant to receive Plan benefits in the event of the Participant's death, such designation to be made in writing on a form satisfactory to the Administrator and effective when received by the Administrator. Any such designation shall be deemed to revoke any and all prior designations. If the Participant has not designated a Beneficiary, or if no Beneficiary survives the Participant, the aggregate amount then credited to the Participant's Account shall be paid pursuant to Article V to the person or persons in the first of the following classes of successive preference Beneficiaries surviving at the death of the Participant: the Participant's (1) widow or widower, (2) lineal descendants, per stirpes, (3) parents, (4) estate. The Administrator shall decide which Beneficiaries, if any, shall have been validly designated and the Administrator's decision shall be binding and conclusive on all persons.

(d) Board. The Board of Directors of the Sponsor or, if the Board so directs, the Employee Benefit Committee of such Board of Directors acting on behalf of the Board in the exercise of any and all powers and duties of the Board pursuant to this Plan.

(e) Cash Balance Plan. The Cash Balance Plan for Employees of Mercantile Bankshares Corporation and Participating Affiliates, amended and restated as of January 1, 1991, and as amended from time to time.

(f) Code. The Internal Revenue Code of 1986, as amended.

(g) Committee. The Employee Benefit Committee of the Board of Directors of the Sponsor.

(h) Compensation. Compensation shall mean Compensation as such term may be defined from time to time in the Cash Balance Plan for purposes of calculating benefit accruals thereunder as set forth in Section 1.1(p)(1) of the Cash Balance Plan or any successor Section; provided, however, that for purposes of this Plan, Compensation shall include any amount which would otherwise be deemed to be Compensation under the Cash Balance Plan but for the fact that it is voluntarily deferred by the Participant under a nonqualified deferred compensation agreement or plan. Notwithstanding the foregoing, Compensation under this Plan shall not be limited by any monetary denomination specified from time to time by the Secretary of the Treasury with respect to the application of Code §401(a)(17) to qualified retirement plans.

(i) Contribution Credits. Amounts allocated to the Participant's Account pursuant to Section 4.2.

(j) Employer. The Sponsor, its successors and assigns, any affiliated corporation or business organization of the Sponsor, and any organization into which an Employer may be merged or consolidated or to which all or substantially all of its assets may be transferred.

(k) Interest Credits. Amounts allocated to the Participant's Account pursuant to Section 4.3.

(1) Participant. An individual who is eligible to participate pursuant to Article III.

(m) Plan. The Mercantile Bankshares Corporation and Participating Affiliates Supplemental Cash Balance Executive Retirement Plan as set forth herein and as amended from time to time.

(n) Sponsor. Mercantile Bankshares Corporation and any successor.

(o) Valuation Date. The last business day of each calendar year, or such other or additional days as the Administrator may deem necessary or appropriate.

ARTICLE III
ELIGIBILITY

All employees of the Employer whose Compensation payable for services rendered during a calendar year exceeds $150,000 and who shall be approved by the Committee for participation shall be eligible to participate in the Plan; provided, however, that any such employees who have entered into individual deferred compensation agreements (pursuant to which such employees voluntarily elect to defer any portion of their current compensation) with the Employer on or before January 1, 1994, shall not be eligible to participate in the Plan (unless or until otherwise determined by the Board).

ARTICLE IV
CONTRIBUTION AND INTEREST CREDITS

4.1 Accounts. The Administrator shall establish an Account on behalf of each Participant which shall be credited or debited, as the case maybe, with Contribution Credits pursuant to Section 4.2, Interest Credits as provided in Section 4.3, and payments pursuant to Article V. Each such Account shall consist of such subaccounts as are necessary or desirable to the Administrator for the convenient administration of the Plan. The Accounts and subaccounts shall be bookkeeping reserve accounts only and shall not require segregation of any funds of the Sponsor or the Employer or provide any Participant with any rights to any assets of the Sponsor or the Employer, except, to the extent applicable, as a general creditor thereof. Neither a Participant nor a Participant's Beneficiary shall have any right to receive payment of any amount credited to the Participant's Account except as expressly provided in Article V of this Plan.

4.2 Contribution Credits.

(a) As of the last day of each calendar year beginning on or after January 1, 1994, the Account of each Participant under this Plan shall be credited with Contribution Credits in an amount equal to the difference between (i) the aggregate amount credited to the Participant's account under the Cash Balance Plan for such calendar year pursuant to Sections 4.2(b) and (c) thereof, and (ii) the aggregate amount that would have been credited to the Participant's account under the Cash Balance Plan for such calendar year pursuant to Sections 4.2(b) and (c) thereof if the provisions of such Sections 4.2(b) and (c) were applied using the Participant's Compensation as defined in this Plan.

(b) In the event that a Participant's benefit payments under the Cash Balance Plan are required to be limited because of the application of Section 415 of the Code, then, if such benefit limitation has not already been provided for by this Plan, an amount equal to the actuarial equivalent of such benefit limitation shall be added to the Participant's Account and shall be treated as a Contribution Credit.

4.3 Interest Credits.

(a) As of each Valuation Date (and such other dates as the Administrator, in its sole and absolute discretion, may determine), the Account of each Participant shall be credited with interest (Interest Credits) at the per annum rate equal to the average of the value of interest rates on 52-week U.S. Treasury Bills, determined as of the first day of each calendar month in the preceding calendar year, compounded annually, with respect to all amounts credited to the Participant's Account; provided, however, that in no event shall the Interest Credits be less than 4% or more than 12% per annum (compounded annually, as provided above). For purposes of this Section 4.3, the value of the interest rate on a U.S. Treasury Bill as of a particular date shall equal the average auction rate for the week in which the date falls, as reported in the Federal Reserve Bulletin.

(b) The Interest Credit under this Section 4.3 for any Valuation Date shall be determined prior to crediting a Participant's Account with any amount determined under Section 4.2 with respect to such calendar year and shall be based on the balance of the Participant's Account as of the immediately preceding Valuation Date, with appropriate adjustments for payments made therefrom since such Valuation Date. Notwithstanding anything in the Plan to the contrary, in the event that the balance of a Participant's Account shall be distributed prior to the last day of a calendar year (as of which the interest would ordinarily be credited), the Interest Credit otherwise allocable to such Participant's Account for such year shall be prorated, based upon the number of complete calendar months which have elapsed from the first day of such calendar year to the date of distribution.

4.4 Vesting. Each Participant shall be at all times fully vested in and have a nonforfeitable right to the aggregate amount credited to the Participant's Account.

ARTICLE V
PAYMENT OF BENEFITS

5.1 Time and Manner of Distributions. Upon the earlier of a Participant's termination of employment or death, the Administrator shall commence payment of the Participant's Account to the Participant or the Participant's Beneficiary, as applicable, as soon as practicable thereafter; provided, however, that the Committee may determine in its sole and absolute discretion to delay payment commencement to any Participant if necessary to avoid application of the deduction limitation of Section 162(m) of the Code to the Employer. All distributions shall be based on the value of a Participant's Account measured as of the Valuation Date immediately preceding the date of distribution. The form of distribution shall be determined in the sole and absolute discretion of the Administrator and shall either be in the form of a single-sum payment or in substantially equal annual installments (adjusted periodically to reflect interest credited on the Participant's Account pursuant to Section 4.3) over a period of time, not to exceed ten years. In the event that the Participant's Account is distributed in installments, the Administrator may in its sole and absolute discretion at any point in time during the payout period pay the remaining balance of the Participant's Account in a single-sum payment.

5.2 Death of Participant After Commencement of Benefit Payments. In the event that a Participant dies after the commencement of benefit payments and prior to the Participant having received 100% of the value of the Participant's Account, the balance of the Participant's Account shall be paid to the Participant's Beneficiary in accordance with the method of distribution already in effect, subject to the sole and absolute discretion of the Administrator to pay the remaining balance of the Participant's Account to the Beneficiary in a single-sum payment.

5.3 Incapacity of Recipient. If any person entitled to a distribution under this Plan is deemed by the Administrator to be incapable of personally receiving and giving a valid receipt for such payment, then, unless and until claim therefor shall have been made by a duly appointed guardian or other legal representative of such person, the Administrator may provide for such payment or any part thereof to be made to any other person or institution then contributing toward or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such person and a complete discharge of any liability of the Sponsor, the Employer and the Plan therefor.

ARTICLE VI
FUNDING

The obligations of the Employer to pay benefits under this Plan shall be interpreted solely as an unfunded, but binding, contractual obligation of the Employer to pay only those amounts credited to the Participant's Account pursuant to Article IV in the manner and under the conditions prescribed in Article V. Any assets set aside, including any assets transferred to a rabbi trust or purchased by the Employer with respect to amounts payable under the Plan, shall be subject to the claims of the Employer's general creditors, and no person other than the Employer shall, by virtue of the provisions of the Plan, have any interest in such assets.

ARTICLE VII
ADMINISTRATION

7.1 Administration. Except as otherwise provided herein, the Plan shall be administered by the Administrator. The Administrator shall be the named fiduciary for purposes of the claims procedure pursuant to Article VIII only and shall, except as the Committee may otherwise determine, have authority to act to the full extent of its absolute discretion to:

(a) Interpret the Plan;

(b) Resolve and determine all disputes or questions arising under the Plan, including the power to determine the rights of Participants and Beneficiaries, and their respective benefits, and to remedy any ambiguities, inconsistencies or omissions in the Plan;

(c) Create and revise rules and procedures for the administration of the Plan and prescribe such forms as may be required for Participants to make elections under, and otherwise participate in, the Plan; and

(d) Take any other actions and make any other determinations as it may deem necessary and proper for the administration of the Plan.

Any expenses incurred in the administration of the Plan shall be paid by the Sponsor or the Employer.

7.2 Determinations. Except as the Committee may otherwise determine (and subject to the claims procedure set forth in Article VIII), all decisions and determinations by the Administrator shall be final and binding upon all Participants and Beneficiaries.

7.3 General. No member of the Administrator or of the Committee shall participate in any matter involving any questions relating solely to his own participation or benefits under this Plan. The Administrator and the Committee shall be entitled to rely conclusively upon, and shall be fully protected in any action or omission taken by it in good faith reliance upon, the advice or opinion of any persons, firms or agents retained by it, including but not limited to accountants, actuaries, counsel and other specialists. Nothing in this Plan shall preclude the Sponsor or any Employer from indemnifying the members of the Administrator and of the Committee for all actions under this Plan, or from purchasing liability insurance to protect such persons with respect to the Plan.

ARTICLE VIII
CLAIMS PROCEDURE

8.1 Claim for Benefits. Each person eligible for a benefit under the Plan shall apply for such benefit by filing a claim with the Administrator on a form or forms prescribed by the Administrator. If no form or forms have been prescribed, a claim for benefits shall be made in writing to the Administrator setting forth the basis for the claim. Each person making a claim for benefits shall furnish the Administrator with such documents, evidence, data, or information in support of such claim as the Administrator considers necessary or desirable.

8.2 Notice of Denial. If a claim for benefits under this Plan is denied, either in whole or in part, the Administrator shall advise the claimant in writing of the amount of his benefit, if any, and the specific reasons for the denial. The Administrator shall also furnish the claimant at that time with a written notice containing:

(a) A specific reference to pertinent Plan provisions;

(b) A description of any additional material or information necessary for the claimant to perfect his claim, if possible, and an explanation of why such material or information is needed; and

(c) An explanation of the Plan's claim review procedure.

The written notice of claim denial shall be provided to the claimant within a reasonable period of time, but not more than ninety days after receipt of the claim by the Administrator, unless special circumstances require an extension of time for processing the claim, in which case the Administrator shall provide a written notice of such extension to the claimant before the expiration of the initial ninety day period. In no event shall such extension exceed ninety days from the end of such initial period.

8.3 Right to Reconsideration. Within sixty days of receipt of the information described in Section 8.2 above, the claimant shall, if he desires further review, file a written request for reconsideration with the Administrator.

8.4 Review of Documents. So long as the claimant's request for review is pending (including the sixty day period described in Section 8.3 above), the claimant or his duly authorized representative may review pertinent Plan documents (and any pertinent related documents) and may submit issues and comments in writing to the Administrator.

8.5 <u>Decision by the Administrator</u>. Subject to Section 8.7, a final and binding decision shall be made by the Administrator within sixty days of the filing by the claimant of his request for reconsideration; provided, however, that if the Administrator, in its discretion, feels that a hearing with the claimant or his representative present is necessary or desirable, this period shall be extended an additional sixty days.

8.6 <u>Notice by the Administrator</u>. The Administrator's decision shall be conveyed to the claimant in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, with specific references to the pertinent Plan provisions on which the decision is based.

8.7 <u>Committee Review</u>. Anything in this Plan to the contrary notwithstanding, the Committee may determine, in its sole and absolute discretion, to review any claim for benefits submitted by a claimant under this Plan.

ARTICLE IX
AMENDMENT, DISCONTINUANCE, AND TERMINATION

The Committee retains the right to modify or amend the Plan at any time and from time to time, and the Board retains the right to discontinue or terminate the Plan at any time and from time to time; provided, however, that no modification, amendment, discontinuance or termination shall adversely affect the rights of Participants to receive in accordance with the Plan amounts credited to the Accounts maintained on their behalf before such modification, amendment, discontinuance or termination. Notice of every such modification, amendment, discontinuance or termination shall be given in writing to each Participant. In the case of termination of the Plan, any amounts credited to the Account of a Participant may, in the sole discretion of the Committee, be distributed in full to such Participant as soon as reasonably practicable following such termination.

ARTICLE X
MISCELLANEOUS

10.1 Non-Guarantee of Employment. Participation in the Plan does not give any person any right to be retained in the service of the Employer. The right and power of the Employer to terminate any employee is expressly reserved.

10.2 Rights of Participants to Benefits. All rights of a Participant under the Plan to amounts credited to the Participant's Account are unsecured contractual rights of the Participant against the Employer. Each Employer shall be primarily responsible for payment of benefits hereunder to the Participants it employs and the Beneficiaries of such Participants. In the event an Employer fails to pay such benefits for any reason, the Sponsor shall be jointly and severally liable for the payment of such benefits.

10.3 No Assignment. No rights or benefits under the Plan nor amounts credited to Accounts shall be subject in any way to voluntary or involuntary alienation, sale, transfer, assignment, pledge, attachment, garnishment, execution, or encumbrance, and any attempt to accomplish the same shall be void.

10.4 Withholding. The Employer shall have the right to deduct from any payment made hereunder any taxes required by law to be withheld from a Participant with respect to such payment.

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10.6 Masculine. Feminine, Singular and Plural. The masculine shall be read in the feminine, the singular in the plural, and vice versa, whenever the context shall so require.

10.7 Governing Law. Except to the extent preempted by applicable Federal laws, the Plan shall be construed according to the laws of the State of Maryland, other than its conflict of laws principles.

10.8 Titles. The titles to Articles and Sections in this Plan are placed herein for convenience of reference only, and the Plan is not to be construed by reference thereto.

10.9 Other Plans. Nothing in this Plan shall be construed to affect the rights of a Participant, Participant's beneficiaries, or Participant's estate to receive any retirement or death benefit under any tax-qualified or nonqualified pension plan, deferred compensation agreement, insurance agreement or other retirement plan of the Sponsor or the Employer.

This Plan was adopted by the Board of Directors of Mercantile Bankshares Corporation on the 27th day of APRIL, 1994, and is hereby executed on behalf of the Sponsor this 27th day of APRIL, 1994.

WITNESS:	MERCANTILE BANKSHARES CORPORATION
/s/ Illegible	By: /s/ Illegible
Secretary	Title: Vice Chairman of the Board
[Corporate Seal]	

The PNC Financial Services Group, Inc. and Subsidiaries
Computation of Ratio of Earnings
to Fixed Charges

Dollars in millions	Three Months Ended March 31, 2007	Year Ended December 31 2006	2005	2004	2003	2002
Earnings						
Pretax income from continuing operations before adjustments for minority interest (1)	$ 643	$3,930	$1,942	$1,735	$1,568	$1,821
Less:						
Income or loss from equity method investees	63	50				
Add:						
Distributed income of equity method investees	29	20				
Fixed charges excluding interest on deposits	240	841	662	357	346	432
Subtotal	849	4,741	2,604	2,092	1,914	2,253
Interest on deposits	468	1,590	981	484	457	659
Total	$ 1,317	$6,331	$3,585	$2,576	$2,371	$2,912
Fixed charges						
Interest on borrowed funds	$ 224	$ 777	$ 599	$ 298	$ 258	$ 315
Interest component of rentals	16	64	63	58	59	58
Amortization of notes and debentures				1	1	1
Distributions on mandatorily redeemable capital securities of subsidiary trusts					28	58
Subtotal	240	841	662	357	346	432
Interest on deposits	468	1,590	981	484	457	659
Total	$ 708	$2,431	$1,643	$ 841	$ 803	$1,091
Ratio of earnings to fixed charges						
Excluding interest on deposits	3.54x	5.64x	3.93x	5.86x	5.53x	5.22x
Including interest on deposits	1.86	2.60	2.18	3.06	2.95	2.67

(1) As defined in Item 503(d) of Regulation S-K.

EXHIBIT 12.2

The PNC Financial Services Group, Inc. and Subsidiaries
Computation of Ratio of Earnings
to Fixed Charges and Preferred Stock Dividends

Dollars in millions	Three Months Ended March 31, 2007	Year Ended December 31 2006	2005	2004	2003	2002
Earnings						
Pretax income from continuing operations before adjustments for minority interest (1)	$ 643	$3,930	$1,942	$1,735	$1,568	$1,821
Less:						
Income or loss from equity method investees	63	50				
Add:						
Distributed income of equity method investees	29	20				
Fixed charges and preferred stock dividends excluding interest on deposits	240	842	663	358	347	433
Subtotal	849	4,742	2,605	2,093	1,915	2,254
Interest on deposits	468	1,590	981	484	457	659
Total	$ 1,317	$6,332	$3,586	$2,577	$2,372	$2,913
Fixed charges						
Interest on borrowed funds	$ 224	$ 777	$ 599	$ 298	$ 258	$ 315
Interest component of rentals	16	64	63	58	59	58
Amortization of notes and debentures				1	1	1
Distributions on mandatorily redeemable capital securities of subsidiary trusts					28	58
Preferred stock dividend requirements		1	1	1	1	1
Subtotal	240	842	663	358	347	433
Interest on deposits	468	1,590	981	484	457	659
Total	$ 708	$2,432	$1,644	$ 842	$ 804	$1,092
Ratio of earnings to fixed charges and preferred stock dividends						
Excluding interest on deposits	3.54x	5.63x	3.93x	5.85x	5.52x	5.21x
Including interest on deposits	1.86	2.60	2.18	3.06	2.95	2.67

(1) As defined in Item 503(d) of Regulation S-K.

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James E. Rohr, certify that:

I have reviewed this report on Form 10-Q for the quarter ended March 31, 2007 of The PNC Financial Services Group, Inc.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2007

/s/ James E. Rohr

James E. Rohr
Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Richard J. Johnson, certify that:

I have reviewed this report on Form 10-Q for the quarter ended March 31, 2007 of The PNC Financial Services Group, Inc.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2007

/s/ Richard J. Johnson

Richard J. Johnson

Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION BY CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q for the quarter ended March 31, 2007 of The PNC Financial Services Group, Inc. (Corporation) as filed with the Securities and Exchange Commission on the date hereof (Report), I, James E. Rohr, Chairman and Chief Executive Officer of the Corporation, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) the Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation for the dates and periods covered by the Report.

This certificate is being made for the exclusive purpose of compliance by the Chief Executive Officer of the Corporation with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002, and may not be used by any person or for any reason other than as specifically required by law.

/s/ James E. Rohr
James E. Rohr
Chairman and Chief Executive Officer
May 9, 2007

EXHIBIT 32.2

**CERTIFICATION BY CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q for the quarter ended March 31, 2007 of The PNC Financial Services Group, Inc. (Corporation) as filed with the Securities and Exchange Commission on the date hereof (Report), I, Richard J. Johnson, Chief Financial Officer of the Corporation, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) the Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation for the dates and periods covered by the Report.

This certificate is being made for the exclusive purpose of compliance by the Chief Financial Officer of the Corporation with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002, and may not be used by any person or for any reason other than as specifically required by law.

/s/ Richard J. Johnson
Richard J. Johnson
Chief Financial Officer
May 9, 2007