

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q

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

For the quarterly period ended June 30, 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

(State or other jurisdiction of incorporation or organization)

25-1435979

(I.R.S. Employer Identification No.)

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

As of July 31, 2007, there were 339,797,732 shares of the registrant's common stock (\$5 par value) outstanding.

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CONSOLIDATED FINANCIAL HIGHLIGHTS

THE PNC FINANCIAL SERVICES GROUP, INC.

Dollars in millions, except per share data
Unaudited

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|---------|-----------------------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| FINANCIAL PERFORMANCE (a) | | | | |
| Revenue | | | | |
| Net interest income, taxable-equivalent basis (b) | \$746 | \$562 | \$1,375 | \$1,125 |
| Noninterest income | 975 | 1,230 | 1,966 | 2,415 |
| Total revenue | \$1,721 | \$1,792 | \$3,341 | \$3,540 |
| Noninterest expense | \$1,040 | \$1,145 | \$1,984 | \$2,307 |
| Net income | \$423 | \$381 | \$882 | \$735 |
| Per common share | | | | |
| Diluted earnings | \$1.22 | \$1.28 | \$2.67 | \$2.47 |
| Cash dividends declared | \$0.63 | \$0.55 | \$1.18 | \$1.05 |
| SELECTED RATIOS | | | | |
| Net interest margin | 3.03% | 2.90% | 3.00% | 2.93% |
| Noninterest income to total revenue (c) | 57 | 69 | 59 | 68 |
| Efficiency (d) | 61 | 64 | 60 | 65 |
| Return on | | | | |
| Average common shareholders' equity | 11.61% | 17.49% | 13.39% | 17.08% |
| Average assets | 1.38 | 1.64 | 1.54 | 1.60 |

See page 35 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 June 30 | | Six months ended June 30 | |
|---|-------------------------------|--------|-----------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Net interest income, GAAP basis | \$ 738 | \$ 556 | \$ 1,361 | \$ 1,112 |
| Taxable-equivalent adjustment | 8 | 6 | 14 | 13 |
| Net interest income, taxable-equivalent basis | \$ 746 | \$ 562 | \$ 1,375 | \$ 1,125 |

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

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| Unaudited | June 30 2007 | March 31 2007 | June 30 2006 |
|--|------------------|------------------|-----------------|
| BALANCE SHEET DATA (dollars in millions, except per share data) (a) | | | |
| Assets | \$125,651 | \$122,563 | \$94,914 |
| Loans, net of unearned income | 64,714 | 62,925 | 50,548 |
| Allowance for loan and lease losses | 703 | 690 | 611 |
| Securities available for sale | 25,903 | 26,475 | 21,724 |
| Loans held for sale | 2,562 | 2,382 | 2,165 |
| Goodwill and other intangibles | 8,658 | 8,668 | 4,498 |
| Equity investments (b) | 5,584 | 5,408 | 1,461 |
| Deposits | 77,221 | 77,367 | 63,493 |
| Borrowed funds | 24,516 | 20,456 | 15,651 |
| Shareholders' equity | 14,504 | 14,739 | 8,827 |
| Common shareholders' equity | 14,497 | 14,732 | 8,820 |
| Book value per common share | 42.36 | 42.63 | 29.92 |
| Common shares outstanding (millions) | 342 | 346 | 295 |
| Loans to deposits | 84% | 81% | 80% |
| ASSETS ADMINISTERED (billions) (a) | | | |
| Managed (c) | \$77 | \$76 | \$506 |
| Nondiscretionary | 111 | 111 | 85 |
| FUND ASSETS SERVICED (billions) | | | |
| Accounting/administration net assets | \$868 | \$822 | \$743 |
| Custody assets | 467 | 435 | 389 |
| CAPITAL RATIOS | | | |
| Tier 1 risk-based (d) | 8.3% | 8.6% | 8.8% |
| Total risk-based (d) | 11.8 | 12.2 | 12.4 |
| Leverage (d) | 7.3 | 8.7 | 7.7 |
| Tangible common equity | 5.5 | 5.8 | 5.2 |
| Common shareholders' equity to assets | 11.5 | 12.0 | 9.3 |
| ASSET QUALITY RATIOS | | | |
| Nonperforming loans to total loans | .34% | .28% | .41% |
| Nonperforming assets to total loans and foreclosed assets | .38 | .32 | .46 |
| Nonperforming assets to total assets | .20 | .17 | .24 |
| Net charge-offs to average loans (for the three months ended) | .20 | .27 | .24 |
| Allowance for loan and lease losses to loans | 1.09 | 1.10 | 1.21 |
| Allowance for loan and lease losses to nonperforming loans | 322 | 388 | 294 |

(a) Amounts for 2007 reflect the impact of our March 2, 2007 acquisition of Mercantile Bankshares Corporation ("Mercantile").

(b) Amounts for 2007 include our equity investment in BlackRock, Inc. ("BlackRock").

(c) Amounts for 2007 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 technology systems and a broad range of fee-based products and services and by focusing on customer service. 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.

RECENTLY COMPLETED OR ANNOUNCED ACQUISITIONS

STERLING FINANCIAL CORPORATION

On July 19, 2007, we entered into a definitive agreement with Sterling Financial Corporation ("Sterling") for PNC to acquire

Sterling for approximately 4.5 million shares of PNC common stock and \$224 million in cash. Based upon PNC's closing common stock price on July 17, 2007, the consideration represents \$565 million in stock and cash or approximately \$19.00 per Sterling share.

Sterling, based in Lancaster, Pennsylvania with approximately \$3.3 billion in assets and \$2.6 billion in deposits, provides banking and other financial services, including leasing, trust, investment and brokerage, to individuals and businesses through 67 branches in Pennsylvania, Maryland and Delaware. The transaction is expected to close during the first quarter of 2008 and is subject to customary closing conditions, including regulatory approvals and the approval of Sterling's shareholders.

ARCS COMMERCIAL MORTGAGE

On July 2, 2007, we acquired ARCS Commercial Mortgage Co., L.P. ("ARCS"), a Calabasas Hills, California-based lender with 10 origination offices in the United States. ARCS has been a leading originator and servicer of multifamily loans for Fannie Mae and Freddie Mac for the past decade. It originated more than \$2.1 billion of loans in 2006 and services approximately \$13 billion of commercial mortgage loans.

YARDVILLE NATIONAL BANCORP

On June 6, 2007, we entered into a definitive agreement to acquire Hamilton, New Jersey-based Yardville National Bancorp ("Yardville") for approximately 3.3 million shares of PNC common stock and \$156 million in cash, subject to adjustment. Based upon PNC's closing common stock price on June 6, 2007, the consideration represents \$403 million in stock and cash or approximately \$35.00 per Yardville share. Yardville is a commercial and consumer bank with approximately \$2.6 billion in assets, \$2.0 billion in deposits and 33 branches in central New Jersey and eastern Pennsylvania. This acquisition is expected to close in the fourth quarter of 2007, subject to customary closing conditions including regulatory approvals and approval by Yardville shareholders.

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MERCANTILE BANKSHARES CORPORATION

As previously reported, 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 for the technology systems conversions scheduled for September 2007. 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,
- Customer demand for other products and services,
- Movement of customer deposits from lower to higher rate accounts or to investment alternatives,
- The level of, direction, timing and magnitude of movement in interest rates, and the shape of the interest rate yield curve, and
- The performance of the capital markets.

In addition, 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 and progress toward closing and integrating the Yardville and Sterling acquisitions,
- Revenue growth,
- A sustained focus on expense management and creating positive operating leverage,
- Maintaining strong overall asset quality, and
- Prudent risk and capital management.

SUMMARY FINANCIAL RESULTS

| In millions, except per share data | Three months ended | | Six months ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | June 30 2007 | June 30 2006 | June 30 2007 | June 30 2006 |
| Net income | \$423 | \$381 | \$882 | \$735 |
| Diluted earnings per share | \$1.22 | \$1.28 | \$2.67 | \$2.47 |
| Return on | | | | |
| Average common shareholders' equity | 11.61% | 17.49% | 13.39% | 17.08% |
| Average assets | 1.38% | 1.64% | 1.54% | 1.60% |

Net income increased \$147 million, or 20%, for the first six months of 2007 compared with the prior year period. Diluted

earnings per share increased 8% and reflected the shares issued for the Mercantile acquisition in the first quarter of 2007. In addition, we delivered positive operating leverage in the first half of 2007.

Earnings for the first six months of 2007 included the impact of the following items:

- A first quarter after-tax 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 long-term incentive plan ("LTIP") shares obligation,
- An after-tax loss of \$20 million, or \$.06 per diluted share, from the net mark-to-market adjustments on our remaining BlackRock LTIP shares obligation, and
- After-tax integration costs related to the Mercantile acquisition and the 2006 BlackRock/Merrill Lynch investment management business ("MLIM") transaction totaling \$19 million, or \$.07 per diluted share.

Earnings for the first six months of 2006 included the after-tax impact of integration costs related to the BlackRock/MLIM transaction totaling \$8 million, or \$.03 per diluted share.

Results for the second quarter of 2007 included the following:

- Taxable-equivalent net interest income grew 33% compared with the second quarter of 2006 and our net interest margin improved to 3.03% for the second quarter compared with 2.90% for the prior year second quarter, although noninterest income was impacted by lower equity management gains and trading revenue.
- Asset quality remained very strong. Nonperforming assets to total assets were .20% at June 30, 2007 compared with .24% at June 30, 2006 and .17% at December 31, 2006.
- We successfully completed the execution of our One PNC initiative, achieving our goal of \$400 million total annual pretax earnings benefit. We now have an ongoing continuous improvement program that focuses on delivering positive operating leverage.
- Average total loans grew 27% for the second quarter of 2007 compared with the second quarter of 2006 and average total deposits increased 25% in the same comparison.
- PNC returned capital to shareholders through a 15% increase in the common stock dividend, to \$.63 per common share, and by purchasing 4 million common shares during the quarter at a cost of \$294 million under our repurchase program.

BLACKROCK/MLIM TRANSACTION

As further described in our 2006 Form 10-K, on September 29, 2006 Merrill Lynch contributed its investment management business to BlackRock in exchange for

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65 million shares of newly issued BlackRock common and preferred stock.

For the six months ended June 30, 2006, our Consolidated Income Statement included our former 69% ownership interest in BlackRock. However, our Consolidated Balance Sheet as of June 30, 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 in 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. Similar to the first half of 2007, we will also continue to recognize gains or losses on the future transfer of shares for payouts under such LTIP programs.

BALANCE SHEET HIGHLIGHTS

Total assets were \$125.7 billion at June 30, 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 \$115.4 billion for the first six months of 2007 compared with \$92.8 billion for the first six months of 2006. This increase was primarily attributable to a \$14.9 billion increase in average interest-earning assets and a \$7.7 billion increase in average noninterest-earning assets. An increase of \$9.4 billion in loans and a \$3.8 billion increase in securities available for sale were the primary factors for the increase in average interest-earning assets.

The increase in average noninterest-earning assets for the first half of 2007 reflected our equity investment in BlackRock, which averaged \$3.8 billion for the first six months of 2007 and which had been consolidated for the first six months of 2006, and an increase in average goodwill of \$2.9 billion related to the Mercantile acquisition.

Average total loans were \$58.8 billion for the first six months of 2007 and \$49.5 billion in the first six months of 2006. The increase in average total loans included the effect of the Mercantile acquisition for four months of 2007, and higher commercial loans. The increase in average total loans included growth in commercial real estate loans of approximately \$4.5 billion and growth in commercial loans of approximately \$3.3 billion. Loans represented 64% of average interest-earning assets for the first half of both 2007 and 2006.

Average securities available for sale totaled \$24.9 billion for the first six months of 2007 and \$21.2 billion for the first six months of 2006. The four-month impact of Mercantile contributed to the increase in average securities for the 2007 period. By primary classification, the increase in average securities reflected a \$6.6 billion increase in mortgage-backed and asset-backed securities, which was partially offset by a \$3.0 billion decline in US Treasury and government agencies securities. Securities available for sale comprised 27% of average interest-earning assets for the first half of 2007 and 28% for the first half of 2006.

Average total deposits were \$74.0 billion for the first six months of 2007, an increase of \$12.2 billion over the first six months of 2006. Average deposits grew from the prior year period primarily as a result of an increase in money market, noninterest-bearing demand deposits and retail certificates of deposit. These increases reflect the four-month impact of the Mercantile acquisition.

Average total deposits represented 64% of average total assets for the first six months of 2007 and 67% for the first six months of 2006. Average transaction deposits were \$49.2 billion for the first half of 2007 compared with \$41.0 billion for the first half of 2006.

Average borrowed funds were \$19.1 billion for the first six months of 2007 and \$15.4 billion for the first six months of 2006. Increases of \$2.7 billion in federal funds purchased and \$1.5 billion in bank notes and senior debt drove the increase in average borrowed funds compared with the first half of 2006.

Shareholders' equity totaled \$14.5 billion at June 30, 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

| | Three months ended | | Six months ended | |
|------------------------|--------------------|-----------------|------------------|-----------------|
| | June 30 2007 | June 30 2006 | June 30 2007 | June 30 2006 |
| In millions | | | | |
| Total segment earnings | \$ 439 | \$ 372 | \$ 855 | \$ 740 |

Total business segment earnings increased \$115 million, or 16%, for the first half of 2007 compared with the first half of 2006. We refer you to page 17 of this Report for a Results of Businesses – Summary table, with further analysis of business segment results for the first six months of 2007 and 2006 provided on pages 18 through 24.

Second quarter 2007 business segment earnings of \$439 million increased \$67 million, or 18%, compared with the second quarter of 2006. Highlights of results for the first six months and second quarter periods are included below.

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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. The presentation of BlackRock segment and total business segment earnings in this Financial Review differs from Note 14 in that these earnings exclude BlackRock/MLIM integration costs and prior year results reflect BlackRock as if it had been accounted for under the equity method.

Retail Banking

Retail Banking's earnings were \$428 million for the first six months of 2007 compared with \$375 million for the same period in 2006. The 14% increase over the prior year 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.

Retail Banking earned \$227 million for the second quarter of 2007, an increase of \$42 million, or 23%, compared with the second quarter of 2006. The increase over the second quarter of 2006 was primarily due to the same factors impacting the first half comparison.

Corporate & Institutional Banking

Corporate & Institutional Banking earned \$254 million in the first six months of 2007 compared with \$217 million in the first six months of 2006. The increase compared with the first half of 2006 was largely the result of higher taxable-equivalent net interest income and a lower provision for credit losses, partly offset by an increase in noninterest expense.

For the second quarter of 2007, earnings from Corporate & Institutional Banking totaled \$122 million compared with \$115 million for the second quarter of 2006. The higher earnings in the 2007 quarter were primarily due to taxable-equivalent net interest income growth partially offset by lower noninterest income.

BlackRock

Our BlackRock business segment earned \$110 million for the first six months of 2007 compared with \$95 million in the first six months of 2006. Second quarter earnings totaled \$58 million in 2007 and \$46 million in 2006. The higher earnings in both comparisons reflected our approximate 34% ownership interest in a larger BlackRock entity during 2007 compared with the corresponding 2006 periods. The presentation of the 2006 period results has been modified to conform with our current business segment reporting presentation in this Financial Review.

PFPC

PFPC earned \$63 million for the first six months of 2007 compared with \$53 million in the year-earlier period. The 19% earnings increase from the first half of 2006 reflected new business, organic growth and market appreciation, partly offset by client deconversions.

Earnings from PFPC totaled \$32 million in the second quarter of 2007 compared with \$26 million in the prior year second quarter. Higher earnings in 2007 reflected the successful conversion of two new client services during the second quarter of 2007, growth from existing clients, market appreciation and an improved operating margin. A \$20 million, or 10%, increase in servicing revenue compared with the second quarter of 2006 was fueled by strong fee income growth in transfer agency, managed accounts, alternative investments, and offshore operations.

Other

"Other" earnings for the first six months of 2007 totaled \$27 million, while "Other" for the first six months of 2006 was a net loss of \$5 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 our BlackRock LTIP shares obligation.

For the second quarter of 2007, "Other" resulted in a net loss of \$16 million compared with earnings of \$9 million in the second quarter of 2006. Gains from equity management declined \$34 million after-tax in the quarterly comparison.

CONSOLIDATED INCOME STATEMENT REVIEW

NET INTEREST INCOME AND NET INTEREST MARGIN

| Dollars in millions | Three months ended | | Six months ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | June 30 2007 | June 30 2006 | June 30 2007 | June 30 2006 |
| Taxable-equivalent net interest income | \$ 746 | \$ 562 | \$1,375 | \$1,125 |
| Net interest margin | 3.03% | 2.90% | 3.00% | 2.93% |

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 69 and 70 of this Report for additional information.

The 22% increase in taxable-equivalent net interest income for the first six months of 2007 compared with the first six months of 2006 was consistent with the \$14.9 billion, or 19%, increase in average interest-earning assets over these periods. Similarly, the 33% increase in taxable-equivalent net interest income for the second quarter of 2007 compared with the prior year quarter reflected the \$20.9 billion, or 27%, increase in average interest-earning assets over these quarters. The reasons driving the higher interest-earning assets in these comparisons are further discussed in the Balance Sheet Highlights portion of the Executive Summary section of this Report.

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The net interest margin was 3.00% for the first six months of 2007 and 2.93% for the first six months of 2006. The following factors impacted the comparison:

- The Mercantile acquisition.
- The yield on interest-earning assets increased 54 basis points. The yield on loans, the single largest component, increased 48 basis points.
- The impact of noninterest-bearing sources of funding increased 7 basis points for the first half of 2007 due to higher rates.
- These factors were partially offset by an increase in the rate paid on interest-bearing liabilities of 54 basis points. The rate paid on interest-bearing deposits, the single largest component, increased 56 basis points.

The net interest margin was 3.03% for the second quarter of 2007 and 2.90% for the second quarter of 2006. The following factors impacted the comparison:

- The Mercantile acquisition.
- An adjustment to our cross-border leases that lowered interest income on loans.
- The yield on interest-earning assets increased 51 basis points. The yield on loans, the single largest component, increased 43 basis points.
- The impact of noninterest-bearing sources of funding increased 4 basis points for the second quarter of 2007 due to higher rates.
- These factors were partially offset by an increase in the rate paid on interest-bearing liabilities of 42 basis points. The rate paid on interest-bearing deposits, the single largest component, increased 41 basis points.

For comparing to the broader market, during the first six months of 2007, the average federal funds rate was 5.25% compared with 4.68% for the first six months of 2006. The average federal funds rate was 5.25% during the second quarter of 2007 compared with 4.91% for the second quarter of 2006.

We believe that net interest margins for our industry will continue to be challenged given the current yield curve, 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 our taxable-equivalent net interest income for full year 2007 will grow in the mid-20% range and the net interest margin will improve compared with full year 2006. These expected increases are primarily due to the Mercantile acquisition as well as projected earning asset growth and funding composition and pricing.

PROVISION FOR CREDIT LOSSES

The provision for credit losses totaled \$62 million for the first six months of 2007 compared with \$66 million for the first six months of 2006. The provision for credit losses for the second

quarter of 2007 increased \$10 million, to \$54 million, compared with the second quarter of 2006. The higher provision in the quarterly comparison was primarily due to growth in total credit exposure and was more representative of expected near-term provision levels for PNC.

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. To the extent actual outcomes differ from our estimates, changes to the provision for credit losses may be required that may benefit or 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 totaled \$1.966 billion for the first six months of 2007 compared with \$2.415 billion for the first six months of 2006. Noninterest income was \$975 million for the second quarter of 2007 compared with \$1.230 billion for the second quarter of 2006.

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

- The first six months of 2007 included a net gain related to our equity investment in BlackRock of \$51 million, representing an \$82 million gain recognized during the first quarter 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 \$31 million on our remaining BlackRock LTIP shares obligation.
- The first half of 2006 included the impact of BlackRock on a consolidated basis in the amount of \$767 million. Had our BlackRock investment been on the equity method for the first six months of 2006, BlackRock's noninterest income reported by us would have been \$101 million for that period, or lower by \$666 million.

Apart from the impact of these items, noninterest income increased \$166 million, or 10%, for the first six months of 2007 compared with the first six months of 2006 largely as a result of organic growth and the acquisition of Mercantile.

A comparison of second quarter 2007 and 2006 noninterest income is impacted by the following:

- The second quarter of 2006 included the impact of BlackRock on a consolidated basis in the amount of \$361 million. Had our BlackRock investment been on the equity method for the second quarter of 2006, BlackRock's noninterest income reported by us would have been \$49 million for that quarter, or lower by \$312 million.

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Apart from the impact of this item, PNC's total noninterest income would have increased \$57 million, or 6%, during the second quarter of 2007 compared with the prior year second quarter despite significantly lower equity management and trading revenue in the 2007 period.

Additional Analysis

Asset management fees totaled \$355 million for the first six months of 2007 and \$890 million for the first six months of 2006. Asset management fees totaled \$190 million in the second quarter of 2007, a decrease of \$239 million compared with the second quarter of 2006. Our equity income from BlackRock was included in asset management fees for the first half and second quarter of 2007, while asset management fees in the corresponding prior year periods reflected the impact of BlackRock's revenue on a consolidated basis.

Assets managed at June 30, 2007 totaled \$77 billion compared with \$506 billion at June 30, 2006. BlackRock's assets under management, which were no longer included in assets managed by us at June 30, 2007 due to our deconsolidation of BlackRock effective September 29, 2006, were included in the June 30, 2006 totals. We refer you to the Retail Banking section of the Business Segments Review section of this Financial Review for further discussion of our assets under management.

Fund servicing fees declined \$19 million, to \$412 million, in the first half of 2007 compared with the prior year first half. Amounts for 2006 included \$44 million of distribution fee revenue at PFPC. Effective January 1, 2007, we refined our accounting and reporting of PFPC's distribution fee revenue and related expense amounts and present these amounts netted on a prospective basis. Prior to 2007, the distribution amounts were shown on a gross basis within fund servicing fees and within other noninterest expense. These amounts offset each other entirely and have no impact on earnings.

Fund servicing fees total \$209 million for the second quarter of 2007, a \$1 million decrease from the prior year period. Included in these amounts for the second quarter of 2006 was distribution fee revenue of \$22 million at PFPC.

PFPC provided fund accounting/administration services for \$868 billion of net fund investment assets and provided custody services for \$467 billion of fund investment assets at June 30, 2007, compared with \$743 billion and \$389 billion, respectively, at June 30, 2006. These increases were the result of new business obtained, organic growth from current customers and market appreciation.

Service charges on deposits of \$169 million for the first half of 2007 represented a \$16 million increase compared with the prior year first half. Service charges on deposits grew \$12 million, to \$92 million, in the second quarter of 2007 compared with the second quarter of 2006. The increases in both comparisons can be attributed primarily to the 2007 impact of Mercantile and to customer growth.

Brokerage fees increased \$16 million, to \$138 million, for the first six months of 2007 compared with the first six months of 2006. For the second quarter of 2007, brokerage fees totaled \$72 million compared with \$63 million in the second quarter of 2006. In both comparisons, the increases were primarily due to higher mutual fund-related revenues, including a favorable impact from products related to the fee-based fund advisory business and higher annuity income.

Consumer services fees grew \$15 million, to \$198 million, for the first half of 2007 compared with the first half of 2006. Of that increase, \$13 million occurred in the second quarter of 2007, as consumer service fees totaled \$107 million in that period. This increase reflected the 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 2007 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 increased \$43 million, to \$335 million, in the first half of 2007 compared with the first half of 2006. Corporate services revenue totaled \$176 million in the second quarter of 2007 compared with \$157 million in the second quarter of 2006. Higher revenue from various sources, including treasury management, commercial mortgage servicing, and third party consumer loan servicing activities contributed to the increases in both comparisons.

Equity management (private equity) net gains on portfolio investments totaled \$34 million for the first six months of 2007 compared with \$61 million for the first six months of 2006. For the second quarter of 2007, such gains totaled \$2 million compared with \$54 million in the prior year second quarter. Based on the nature of private equity activities, net gains or losses may be volatile from period to period; however, we expect net gains of approximately \$60 million for full year 2007.

Noninterest revenue from trading activities totaled \$81 million in the first half of 2007 and \$112 million in the first half of 2006. Noninterest revenue from trading activities was \$29 million for the second quarter of 2007 compared with \$55 million for the second quarter of 2006. Lower trading revenue in 2007, largely related to proprietary trading and hedging activities, was the primary factor in the decline in both comparisons. We expect noninterest revenue from trading activities of approximately \$45 million, on average, per quarter. 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 \$195 million for the first six months of 2007 represented a \$12 million increase compared with the first six months of 2006. Other noninterest income totaled \$98

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million for the second quarter of 2007, an increase of \$2 million from the second quarter 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 the third quarter of 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 shares obligation. Our remaining noninterest income sources are expected to increase, in the aggregate, by a low teens percentage for full year 2007 compared with 2006 as a result of organic growth and acquisitions.

Apart from the comparative impact on noninterest income of the 2006 items described above, we expect that total revenue will increase by a high teens percentage for full year 2007 compared with 2006.

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 financing 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 \$224 million for the first half of 2007 compared with \$205 million for the first half of 2006. Treasury management revenue increased 10% to \$114 million for the second quarter of 2007 compared with \$104 million for the second 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 \$143 million for the first half of 2007 compared with \$140 million in the first half of 2006, primarily driven by increased revenues from mergers and acquisitions advisory and related services. Capital markets-related products and services revenues totaled \$76 million for the second quarter of both 2007 and 2006.

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 \$110 million for first half of 2007 and \$84 million for first half of 2006, an increase of 31%. Revenue from Midland totaled \$56 million for the second quarter of 2007 compared with \$42 million for the second

quarter of 2006, an increase of 33%. The revenue growth in both comparisons 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 increased 17% to \$41 million for the first six months of 2007 compared with \$35 million for the first six months of 2006. Insurance products revenue increased 28% to \$23 million in the second quarter of 2007 compared with \$18 million in the second 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 June 30, 2007.

NONINTEREST EXPENSE

Total noninterest expense was \$1.984 billion for the first six months of 2007 and \$2.307 billion for the first six months of 2006. Total noninterest expense was \$1.040 billion for the second quarter of 2007 and \$1.145 billion for the second quarter of 2006.

Noninterest expense for the 2007 and 2006 periods covered by this analysis included the following:

- The first half of 2007 included integration costs of \$26 million, of which \$15 million were recognized in the second quarter, related to our acquisition of Mercantile.
- First half 2006 noninterest expense included \$542 million of expenses, including \$251 million in the second quarter, related to BlackRock, which was still consolidated during that time.
- Noninterest expense for the first six months 2006 also included \$19 million of BlackRock/MLIM transaction integration costs, including \$13 million in the second quarter of that year.

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Apart from the impact of these items, noninterest expense increased \$212 million, or 12%, compared with the first half of 2006. Similarly, noninterest expense increased \$144 million, or 16%, in the second quarter of 2007 compared with the prior year quarter. These increases were largely a result of the acquisition of Mercantile, increased compensation expenses and investments in growth initiatives.

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 and integration costs, we expect noninterest expense to grow by a low teens percentage for full year 2007 compared with 2006 primarily as a result of acquisitions.

We expect to continue to incur integration costs related to Mercantile. Such costs are currently estimated to be \$45 million after-tax for the second half of 2007 and will be recognized within the noninterest expense and income tax categories. We also expect to recognize a one-time after-tax charge of \$27 million related to the pending Yardville acquisition in the fourth quarter of 2007. These costs will be incurred within the provision for credit losses, noninterest expense, and income tax categories.

PERIOD-END EMPLOYEES

| | June 30, 2007 | December 31, 2006 | June 30, 2006 |
|-----------|---------------|-------------------|---------------|
| Full-time | 25,026 | 21,455 | 23,791 |
| Part-time | 3,028 | 2,328 | 2,241 |
| Total | 28,054 | 23,783 | 26,032 |

Employees as of June 30, 2007 included approximately 3,300 full-time and approximately 500 part-time Mercantile employees. BlackRock employees were included in these amounts at June 30, 2006.

EFFECTIVE TAX RATE

Our effective tax rate for the first six months of 2007 was 31.1% compared with 32.8% for the first six months of 2006. The lower effective rate for first half of 2007 was primarily due to the deconsolidation of BlackRock effective September 29, 2006. We expect our effective tax rate to be approximately 31% to 32% for the remainder of 2007 before considering the previously mentioned integration costs related to higher state deferred tax liabilities from the Mercantile and Yardville acquisitions.

CONSOLIDATED BALANCE SHEET REVIEW

SUMMARIZED BALANCE SHEET DATA

| In millions | June 30 2007 | December 31 2006 |
|--|-----------------|---------------------|
| Assets | | |
| Loans, net of unearned income | \$64,714 | \$50,105 |
| Securities available for sale | 25,903 | 23,191 |
| Loans held for sale | 2,562 | 2,366 |
| Equity investments | 5,584 | 5,330 |
| Goodwill and other intangible assets | 8,658 | 4,043 |
| Other | 18,230 | 16,785 |
| Total assets | \$125,651 | \$101,820 |
| Liabilities | | |
| Funding sources | \$101,737 | \$81,329 |
| Other | 8,040 | 8,818 |
| Total liabilities | 109,777 | 90,147 |
| Minority and noncontrolling interests in consolidated entities | 1,370 | 885 |
| Total shareholders' equity | 14,504 | 10,788 |
| Total liabilities, minority and noncontrolling interests, and shareholders' equity | \$125,651 | \$101,820 |

Our Consolidated Balance Sheet is presented in Part I, Item 1 on page 40 of this Report.

Our Consolidated Balance Sheet at June 30, 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 69 and 70) are more indicative of underlying business trends.

An analysis of changes in certain balance sheet categories follows.

LOANS, NET OF UNEARNED INCOME

Loans increased \$14.6 billion, to \$64.7 billion, at June 30, 2007 compared with the balance at December 31, 2006. Our acquisition of Mercantile added \$12.4 billion of loans including \$6.0 billion of commercial real estate, \$3.7 billion of commercial, \$1.1 billion of residential mortgage and \$1.6 billion of consumer loans.

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Details Of Loans

| In millions | June 30 2007 | December 31 2006 |
|--------------------------------------|-----------------|---------------------|
| Commercial | | |
| Retail/wholesale | \$5,908 | \$5,301 |
| Manufacturing | 4,371 | 4,189 |
| Other service providers | 2,963 | 2,186 |
| Real estate related | 4,443 | 2,825 |
| Financial services | 1,500 | 1,324 |
| Health care | 1,023 | 707 |
| Other | 4,538 | 4,052 |
| Total commercial | \$24,746 | \$20,584 |
| Commercial real estate | | |
| Real estate projects | 8,962 | 2,716 |
| Mortgage | 567 | 816 |
| Total commercial real estate | 9,529 | 3,532 |
| Equipment lease financing | 3,587 | 3,556 |
| Total commercial lending | 37,862 | 27,672 |
| Consumer | | |
| Home equity | 14,268 | 13,749 |
| Automobile | 1,962 | 1,135 |
| Other | 1,804 | 1,631 |
| Total consumer | 18,034 | 16,515 |
| Residential mortgage | 9,440 | 6,337 |
| Other | 382 | 376 |
| Unearned income | (1,004) | (795) |
| Total, net of unearned income | \$64,714 | \$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 \$497 million, or 71%, of the total allowance for loan and lease losses at June 30, 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 | June 30 2007 | December 31 2006 |
|------------------------|-----------------|---------------------|
| Commercial | \$35,527 | \$ 31,009 |
| Consumer | 11,102 | 10,495 |
| Commercial real estate | 3,688 | 2,752 |
| Other | 361 | 579 |
| Total | \$50,678 | \$ 44,835 |

Unfunded commitments are concentrated in our primary geographic markets. Net unfunded commitments at June 30, 2007 include \$4.9 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 \$9.1 billion at June 30, 2007 and \$8.3 billion at December 31, 2006.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled \$6.9 billion at June 30, 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 \$4.9 billion at June 30, 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 \$3.6 billion at June 30, 2007. Aggregate residual value at risk on the lease portfolio at June 30, 2007 was \$1.2 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 June 30, 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 examinations 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 June 30, 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 requires 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 was to be recognized through retained earnings upon adoption of FSP 13-2. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in

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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.

In the second quarter of 2007, we reduced after-tax earnings by \$13 million based on the status of our discussions with the IRS Appeals Division in resolving this matter. Further adjustments may be required in future periods as our estimates of the timing and settlement of the dispute change.

The adjustment to shareholders' equity at January 1, 2007 included 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 |
|--------------------------------------|-------------------|---------------|
| June 30, 2007 | | |
| SECURITIES AVAILABLE FOR SALE | | |
| Debt securities | | |
| Residential mortgage-backed | \$18,962 | \$18,728 |
| Commercial mortgage-backed | 4,239 | 4,149 |
| Asset-backed | 2,165 | 2,144 |
| US Treasury and government agencies | 285 | 278 |
| State and municipal | 241 | 239 |
| Other debt | 29 | 29 |
| Corporate stocks and other | 337 | 336 |
| Total securities available for sale | \$26,258 | \$25,903 |
| 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 June 30, 2007 and December 31, 2006 were less than \$.5 million.

Securities represented 21% of total assets at June 30, 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 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 June 30, 2007, securities available for sale included a net unrealized loss of \$355 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, changes in interest rates after June 30, 2007, may adversely impact the fair value of securities available for sale compared with June 30, 2007.

The expected weighted-average life of securities available for sale (excluding corporate stocks and other) was 4 years and 2 months at June 30, 2007 and 3 years and 8 months at December 31, 2006.

We estimate that at June 30, 2007 the effective duration of securities available for sale is 2.9 years for an immediate 50 basis points parallel increase in interest rates and 2.8 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2006 were 2.6 years and 2.2 years, respectively.

LOANS HELD FOR SALE

Education loans held for sale totaled \$1.4 billion at June 30, 2007 and \$1.3 billion at December 31, 2006. 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.

Loans held for sale also included commercial mortgage loans intended for securitization totaling \$758 million at June 30, 2007 and \$698 million at December 31, 2006. The amount outstanding fluctuates based on the timing of securitization transactions.

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FUNDING AND CAPITAL SOURCES

Details Of Funding Sources

| In millions | June 30 2007 | December 31 2006 |
|----------------------------------|-----------------|---------------------|
| Deposits | | |
| Money market | \$ 30,773 | \$ 28,580 |
| Demand | 20,505 | 16,833 |
| Retail certificates of deposit | 17,106 | 14,725 |
| Savings | 2,946 | 1,864 |
| Other time | 2,036 | 1,326 |
| Time deposits in foreign offices | 3,855 | 2,973 |
| Total deposits | 77,221 | 66,301 |
| Borrowed funds | | |
| Federal funds purchased | 7,212 | 2,711 |
| Repurchase agreements | 2,805 | 2,051 |
| Bank notes and senior debt | 7,537 | 3,633 |
| Subordinated debt | 4,226 | 3,962 |
| Other | 2,736 | 2,671 |
| Total borrowed funds | 24,516 | 15,028 |
| Total | \$101,737 | \$ 81,329 |

Total funding sources increased \$20.4 billion at June 30, 2007 compared with the balance at December 31, 2006, as total deposits increased \$10.9 billion and total borrowed funds increased \$9.5 billion. Our acquisition of Mercantile added \$12.5 billion of deposits and \$2.1 billion of borrowed funds. Partially offsetting the Mercantile impact on deposits compared with December 31, 2006 was a decline in retail certificates of deposit, which reflected a disciplined approach to pricing that product.

During the first quarter of 2007 we issued borrowings to fund the \$2.1 billion cash portion of the Mercantile acquisition. The remaining increase in borrowed funds was the result of growth in loans and securities, a decline in retail certificates of deposit, and the need to fund other net changes in our balance sheet.

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 \$3.7 billion, to \$14.5 billion, at June 30, 2007 compared with December 31, 2006. This increase reflected a \$2.6 billion reduction in treasury stock and a \$1.0 billion increase in capital surplus, largely due to the issuance of shares for the Mercantile acquisition.

Common shares outstanding at June 30, 2007 were 342 million compared with 293 million at December 31, 2006. The increase in shares outstanding during the first half of 2007 reflected the issuance of approximately 53 million shares in connection with the March 2007 Mercantile acquisition.

We purchased 5.4 million common shares under our common stock repurchase program during the first six months of 2007 at a total cost of \$395 million. This total included 4.0 million shares repurchased during the second quarter 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 June 30, 2007, remaining availability for purchases under this program was 9.1 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 and to have the capital flexibility to complete a total of \$800 million of share repurchases for full year 2007.

Risk-Based Capital

| Dollars in millions | June 30 2007 | December 31 2006 |
|--|-----------------|---------------------|
| Capital components | | |
| Shareholders' equity | | |
| Common | \$ 14,497 | \$ 10,781 |
| Preferred | 7 | 7 |
| Trust preferred capital securities | 511 | 965 |
| Minority interest | 984 | 494 |
| Goodwill and other intangibles | (8,153) | (3,566) |
| Eligible deferred income taxes on intangible assets | 123 | 26 |
| Pension, other postretirement benefit plan adjustments | 150 | 148 |
| Net unrealized securities losses, after-tax | 222 | 91 |
| Net unrealized (gains) losses on cash flow hedge derivatives, after-tax | 77 | 13 |
| Equity investments in nonfinancial companies | (37) | (30) |
| Other, net | (5) | (5) |
| Tier 1 risk-based capital | 8,381 | 8,924 |
| Subordinated debt | 2,773 | 1,954 |
| Eligible allowance for credit losses | 828 | 681 |
| Total risk-based capital | \$ 11,982 | \$ 11,559 |
| Assets | | |
| Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets | \$101,501 | \$ 85,539 |
| Adjusted average total assets | 115,098 | 95,590 |
| Capital ratios | | |
| Tier 1 risk-based | 8.3% | 10.4% |
| Total risk-based | 11.8 | 13.5 |
| Leverage | 7.3 | 9.3 |
| Tangible capital | | |
| Shareholders equity | \$ 14,497 | \$ 10,781 |
| Goodwill and other intangibles | (8,153) | (3,566) |
| Eligible deferred taxes | 123 | 26 |
| Tangible capital | \$ 6,467 | \$ 7,241 |
| Total assets excluding goodwill and other intangible assets, net of eligible deferred income taxes | \$117,621 | \$ 98,280 |
| Tangible common equity | 5.5% | 7.4% |

The declines in capital ratios from December 31, 2006 were due to an increase in risk-weighted assets and goodwill, primarily related to the Mercantile acquisition.

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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 June 30, 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 current bank subsidiaries will continue to meet these requirements during the remainder of 2007.

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 June 30, 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 in 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 |
|--|------------------|-----------------------|------------------|
| June 30, 2007 | | | |
| Market Street | \$4,134 | \$4,134 | \$7,058(a) |
| Collateralized debt obligations | 529 | 442 | 8 |
| Partnership interests in low income housing projects | 42 | 30 | 66 |
| Total | \$4,705 | \$4,606 | \$7,132 |
| 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 \$6.5 billion and other credit enhancements of \$6 billion at June 30, 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 June 30, 2007 and December 31, 2006 collateralized 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 \$447 million at June 30, 2007. For 93% of the liquidity facilities at June 30, 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 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 \$3.0 million and \$1.0 million, respectively, for the quarter ended June 30, 2007. Comparable amounts were \$5.9 million and \$1.9 million for the six months ended June 30, 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.

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The Note provides first loss coverage whereby the investor absorbs losses up to the amount of the Note, which was \$6.9 million as of June 30, 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 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 | | |
| June 30, 2007 | \$ 761 | \$ 761 |
| 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 adoption of FASB Staff Position No. ("FSP") FIN 46(R)7, "Application of FASB Interpretation No. 46(R) to Investment Companies." See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Part I, Item 1 of the Report. These entities are not consolidated into our financial statements as of June 30, 2007 or December 31, 2006. Information on these entities follows:

| In millions | Aggregate Assets | Aggregate Equity | PNC Risk of Loss |
|-----------------------------|------------------|------------------|------------------|
| Private Equity Funds | | | |
| June 30, 2007 | \$ 122 | \$ 122 | \$ 105 |
| 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 \$980 million at June 30, 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.

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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 June 30, 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 current report on 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.

James Monroe Trust Preferred Securities

As a result of the Mercantile acquisition, we became liable with respect to \$12 million in principal amount of junior subordinated debentures issued by one of the Mercantile banks. Under the terms of these debentures, if there is an event of default under the debentures or PNC exercises its right to defer payments on the related trust preferred securities issued by two statutory trusts or there is a default under PNC's guarantee of such payment obligations, PNC would be subject during the period of such default or deferral to restrictions on dividends and other provisions protecting the status of the debenture holders similar to those potentially imposed under the Exchange Agreement with Trust II, as described above.

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. Certain revenue and expense amounts included in this Financial Review differ from the amounts shown in Note 14 due to the presentation in this Financial Review of business revenue on a taxable-equivalent basis, the inclusion of BlackRock/MLIM transaction integration costs in the "Other" category in this Financial Review, and classification differences related to PFPC. Also, the presentation of BlackRock results for the 2006 period have been modified in this Financial Review as described on page 22 to conform with our current period presentation.

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 capital equal to 6% of funds to Retail Banking to reflect the capital required for well-capitalized banks and to

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approximate market comparables for this business. The capital assigned for PFPC reflects its legal entity shareholders' equity.

BlackRock business segment results for the six months ended June 30, 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 describe our presentation method for the BlackRock segment for this Financial Review on page 23.

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.

Results Of Businesses - Summary (Unaudited)

| Six months ended June 30 - dollars in millions | Earnings | | Revenue (a) | | Average Assets (b) | |
|--|----------|-------|-------------|---------|--------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Retail Banking | \$428 | \$375 | \$1,817 | \$1,535 | \$ 39,662 | \$ 29,326 |
| Corporate & Institutional Banking | 254 | 217 | 751 | 713 | 27,471 | 24,181 |
| BlackRock (c) (d) | 110 | 95 | 143 | 775 | 4,048 | 1,924 |
| PFPC (e) | 63 | 53 | 408 | 382 | 2,400 | 2,416 |
| Total business segments | 855 | 740 | 3,119 | 3,405 | 73,581 | 57,847 |
| Other (c) (f) | 27 | (5) | 222 | 135 | 41,834 | 34,945 |
| Total consolidated | \$882 | \$735 | \$3,341 | \$3,540 | \$ 115,415 | \$ 92,792 |

(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:

| Six months ended June 30 - (in millions) | 2007 | 2006 |
|--|---------|---------|
| Total consolidated revenue, book (GAAP) basis | \$3,327 | \$3,527 |
| Taxable-equivalent adjustment | 14 | 13 |
| Total consolidated revenue, taxable-equivalent basis | \$3,341 | \$3,540 |

(b) Period-end balances for BlackRock and PFPC. BlackRock was an equity investment at June 30, 2007 and was consolidated at June 30, 2006.

(c) For our segment reporting presentation in this Financial Review, our after-tax share of BlackRock/MLIM transaction integration costs totaling \$2 million and \$8 million for the six months ended June 30, 2007 and June 30, 2006 have been reclassified from BlackRock to "Other." "Other" for the first six months of 2007 also includes \$26 million of pretax Mercantile acquisition integration costs.

(d) For the first six months of 2007, revenue represents our equity income from BlackRock. For the first six months 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.

(f) "Other" average assets are comprised primarily of securities available for sale and residential mortgage loans associated with asset and liability management activities.

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RETAIL BANKING

(Unaudited)

Six months ended June 30

Taxable-equivalent basis

Dollars in millions

| | 2007 | 2006 |
|--|----------|----------|
| INCOME STATEMENT | | |
| Net interest income | \$987 | \$832 |
| Noninterest income | | |
| Asset management | 224 | 174 |
| Service charges on deposits | 164 | 148 |
| Brokerage | 131 | 117 |
| Consumer services | 190 | 174 |
| Other | 121 | 90 |
| Total noninterest income | 830 | 703 |
| Total revenue | 1,817 | 1,535 |
| Provision for credit losses | 60 | 37 |
| Noninterest expense | 1,075 | 900 |
| Pretax earnings | 682 | 598 |
| Income taxes | 254 | 223 |
| Earnings | \$428 | \$375 |
| AVERAGE BALANCE SHEET | | |
| Loans | | |
| Consumer | | |
| Home equity | \$14,060 | \$13,797 |
| Indirect | 1,759 | 1,003 |
| Other consumer | 1,544 | 1,225 |
| Total consumer | 17,363 | 16,025 |
| Commercial | 11,150 | 5,574 |
| Floor plan | 995 | 967 |
| Residential mortgage | 1,715 | 1,612 |
| Other | 233 | 243 |
| Total loans | 31,456 | 24,421 |
| Goodwill and other intangible assets | 4,369 | 1,584 |
| Loans held for sale | 1,558 | 1,706 |
| Other assets | 2,279 | 1,615 |
| Total assets | \$39,662 | \$29,326 |
| Deposits | | |
| Noninterest-bearing demand | \$9,974 | \$7,842 |
| Interest-bearing demand | 8,728 | 7,987 |
| Money market | 16,385 | 14,671 |
| Total transaction deposits | 35,087 | 30,500 |
| Savings | 2,614 | 2,146 |
| Certificates of deposit | 16,684 | 13,339 |
| Total deposits | 54,385 | 45,985 |
| Other liabilities | 702 | 549 |
| Capital | 3,509 | 2,961 |
| Total funds | \$58,596 | \$49,495 |
| PERFORMANCE RATIOS | | |
| Return on average capital | 25% | 26% |
| Noninterest income to total revenue | 46 | 46 |
| Efficiency | 59 | 59 |
| OTHER INFORMATION, INCLUDING MERCANTILE (a) (b) | | |
| Credit-related statistics: | | |
| Nonperforming assets (f) | \$140 | \$104 |
| Net charge-offs | \$52 | \$33 |
| Net charge-off ratio | .33% | .27% |
| Other statistics: | | |
| Full-time employees | 11,804 | 9,674 |
| Part-time employees | 2,360 | 1,526 |
| ATMs | 3,917 | 3,553 |
| Branches (c) | 1,084 | 846 |

At June 30

Dollars in millions, except where noted

| | 2007 | 2006 |
|--|------|------|
| OTHER INFORMATION, INCLUDING MERCANTILE (b) | | |
| ASSETS UNDER ADMINISTRATION (in billions) (d) | | |
| <u>Assets under management</u> | | |
| Personal | \$55 | \$40 |
| Institutional | 22 | 10 |
| Total | \$77 | \$50 |
| <u>Asset Type</u> | | |
| Equity | | |
| Fixed income | \$43 | \$31 |
| Liquidity/other | 20 | 12 |
| Total | 14 | 7 |
| Total | \$77 | \$50 |
| <u>Nondiscretionary assets under administration</u> | | |
| Personal | \$30 | \$25 |
| Institutional | 81 | 60 |

| | | |
|--|-----------|-----------|
| Total | \$111 | \$85 |
| <i>Asset Type</i> | | |
| Equity | \$47 | \$31 |
| Fixed income | 28 | 26 |
| Liquidity/other | 36 | 28 |
| Total | \$111 | \$85 |
| OTHER INFORMATION, NOT INCLUDING MERCANTILE (a) (e) | | |
| <u>Home equity portfolio credit statistics:</u> | | |
| % of first lien positions | 42% | 45% |
| Weighted average loan-to-value ratios | 70% | 69% |
| Weighted average FICO scores | 727 | 728 |
| Loans 90 days past due | .26% | .21% |
| <u>Checking-related statistics:</u> | | |
| Retail Banking checking relationships | 1,967,000 | 1,956,000 |
| Consumer DDA households using online banking | 975,000 | 897,000 |
| % of consumer DDA households using online banking | 55% | 51% |
| Consumer DDA households using online bill payment | 505,000 | 305,000 |
| % of consumer DDA households using online bill payment | 29% | 17% |
| <u>Small business loans and managed deposits:</u> | | |
| Small business loans | \$5,292 | \$4,768 |
| <u>Managed deposits:</u> | | |
| <u>On-balance sheet</u> | | |
| Noninterest-bearing demand | \$4,230 | \$4,338 |
| Interest-bearing demand | 1,585 | 1,423 |
| Money market | 2,596 | 2,661 |
| Certificates of deposit | 696 | 564 |
| <u>Off-balance sheet (g)</u> | | |
| Small business sweep checking | 1,884 | 1,493 |
| Total managed deposits | 10,991 | 10,479 |
| <u>Brokerage statistics:</u> | | |
| Margin loans | \$162 | \$194 |
| Financial consultants (h) | 767 | 775 |
| Full service brokerage offices | 99 | 100 |
| Brokerage account assets (billions) | \$47 | \$43 |
| <u>Other statistics:</u> | | |
| Gains on sales of education loans (i) | \$8 | \$11 |

(a) Presented as of June 30 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 six months ended.

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- (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 \$130 million at June 30, 2007 and \$95 million at June 30, 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 \$428 million for the first six months of 2007 compared with \$375 million for the same period in 2006. The 14% increase over the prior year 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 and in noninterest expense.

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

- The acquisition of Mercantile in the first quarter added approximately \$10.3 billion of loans and \$12.0 billion in deposits to Retail Banking. The acquisition also:
 - Added 235 branches and 256 ATMs in the first quarter,
 - Significantly increased our presence in Maryland,
 - Added to our presence in Delaware, Virginia and the Washington, DC area,
 - Significantly increased the size of our small business banking franchise, and
 - Expanded our wealth management business with the addition of \$22 billion in assets under management.
- PNC announced the pending acquisition of Yardville, which is expected to result in a leading deposit share in several wealthy counties in central New Jersey.
- PNC announced the pending acquisition of Sterling, which is expected to result in a leading deposit share in the Central Pennsylvania footprint and to enhance our presence in surrounding markets.
- Customer service and customer retention continues 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.
- Consumer and small business checking relationships increased 13,000 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 15%.
- Our investment in online banking capabilities continues to pay off. Since June 30, 2006, consumer checking households using online banking increased 9% and consumer checking households using online bill payment increased 66%.

- In September 2006, we launched our PNC-branded credit card product. As of June 30, 2007, more than 106,000 cards have been issued and we have \$221 million in receivable balances. The results to date have exceeded our expectations.
- In addition to Mercantile, we opened 26 new branches and consolidated 23 branches since June 30, 2006, for a total of 1,084 branches at June 30, 2007. We continue 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.
- Our wealth management and brokerage businesses have benefited from market conditions and strong business development.
 - Excluding the \$22 billion of assets under management related to our acquisition of Mercantile in the first quarter, assets under management increased \$5 billion compared with June 30, 2006,
 - Brokerage assets increased \$4 billion, or 9%, from June 30, 2006, and
 - Asset management and brokerage fees increased \$64 million, or 22%, over the first six months of 2006.
- The small business area continued its positive momentum. Not including the impact of Mercantile, average small business loans increased 11% over the first six months of 2006 on the strength of increased demand from both existing customers and new relationships. Small business checking relationships increased 3% and total managed deposits increased 5% over the first six months of 2006.

Total revenue for the first six months of 2007 was \$1.817 billion compared with \$1.535 billion for the same period last year. Taxable-equivalent net interest income of \$987 million increased \$155 million, or 19%, compared with 2006 due to an 18% increase in average deposits and a 29% 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 spreads we receive on both loans and deposits to continue to be under pressure.

Noninterest income increased \$127 million, or 18%, compared with the first six months of 2006 primarily driven by increased asset management fees, consumer service fees, service charges on deposits and brokerage fees. This growth can be attributed primarily to the following:

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

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The provision for credit losses increased \$23 million in the first six months of 2007, to \$60 million, compared with the 2006 period. Net charge-offs were \$52 million for the first half of 2007, an increase of \$19 million compared with the first half of 2006. The increases in provision and net charge-offs were primarily a result of continued growth in our commercial loan portfolio and charge-offs returning to a more normal level. Charge-offs over the last few years have been low compared to historical averages.

Noninterest expense in the first six months of 2007 totaled \$1.075 billion, an increase of \$175 million, or 19%, compared with the first six months of 2006. Increases were primarily attributable to the Mercantile acquisition, higher volume-related expenses tied to noninterest income, continued growth of the company's branch network, expansion of the private client group, and investments in various initiatives such as the new PNC-branded credit card.

Full-time employees at June 30, 2007 totaled 11,804, an increase of 2,130 from June 30, 2006. Excluding the impact of the Mercantile acquisition, full-time employees declined by 48 and part-time employees have increased by 470 since June 30, 2006. The increase in part-time employees is a result of 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.

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 \$8.4 billion, or 18%, compared with the first half 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 \$3.3 billion and money market deposits increased \$1.7 billion. These increases were attributable to the Mercantile acquisition and the current interest rate environment attracting customers to these products.
- Average demand deposit growth of \$2.9 billion, or 18%, 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 that targets 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 \$5.6 billion, or 100%, compared with the first six months 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 \$263 million, or 2%, compared with the first six months of 2006. Consumer loan demand has slowed as a result of the current rate environment. Our home equity loan portfolio is relationship based, with 92% of the portfolio attributable to borrowers in our primary geographic footprint. We monitor this portfolio closely and, to date, have seen no significant deterioration in credit quality.
- Average indirect loans grew \$756 million, or 75%, compared with the first half 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 \$103 million, or 6%, 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 when compared to the first six months of 2006.

Assets under management of \$77 billion at June 30, 2007 increased \$27 billion compared with the balance at June 30, 2006. The Mercantile acquisition added \$22 billion in assets under management in the first quarter and the remaining portfolio growth was a result of the effects of comparatively higher equity markets.

Nondiscretionary assets under administration of \$111 billion at June 30, 2007 increased \$26 billion compared with the balance at June 30, 2006. The growth included \$23 billion from the Mercantile acquisition in the first quarter and the remaining growth was due primarily to the effect of comparatively higher equity markets.

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CORPORATE & INSTITUTIONAL BANKING

(Unaudited)

Six months ended June 30
Taxable-equivalent basis
Dollars in millions except as noted

| | 2007 | 2006 |
|--------------------------------------|----------|----------|
| INCOME STATEMENT | | |
| Net interest income | \$377 | \$339 |
| Noninterest income | | |
| Corporate service fees | 266 | 246 |
| Other | 108 | 128 |
| Noninterest income | 374 | 374 |
| Total revenue | 751 | 713 |
| Provision for credit losses | 1 | 29 |
| Noninterest expense | 385 | 366 |
| Pretax earnings | 365 | 318 |
| Income taxes | 111 | 101 |
| Earnings | \$254 | \$217 |
| AVERAGE BALANCE SHEET | | |
| Loans | | |
| Corporate (a) | \$9,092 | \$8,552 |
| Commercial real estate | 3,405 | 2,702 |
| Commercial – real estate related | 3,237 | 2,469 |
| Asset-based lending | 4,538 | 4,353 |
| Total loans | 20,272 | 18,076 |
| Goodwill and other intangible assets | 1,669 | 1,321 |
| Loans held for sale | 1,142 | 871 |
| Other assets | 4,388 | 3,913 |
| Total assets | \$27,471 | \$24,181 |
| Deposits | | |
| Noninterest-bearing demand | \$7,017 | \$6,524 |
| Money market | 4,592 | 2,139 |
| Other | 1,020 | 856 |
| Total deposits | 12,629 | 9,519 |
| Other liabilities | 2,906 | 2,692 |
| Capital | 2,057 | 1,842 |
| Total funds | \$17,592 | \$14,053 |

(a) Includes lease financing.

Corporate & Institutional Banking earned \$254 million in the first six months of 2007 compared with \$217 million in the first six months of 2006. The increase compared with the first half of 2006 was largely the result of higher taxable-equivalent net interest income and a lower provision for credit losses, partly offset by an increase in noninterest expense.

Six months ended June 30
Taxable-equivalent basis
Dollars in millions except as noted

| | 2007 | 2006 |
|---|----------|----------|
| PERFORMANCE RATIOS | | |
| Return on average capital | 25% | 24% |
| Noninterest income to total revenue | 50 | 52 |
| Efficiency | 51 | 51 |
| COMMERCIAL MORTGAGE SERVICING PORTFOLIO (in billions) | | |
| Beginning of period | \$200 | \$136 |
| Acquisitions/additions | 44 | 32 |
| Repayments/transfers | (22) | (17) |
| End of period | \$222 | \$151 |
| OTHER INFORMATION | | |
| Consolidated revenue from: (a) | | |
| Treasury Management | \$224 | \$205 |
| Capital Markets | \$143 | \$140 |
| Midland Loan Services | \$110 | \$84 |
| Total loans (b) | \$21,662 | \$18,758 |
| Nonperforming assets (b) (c) | \$100 | \$125 |
| Net charge-offs | \$16 | \$16 |
| Full-time employees (b) | 2,084 | 1,899 |
| Net gains on commercial mortgage loan sales | \$24 | \$25 |
| Net carrying amount of commercial mortgage servicing rights (b) | \$493 | \$385 |

(a) Represents consolidated PNC amounts.

(b) At June 30.

(c) Includes nonperforming loans of \$87 million at June 30, 2007 and \$112 million at June 30, 2006.

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

- Average total loan balances increased \$2.2 billion from the prior year first half. In addition to the Mercantile acquisition in the first quarter of 2007, which fueled growth in all loan categories, continuing customer demand was also a factor in the growth in corporate loans. Competitive pressures for risk-adjusted returns in 2007 have increased due to larger amounts of liquidity in the credit markets, which has resulted in shrinking loan spreads and slowing loan growth.
- Asset quality continued to be strong as nonperforming assets declined \$25 million, or 20%, at June 30, 2007 compared with June 30, 2006. Included in the June 30, 2007 amount is \$34 million of nonperforming assets associated with the Mercantile acquisition. The provision for credit losses declined \$28 million in the comparison of the first six months of 2007 and 2006. The improvement in asset quality reflected in PNC and industry experience led to a reduction in historical default factors used to determine required reserves during the first quarter of 2007.
- Average deposit balances for the first six months of 2007 increased \$3.1 billion, or 33%, compared with the first six months of 2006. The increase in corporate money

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market deposits reflected PNC's action to avail itself of the opportunity to obtain funding from alternative sources. Noninterest-bearing deposit growth was attributable to our commercial mortgage servicing portfolio.

- Total revenue increased \$38 million, or 5%, for the first six months of 2007 compared with the first six months of 2006. The increase was driven by higher net interest income related to growth of noninterest bearing deposits as well as the increase in loans resulting from the Mercantile acquisition. Corporate service fees increased due to increased sales of treasury management products and services, commercial mortgage servicing, and mergers and acquisitions advisory services. These increases in revenue were partially offset by a decline in other noninterest income. This decline primarily reflected the high level of gains recognized in 2006 from commercial mortgage securitization hedging activity compared with the first six months of 2007. However, our fee income may be impacted by the recent volatility in the financial markets.

Commercial mortgage servicing revenue, which includes fees and net interest income, totaled \$110 million for the first half

of 2007, compared with \$84 million for the first six months of 2006. The 31% revenue growth over the first six months of 2006 was primarily driven by growth in the commercial mortgage servicing portfolio, which increased to \$222 billion. The associated increase in deposits has increased the net interest income portion of Midland Loan Services' total revenue.

- Noninterest expense increased by \$19 million, or 5%, compared with the first six months 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. In addition, noninterest expense increases reflect our business of originating transactions whose returns are heavily dependent on tax credits, whereby losses are taken through noninterest expense and the associated benefits result in a lower provision for income taxes.

See the additional revenue discussion regarding treasury management and capital markets-related products and services and commercial loan servicing on page 9.

BLACKROCK

(Unaudited)

Our BlackRock business segment earned \$110 million for the first six months of 2007 and \$95 million for the first six months of 2006. Subsequent to the September 29, 2006 deconsolidation of BlackRock, these business segment earnings are determined by taking our proportionate share of BlackRock's earnings and subtracting our additional income taxes recorded on our share of BlackRock's earnings. Also, for this business segment presentation, we reclassify our after-tax share of BlackRock/MLIM integration costs (\$2 million in 2007 and \$8 million in 2006) from BlackRock to "Other." In addition, these business segment earnings for the first half of 2006 have been reduced by minority interest in income of BlackRock, excluding MLIM transaction integration costs, totaling \$45 million.

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 \$4.0 billion at June 30, 2007 and \$3.9 billion at December 31, 2006. Based upon BlackRock's closing market price of \$156.59 per common share at June 30, 2007, the market value of our investment in BlackRock was approximately \$6.8 billion at that date. As such, an additional \$2.8 billion of pretax value was not recognized in our investment account at that date.

In June 2007, BlackRock and Quellos Group, LLC ("Quellos") announced that they had entered into a definitive agreement under which BlackRock will acquire the fund of funds business of Quellos for up to \$1.7 billion. The combined business will comprise one of the largest fund of funds platforms in the world, with over \$25 billion in assets under management. Products, including hedge, private equity and real asset fund of funds, as well as specialty and hybrid offerings, are managed on behalf of institutional and individual investors worldwide.

BlackRock's acquisition of Quellos' fund of funds business is expected to close on or about October 1, 2007, pending regulatory approvals and satisfaction of other customary closing conditions. Upon closing, Quellos will receive \$562 million in cash and \$188 million in BlackRock common stock. PNC expects to recognize a pretax gain in the mid-\$20 million range during the fourth quarter of 2007 resulting from BlackRock's issuance of shares at closing. In addition, Quellos may receive up to an additional \$970 million in cash and BlackRock common stock over 3.5 years contingent on certain measures.

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 six months ended June 30, 2006, our Consolidated Income Statement included our former 69% ownership interest in BlackRock. However, our Consolidated Balance Sheet as of June 30, 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. At that time, PNC agreed to transfer up to four million of the shares of BlackRock common stock then held by us to help fund the 2002 LTIP and future programs approved by BlackRock's board of directors, subject to certain conditions and limitations. Prior to 2006, BlackRock granted awards of approximately \$230 million under the 2002 LTIP program, of which approximately \$210 million were paid on January 30, 2007. The award payments were funded by approximately 17% in cash from BlackRock and approximately one million shares of BlackRock common stock transferred by PNC and distributed to LTIP participants.

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 the approximately one million shares transferred in January 2007.

PNC's noninterest income in the first six months of 2007 also included a \$31 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 June 30, 2007.

BlackRock granted awards of approximately \$260 million in January 2007 under an additional LTIP program, which were converted into approximately 1.5 million restricted stock units. All of these awards are subject to achieving earnings performance goals prior to the vesting date of September 29, 2011. The maximum value of awards that may be funded by PNC during the award period ending in September 2011 is approximately \$271 million, which includes the \$260 million of awards granted in January 2007. Shares remaining after that award period ends would 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 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.

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PFPC

(Unaudited)

Six months ended June 30

Dollars in millions except as noted

| | 2007 | 2006 |
|---|---------|---------|
| INCOME STATEMENT | | |
| Servicing revenue (a) | \$424 | \$401 |
| Operating expense (a) | 311 | 296 |
| Operating income | 113 | 105 |
| Debt financing | 19 | 21 |
| Nonoperating income (b) | 3 | 2 |
| Pretax earnings | 97 | 86 |
| Income taxes | 34 | 33 |
| Earnings | \$63 | \$53 |
| PERIOD-END BALANCE SHEET | | |
| Goodwill and other intangible assets | \$1,005 | \$1,018 |
| Other assets | 1,395 | 1,398 |
| Total assets | \$2,400 | \$2,416 |
| Debt financing | \$734 | \$852 |
| Other liabilities | 1,109 | 1,137 |
| Shareholder's equity | 557 | 427 |
| Total funds | \$2,400 | \$2,416 |
| PERFORMANCE RATIOS | | |
| Return on average equity | 26% | 29% |
| Operating margin (c) | 27 | 26 |
| SERVICING STATISTICS (at June 30) | | |
| Accounting/administration net fund assets (in billions) | | |
| Domestic | \$765 | \$671 |
| Offshore | 103 | 72 |
| Total | \$868 | \$743 |
| Asset type (in billions) | | |
| Money market | \$286 | \$247 |
| Equity | 373 | 317 |
| Fixed income | 118 | 110 |
| Other (d) | 91 | 69 |
| Total | \$868 | \$743 |
| Custody fund assets (in billions) | \$467 | \$389 |
| Shareholder accounts (in millions) | | |
| Transfer agency | 20 | 18 |
| Subaccounting | 50 | 47 |
| Total | 70 | 65 |
| OTHER INFORMATION | | |
| Full-time employees (at June 30) | 4,522 | 4,314 |

(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 servicing revenue.

(d) Includes alternative investment net assets serviced.

PFPC earned \$63 million for the first six months of 2007 compared with \$53 million in the year-earlier period. The earnings increase from the first half of 2006 reflected new business, organic growth and market appreciation, partly offset by client deconversions.

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

- Successful conversion of 1.9 million open transfer agency shareholder accounts during the second quarter related to a new client.
- Total fund investment assets serviced exceeded the \$100 billion threshold in the second quarter in both managed account services and offshore operations.
- Revenue growth in securities lending, alternative investments, and managed account services was approximately 30% on a year to year comparison.

Servicing revenue for the first half of 2007 increased by \$23 million, or 6%, over the first half of 2006, to \$424 million. Revenue increases related to managed accounts, transfer agency, alternative investments and securities lending drove the higher servicing revenue.

Operating expense increased \$15 million, or 5%, to \$311 million, in the first six months of 2007 compared with the first six 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.

PFPC's effective tax rate improved on a year to year comparison due to a change in providing for earnings on its foreign subsidiaries in the third quarter of 2006. The increase in income taxes reflected higher pretax earnings.

Total assets serviced by PFPC amounted to \$2.4 trillion at June 30, 2007 compared with \$1.9 trillion at June 30, 2006. This increase resulted from the new business, organic growth in existing business, and strong market appreciation experienced over the past year.

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*” and the discussion under the heading Lease and Related Tax and Accounting Matters on page 11.

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, the rate of compensation increase and the expected return on plan assets. Neither the discount rate nor the compensation increase assumptions significantly affects 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 \$30 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 six months of 2007 was \$16 million. The 2007 values and sensitivities shown above also include the qualified defined benefit plan

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maintained by Mercantile that we plan to integrate into the PNC plan as of December 31, 2007. 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 for more information regarding these plans.

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) (“AOCL”) 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 service costs to AOCL, 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 retrospective application 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.

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 June 30, 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 June 30, 2007 increased \$75 million, to \$246 million, compared with December 31, 2006. Of this increase, \$67 million related to the Mercantile portfolio.

Foreclosed lease assets of \$12 million at both June 30, 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 \$79 million at June 30, 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. This outlook, combined with expected loan or total credit exposure growth, may result in an increase in the allowance for loan and lease losses in future periods.

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Nonperforming Assets By Business

| In millions | June 30 2007 | Dec. 31 2006 |
|-----------------------------------|-----------------|-----------------|
| Retail Banking | \$ 140 | \$ 106 |
| Corporate & Institutional Banking | 100 | 63 |
| Other | 6 | 2 |
| Total nonperforming assets | \$ 246 | \$ 171 |

Change In Nonperforming Assets

| In millions | 2007 | 2006 |
|---------------------------------------|-------|-------|
| January 1 | \$171 | \$215 |
| Transferred from accrual | 189 | 127 |
| Acquisition – Mercantile | 35 | |
| Principal activity including payoffs | (90) | (46) |
| Charge-offs and valuation adjustments | (51) | (48) |
| Returned to performing | (4) | (10) |
| Asset sales | (4) | (7) |
| June 30 | \$246 | \$231 |

Accruing Loans Past Due 90 Days Or More

| Dollars in millions | Amount | | Percent of Total Outstandings | |
|------------------------|-----------------|-----------------|-------------------------------|-----------------|
| | June 30 2007 | Dec. 31 2006 | June 30 2007 | Dec. 31 2006 |
| Commercial | \$ 7 | \$ 9 | .03% | .04% |
| Commercial real estate | 10 | 5 | .10 | .14 |
| Consumer | 27 | 28 | .15 | .17 |
| Residential mortgage | 5 | 7 | .05 | .11 |
| Other | 6 | 1 | 1.57 | .27 |
| Total loans | \$ 55 | \$ 50 | .08 | .10 |

The increase in “Other” accruing loans past due 90 days or more at June 30, 2007 compared with December 31, 2006 is primarily due to a single credit which returned to current status subsequent to quarter end.

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 \$60 million at June 30, 2007 compared with \$41 million at December 31, 2006.

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

| Dollars in millions | June 30, 2007 | | December 31, 2006 | |
|------------------------|---------------|----------------------|-------------------|----------------------|
| | Allowance | Loans to Total Loans | Allowance | Loans to Total Loans |
| Commercial | \$ 497 | 38.1% | \$ 443 | 40.9% |
| Commercial real estate | 110 | 14.7 | 30 | 7.0 |
| Consumer | 45 | 28.0 | 28 | 33.1 |
| Residential mortgage | 10 | 14.6 | 7 | 12.7 |
| Lease financing | 38 | 4.0 | 48 | 5.6 |
| Other | 3 | .6 | 4 | .7 |
| Total | \$ 703 | 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 six months of 2007 and the evaluation of the allowances for loan and lease losses and unfunded loan commitments and letters of credit as of June 30, 2007 reflected loan and total credit exposure growth, changes in loan portfolio composition, refinements to model parameters, 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.

The allowance as a percent of nonperforming loans was 322% and as a percent of total loans was 1.09% at June 30, 2007. The comparable percentages at December 31, 2006 were 381% and 1.12%.

Charge-Offs And Recoveries

| Six months ended June 30 Dollars in millions | Charge-offs | Recoveries | Net Charge-offs | Percent of Average Loans |
|--|-------------|------------|-----------------|--------------------------|
| 2007 | | | | |
| Commercial | \$ 58 | \$ 15 | \$ 43 | .37% |
| Consumer | 32 | 7 | 25 | .29 |
| Commercial real estate | 1 | 1 | | |
| Total | \$ 91 | \$ 23 | \$ 68 | .23 |
| 2006 | | | | |
| Commercial | \$ 46 | \$ 10 | \$ 36 | .36% |
| Consumer | 24 | 8 | 16 | .20 |
| Lease financing | | 4 | (4) | (.29) |
| Total | \$ 70 | \$ 22 | \$ 48 | .20 |

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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 5.7% of the total allowance and .06% of total loans, net of unearned income, at June 30, 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 from credit default swaps, reflected in the Trading line item on our Consolidated Income Statement, totaled \$8 million in the first six months of 2007. For the first six months of 2006, net losses totaled \$7 million.

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 noninterest-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 second quarter of 2007 and 2006 follow:

INTEREST SENSITIVITY ANALYSIS

| | Second Quarter 2007 | Second 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 | (2.5)% | (1.3)% |
| 100 basis point decrease | 2.5% | 1.2% |
| Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of: | | |
| 100 basis point increase | (5.7)% | (3.6)% |
| 100 basis point decrease | 4.4% | 2.8% |
| Duration of Equity Model | | |
| Base case duration of equity (in years): | 3.2 | 1.0 |
| Key Period-End Interest Rates | | |
| One-month LIBOR | 5.32% | 5.33% |
| Three-year swap | 5.39% | 5.62% |

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 (Second Quarter 2007)

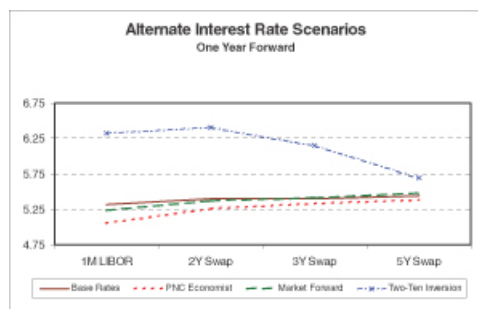
| | PNC Economist | Market Forward | Two-Ten Inversion |
|-------------------------|------------------|-------------------|----------------------|
| First year sensitivity | .5% | .2% | (8.0)% |
| Second year sensitivity | 5.8% | .9% | (7.6)% |

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.

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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 six months of 2007, our VaR ranged between \$6.1 million and \$9.3 million, averaging \$7.6 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 six 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.

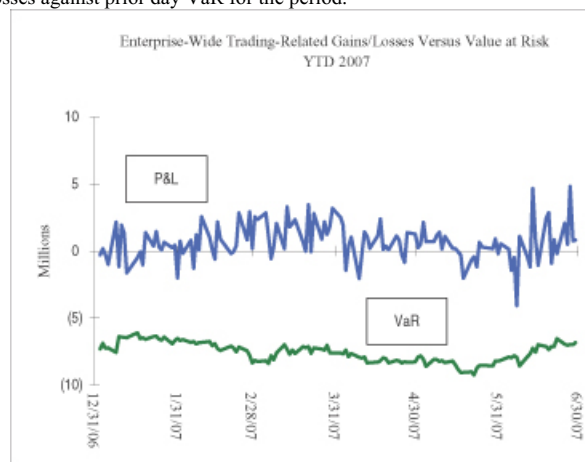


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Total trading revenue for the first half and second quarter of 2007 and 2006 was as follows:

| Six months ended June 30 - in millions | 2007 | 2006 |
|---|-------------|--------------|
| Net interest income | \$ 1 | \$ (3) |
| Noninterest income | 81 | 112 |
| Total trading revenue | \$82 | \$109 |
| Securities underwriting and trading (a) | \$17 | \$ 20 |
| Foreign exchange | 27 | 31 |
| Financial derivatives | 38 | 58 |
| Total trading revenue | \$82 | \$109 |

| Three months ended June 30 - in millions | 2007 | 2006 |
|--|-------------|-------------|
| Net interest income | \$ 1 | \$ (3) |
| Noninterest income | 29 | 55 |
| Total trading revenue | \$30 | \$52 |
| Securities underwriting and trading (a) | \$ 8 | \$ 6 |
| Foreign exchange | 13 | 17 |
| Financial derivatives | 9 | 29 |
| Total trading revenue | \$30 | \$52 |

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

Average trading assets and liabilities consisted of the following:

| Six months ended June 30 - in millions | 2007 | 2006 |
|--|----------------|----------------|
| Trading assets | | |
| Securities (a) | \$1,858 | \$1,636 |
| Resale agreements (b) | 1,254 | 350 |
| Financial derivatives (c) | 1,166 | 1,080 |
| Loans at fair value (c) | 177 | 86 |
| Total trading assets | \$4,455 | \$3,152 |
| Trading liabilities | | |
| Securities sold short (d) | \$1,348 | \$ 716 |
| Repurchase agreements and other borrowings (e) | 653 | 763 |
| Financial derivatives (f) | 1,178 | 1,052 |
| Borrowings at fair value (f) | 39 | 24 |
| Total trading liabilities | \$3,218 | \$2,555 |

| Three months ended June 30 - in millions | 2007 | 2006 |
|--|----------------|----------------|
| Trading assets | | |
| Securities (a) | \$2,144 | \$1,477 |
| Resale agreements (b) | 1,247 | 378 |
| Financial derivatives (c) | 1,221 | 1,251 |
| Loans at fair value (c) | 161 | 170 |
| Total trading assets | \$4,773 | \$3,276 |
| Trading liabilities | | |
| Securities sold short (d) | \$1,431 | \$ 769 |
| Repurchase agreements and other borrowings (e) | 669 | 641 |
| Financial derivatives (f) | 1,230 | 1,200 |
| Borrowings at fair value (f) | 40 | 48 |
| Total trading liabilities | \$3,370 | \$2,658 |

- (a) Included in Interest-earning assets-Other on the Average Consolidated Balance Sheet and 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 \$4.0 billion at June 30, 2007 compared with \$3.9 billion at December 31, 2006. The market value of our investment in BlackRock was \$6.8 billion at June 30, 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 June 30, 2007 these investments, consisting of partnerships accounted for under the equity method as well as equity investments held by consolidated partnerships, totaled \$763 million. The comparable amount at December 31, 2006 was \$708 million. PNC's equity investment at risk was \$188 million at June 30, 2007 compared with \$134 million at year-end 2006. We also had commitments to make additional equity investments in affordable housing limited partnerships of \$108 million at June 30, 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 June 30, 2007, private equity investments carried at estimated fair value totaled \$533 million compared with \$463 million at December 31, 2006. As of June 30, 2007, approximately 46% of the amount was invested directly in a variety of companies and approximately 54% was invested in various limited partnerships. Our unfunded commitments related to private equity totaled \$267 million at June 30, 2007 compared with \$283 million at December 31, 2006. At June 30, 2007, Mercantile private equity activities accounted for \$32 million and \$27 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 June 30, 2007, other investments totaled \$375 million compared with \$269 million at December 31, 2006. Approximately \$73 million of other investments at June 30,

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2007 related to Mercantile investment activities. Our unfunded commitments related to other investments totaled \$64 million at June 30, 2007 compared with \$16 million at December 31, 2006. The amounts of other investments and related unfunded commitments at June 30, 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 hold approximately a 31% equity ownership. At June 30, 2007, our capital contribution to Steel City was approximately \$28 million with a commitment to fund an additional \$50 million. The third party investor has contributed capital of \$63 million with a commitment to fund an additional \$112 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 Part I, Item 1 of this Report. This transaction did not have a material impact on our consolidated results of operations.

One of our subsidiaries acts as manager of Steel City. In this capacity it performs investment management services and administers day-to-day operations for Steel City and is 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 June 30, 2007, our liquid assets totaled \$31.4 billion, with \$23.7 billion pledged as collateral for borrowings, trust, and other commitments.

Bank Level Liquidity

PNC Bank, N.A. is a member of the Federal Home Loan Bank ("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 June 30, 2007, we maintained significant unused borrowing capacity from the Federal Reserve Bank of Cleveland's discount window and FHLB-Pittsburgh 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 June 30, 2007, PNC Bank, N.A. had issued \$5.4 billion of debt under this program, including the following second quarter 2007 bank note issuances:

- On April 3, 2007, \$500 million were issued that mature on October 3, 2008. Interest will be reset monthly to 1-month LIBOR minus 6 basis points and will be paid monthly.
- On May 17, 2007, \$1 billion were issued that mature June 17, 2008. Interest will be reset monthly to 1-month LIBOR minus 5 basis points and will be paid monthly.
- On June 28, 2007, \$1 billion were issued that mature on December 29, 2008. Interest will be reset monthly to 1-month LIBOR minus 4 basis points and will be paid monthly.

None of the second quarter issuances described above are redeemable by us or the holders 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 June 30, 2007, \$445 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.

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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 \$628 million at June 30, 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 June 30, 2007, the parent company had approximately \$1.5 billion in funds available from its cash and short-term investments. As of June 30, 2007 there were \$855 million of parent company contractual obligations with maturities of less than one year.

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.

On June 12, 2007, PNC Funding Corp issued \$500 million of Senior Notes that mature on June 12, 2009. Interest will be reset monthly to 1-month LIBOR plus 2 basis points. These notes are not redeemable by us or the holders prior to maturity.

On May 15, 2007, we redeemed Capital Securities totaling \$300 million related to PNC Institutional Capital Trust B.

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 June 30, 2007, there were no issuances outstanding under this program.

Commitments

The following tables set forth contractual obligations and various other commitments representing required and potential cash outflows as of June 30, 2007.

Contractual Obligations

| June 30, 2007 - in millions | Total |
|---|-----------------|
| Remaining contractual maturities of time deposits | \$22,996 |
| Borrowed funds | 24,516 |
| Minimum annual rentals on noncancellable leases | 1,171 |
| Nonqualified pension and postretirement benefits | 317 |
| Purchase obligations (a) | 292 |
| Total contractual cash obligations (b) | \$49,292 |

(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)

| June 30, 2007 - in millions | Total |
|-----------------------------|-----------------|
| Credit commitments | \$50,678 |
| Standby letters of credit | 4,882 |
| Other commitments (b) | 439 |
| Total commitments | \$55,999 |

(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 June 30, 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 June 30, 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

| | Notional/ Contract Amount | Estimated Net Fair Value | Weighted Average Maturity | Weighted- Average Interest Rates | |
|---|---------------------------------|-----------------------------------|---------------------------------|--|----------|
| | | | | Paid | Received |
| June 30, 2007 - dollars in millions | | | | | |
| Accounting Hedges | | | | | |
| Interest rate risk management | | | | | |
| Asset rate conversion | | | | | |
| Interest rate swaps (a) | | | | | |
| Receive fixed | \$7,305 | \$(15) | 4 yrs. 3 mos. | 5.69% | 5.55% |
| Interest rate floors (b) | 6 | | 3 yrs. 9 mos. | NM | NM |
| Forward purchase commitments | 500 | 2 | 1 mo. | NM | NM |
| Total asset rate conversion | 7,811 | (13) | | | |
| Liability rate conversion | | | | | |
| Interest rate swaps (a) | | | | | |
| Receive fixed | 5,195 | (93) | 6 yrs. 8 mos. | 5.50 | 5.41 |
| Total liability rate conversion | 5,195 | (93) | | | |
| Total interest rate risk management | 13,006 | (106) | | | |
| Commercial mortgage banking risk management | | | | | |
| Pay fixed interest rate swaps (a) | 716 | 21 | 9 yrs. 7 mos. | 5.22 | 5.57 |
| Total commercial mortgage banking risk management | 716 | 21 | | | |
| Total accounting hedges (c) | \$13,722 | \$(85) | | | |
| Free-Standing Derivatives | | | | | |
| Customer-related | | | | | |
| Interest rate | | | | | |
| Swaps | \$50,719 | \$52 | 5 yrs. 2 mos. | 5.18% | 5.19% |
| Caps/floors | | | | | |
| Sold | 2,668 | (4) | 7 yrs. 1 mo. | NM | NM |
| Purchased | 1,841 | 4 | 4 yrs. 5 mos. | NM | NM |
| Futures | 2,232 | 1 | 9 mos. | NM | NM |
| Foreign exchange | 6,997 | 4 | 5 mos. | NM | NM |
| Equity | 2,071 | (100) | 1 yr. 7 mos. | NM | NM |
| Swaptions | 4,061 | (19) | 12 yrs. 5 mos. | NM | NM |
| Total customer-related | 70,589 | (62) | | | |
| Other risk management and proprietary | | | | | |
| Interest rate | | | | | |
| Swaps | 28,135 | 22 | 4 yrs. 11 mos. | 4.98% | 5.11% |
| Caps/floors | | | | | |
| Sold | 7,250 | (27) | 2 yrs. 5 mos. | NM | NM |
| Purchased | 8,760 | 33 | 2 yrs. 4 mos. | NM | NM |
| Futures | 25,534 | (4) | 1 yr. 2 mos. | NM | NM |
| Foreign exchange | 2,855 | 6 | 6 yrs. 2 mos. | NM | NM |
| Credit derivatives | 4,922 | (1) | 8 yrs. | NM | NM |
| Risk participation agreements | 751 | | 5 yrs. 6 mos. | NM | NM |
| Commitments related to mortgage-related assets | 3,394 | (10) | 1 mo. | NM | NM |
| Options | | | | | |
| Futures | 29,079 | 2 | 6 mos. | NM | NM |
| Swaptions | 23,265 | 47 | 7 yrs. 7 mos. | NM | NM |
| Total other risk management and proprietary | 133,945 | 68 | | | |
| Total free-standing derivatives | \$204,534 | \$6 | | | |

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 63% were based on 1-month LIBOR, 30% on 3-month LIBOR and 7% on Prime Rate.

(b) Interest rate floors have a weighted-average strike of 3.20%.

(c) Fair value amounts include net accrued interest receivable of \$106 million.

NM Not meaningful

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Financial Derivatives - 2006

| | Notional/ Contract Amount | Estimated Net Fair Value | Weighted Average Maturity | Weighted- Average Interest Rates | |
|---|---------------------------------|-----------------------------|---------------------------------|--|----------|
| | | | | Paid | Received |
| December 31, 2006 - dollars in millions | | | | | |
| 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 June 30, 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 June 30, 2007, and that there has been no change in internal control over financial reporting that occurred during the second 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.

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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.

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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 and in our current year Form 10-Qs, including in the Risk Factors and Risk Management sections of those reports. 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

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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, is 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.
- 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, education lending, 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, including our pending Yardville and Sterling acquisitions. 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 June 30 | | Six months ended June 30 | |
|--|-------------------------------|---------|-----------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| <i>In millions, except per share data</i> | | | | |
| <i>Unaudited</i> | | | | |
| Interest Income | | | | |
| Loans | \$ 1,084 | \$ 797 | \$ 1,980 | \$ 1,544 |
| Securities available for sale | 355 | 255 | 665 | 498 |
| Other | 115 | 74 | 224 | 150 |
| Total interest income | 1,554 | 1,126 | 2,869 | 2,192 |
| Interest Expense | | | | |
| Deposits | 532 | 379 | 1,000 | 706 |
| Borrowed funds | 284 | 191 | 508 | 374 |
| Total interest expense | 816 | 570 | 1,508 | 1,080 |
| Net interest income | 738 | 556 | 1,361 | 1,112 |
| Provision for credit losses | 54 | 44 | 62 | 66 |
| Net interest income less provision for credit losses | 684 | 512 | 1,299 | 1,046 |
| Noninterest Income | | | | |
| Asset management | 190 | 429 | 355 | 890 |
| Fund servicing | 209 | 210 | 412 | 431 |
| Service charges on deposits | 92 | 80 | 169 | 153 |
| Brokerage | 72 | 63 | 138 | 122 |
| Consumer services | 107 | 94 | 198 | 183 |
| Corporate services | 176 | 157 | 335 | 292 |
| Equity management gains | 2 | 54 | 34 | 61 |
| Net securities gains (losses) | 1 | (8) | (2) | (12) |
| Trading | 29 | 55 | 81 | 112 |
| Net gains (losses) related to BlackRock | (1) | | 51 | |
| Other | 98 | 96 | 195 | 183 |
| Total noninterest income | 975 | 1,230 | 1,966 | 2,415 |
| Noninterest Expense | | | | |
| Compensation | 470 | 558 | 888 | 1,113 |
| Employee benefits | 74 | 76 | 146 | 163 |
| Net occupancy | 81 | 83 | 168 | 162 |
| Equipment | 79 | 80 | 150 | 157 |
| Marketing | 29 | 22 | 50 | 42 |
| Other | 307 | 326 | 582 | 670 |
| Total noninterest expense | 1,040 | 1,145 | 1,984 | 2,307 |
| Income before minority interests and income taxes | 619 | 597 | 1,281 | 1,154 |
| Minority interest in income of BlackRock | | 19 | | 41 |
| Income taxes | 196 | 197 | 399 | 378 |
| Net income | \$ 423 | \$ 381 | \$ 882 | \$ 735 |
| Earnings Per Common Share | | | | |
| Basic | \$ 1.24 | \$ 1.30 | \$ 2.71 | \$ 2.51 |
| Diluted | \$ 1.22 | \$ 1.28 | \$ 2.67 | \$ 2.47 |
| Average Common Shares Outstanding | | | | |
| Basic | 342 | 293 | 325 | 292 |
| Diluted | 346 | 297 | 329 | 297 |

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

| <i>Unaudited</i> | June 30 2007 | December 31 2006 |
|--|-----------------|---------------------|
| Assets | | |
| Cash and due from banks | \$ 3,177 | \$ 3,523 |
| Federal funds sold and resale agreements | 1,824 | 1,763 |
| Other short-term investments, including trading securities | 3,667 | 3,130 |
| Loans held for sale | 2,562 | 2,366 |
| Securities available for sale | 25,903 | 23,191 |
| Loans, net of unearned income of \$1,004 and \$795 | 64,714 | 50,105 |
| Allowance for loan and lease losses | (703) | (560) |
| Net loans | 64,011 | 49,545 |
| Goodwill | 7,745 | 3,402 |
| Other intangible assets | 913 | 641 |
| Equity investments | 5,584 | 5,330 |
| Other | 10,265 | 8,929 |
| Total assets | \$125,651 | \$ 101,820 |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing | \$ 18,302 | \$ 16,070 |
| Interest-bearing | 58,919 | 50,231 |
| Total deposits | 77,221 | 66,301 |
| Borrowed funds | | |
| Federal funds purchased | 7,212 | 2,711 |
| Repurchase agreements | 2,805 | 2,051 |
| Bank notes and senior debt | 7,537 | 3,633 |
| Subordinated debt | 4,226 | 3,962 |
| Other | 2,736 | 2,671 |
| Total borrowed funds | 24,516 | 15,028 |
| Allowance for unfunded loan commitments and letters of credit | 125 | 120 |
| Accrued expenses | 3,663 | 3,970 |
| Other | 4,252 | 4,728 |
| Total liabilities | 109,777 | 90,147 |
| Minority and noncontrolling interests in consolidated entities | 1,370 | 885 |
| Shareholders' Equity | | |
| Preferred stock (a) | | |
| Common stock - \$5 par value | | |
| Authorized 800 shares, issued 353 shares | 1,764 | 1,764 |
| Capital surplus | 2,606 | 1,651 |
| Retained earnings | 11,339 | 10,985 |
| Accumulated other comprehensive loss | (439) | (235) |
| Common stock held in treasury at cost: 11 and 60 shares | (766) | (3,377) |
| Total shareholders' equity | 14,504 | 10,788 |
| Total liabilities, minority and noncontrolling interests, and shareholders' equity | \$125,651 | \$ 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.

Six months ended June 30 - in millions

Unaudited

| | 2007 | 2006 |
|--|--------------|-------------|
| Operating Activities | | |
| Net income | \$ 882 | \$ 735 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Provision for credit losses | 62 | 66 |
| Depreciation, amortization and accretion | 155 | 182 |
| Deferred income taxes | 70 | 71 |
| Net gains related to BlackRock | (51) | |
| Undistributed earnings of BlackRock | (76) | |
| Excess tax benefits from share-based payment arrangements | (12) | (17) |
| Loans held for sale | (216) | 340 |
| Other short-term investments, including trading securities | (32) | 659 |
| Other assets | 163 | (979) |
| Accrued expenses and other liabilities | (1,088) | 529 |
| Other | (67) | (32) |
| Net cash (used) provided by operating activities | (210) | 1,554 |
| Investing Activities | | |
| Repayment of securities | 2,491 | 1,692 |
| Sales | | |
| Securities | 3,872 | 3,433 |
| Loans | 220 | 18 |
| Purchases | | |
| Securities | (8,058) | (6,460) |
| Loans | (2,615) | (658) |
| Net change in | | |
| Loans | (302) | (913) |
| Federal funds sold and resale agreements | (250) | (325) |
| Net cash paid for acquisitions | (1,890) | (55) |
| Purchases of corporate and bank-owned life insurance | (117) | |
| Other | (241) | (121) |
| Net cash used by investing activities | (6,890) | (3,389) |
| Financing Activities | | |
| Net change in | | |
| Noninterest-bearing deposits | (728) | (554) |
| Interest-bearing deposits | (780) | 3,770 |
| Federal funds purchased | 4,294 | (808) |
| Repurchase agreements | 20 | 444 |
| Other short-term borrowed funds | 415 | (534) |
| Sales/issuances | | |
| Bank notes and senior debt | 4,273 | 504 |
| Subordinated debt | 595 | |
| Other long-term borrowed funds | 71 | 412 |
| Treasury stock | 156 | 223 |
| Perpetual trust securities | 490 | |
| Repayments/maturities | | |
| Bank notes and senior debt | (575) | (850) |
| Subordinated debt | (537) | |
| Other long-term borrowed funds | (113) | (328) |
| Excess tax benefits from share-based payment arrangements | 12 | 17 |
| Acquisition of treasury stock | (460) | (232) |
| Cash dividends paid | (379) | (309) |
| Net cash provided by financing activities | 6,754 | 1,755 |
| Net Decrease In Cash And Due From Banks | (346) | (80) |
| Cash and due from banks at beginning of period | 3,523 | 3,518 |
| Cash and due from banks at end of period | \$ 3,177 | \$ 3,438 |
| Cash Paid For | | |
| Interest | \$ 1,390 | \$ 1,063 |
| Income taxes | 435 | 290 |
| Non-cash Items | | |
| Issuance of common stock for Mercantile acquisition | 3,779 | |
| Net increase in investment in BlackRock | 24 | |
| Transfer from loans to loans held for sale, net | 160 | 84 |
| Impact of FSP 13-2 | 238 | |

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 sufficient equity for the entity to finance its activities without additional subordinated financial support.

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 recognize all of the VIE’s assets, liabilities and noncontrolling interests, with future changes based upon consolidation accounting principles. See Note 6 Variable Interest Entities for more information about VIEs that we do not consolidate but 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 companies 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.

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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 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 to transfer BlackRock shares related to the BlackRock long-term incentive plan ("LTIP") programs. As we transfer the shares for payouts under such LTIP programs, we recognize a gain or loss on those shares. The impact of those transactions are shown on a net basis on our Consolidated Income Statement in net gains related to BlackRock. Our obligation to transfer BlackRock shares related to the LTIP programs and the resulting accounting are described in more detail in our 2006 Form 10-K and our current report on Form 8-K filed June 14, 2007.

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 the caption 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.

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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 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 our investment in 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 the caption 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 other short-term investments 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. Declines in the market value of available for sale debt securities that are deemed other-than-temporary 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 held for investment 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 net interest 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 the fair value reported in trading revenue. The fair value of these loans was \$167 million, or less than .5% of the total loan portfolio, at June 30, 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 included in the allowance for loan and lease losses 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 the 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 subsequent adjustments 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

interests. Retained interests that are subject to prepayment risk are reviewed on a quarterly basis for impairment. If the fair value of the retained interests 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 is reversed. We charge off these loans based on the facts and circumstances of the individual loan.

Consumer loans well-secured by residential real estate, including home equity installment loans and 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 these loans based on the facts and circumstances of the individual loan.

Consumer loans in the process of collection but not well-secured are classified as nonaccrual at 120 days past due if they are home equity installment 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

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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 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. 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 date of default,
- Amounts and timing of expected future cash flows on impaired loans,
- Value of collateral,
- Historical loss exposure 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 quantitative 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.

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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 transactions. 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 are 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 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 these 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 subsequent measurements of our servicing rights 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 net of salvage value 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 accounting 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 at inception of the hedge relationship. 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

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effective in offsetting changes in the fair value 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 and changes of the fair value of the derivative are recorded in trading noninterest income.

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 any gain or loss from the change in fair value of these derivatives, as appropriate, in trading noninterest income.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2007, the AICPA issued Statement of Position 07-1, "Clarification of the Scope of the Audit and Accounting Guide "Investment Companies" and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies" ("SOP 07-1"). This statement provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide *Investment Companies* ("Guide") and whether the specialized industry accounting principles of the Guide should be retained in the financial statements of a parent company or an equity method investor in an investment company. This guidance is effective for PNC beginning January 1, 2008. We are currently evaluating the application of this guidance to our private equity investment activities but do not anticipate that the adoption of the guidance will have a significant impact on our consolidated financial statements.

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In May 2007, the FASB issued FASB Staff Position No. (“FSP”) FIN 46(R) 7, “Application of FASB Interpretation No. 46(R) to Investment Companies.” This guidance amends paragraph 4(e) of FIN 46(R) to provide a scope exception from the consolidation provisions for investments accounted for at fair value in accordance with the specialized accounting guidance of the Guide referenced above. This guidance is effective for PNC upon adoption of SOP 07-1.

In May 2007, the FASB issued FSP FIN 48-1, “Definition of Settlement in FASB Interpretation (“FIN”) No. 48”. This FSP amended FIN 48, “Accounting for Uncertainty in Income Taxes,” to provide guidance as to the determination of whether a tax position is deemed effectively settled for purposes of recognizing previously unrecognized tax benefits under FIN 48. This guidance was adopted effective January 1, 2007 in connection with our adoption of FIN 48. See Note 11 Income Taxes for additional information.

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.
- FIN 48 “Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109,” 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.
- 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,” 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 ACQUISITIONS

MERCANTILE BANKSHARES CORPORATION

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 \$6.0 billion of commercial real estate, \$3.7 billion of commercial, \$1.1 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.

YARDVILLE NATIONAL BANCORP

On June 6, 2007, we entered into a definitive agreement to acquire Hamilton, New Jersey-based Yardville National Bancorp (“Yardville”) for approximately 3.3 million shares of PNC common stock and \$156 million in cash, subject to adjustment. Based upon PNC’s closing common stock price on June 6, 2007, the consideration represents \$403 million in stock and cash or approximately \$35.00 per Yardville share. Yardville is a commercial and consumer bank with

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approximately \$2.6 billion in assets, \$2.0 billion in deposits and 33 branches in central New Jersey and eastern Pennsylvania. This acquisition is expected to close in the fourth quarter of 2007, subject to customary closing conditions including regulatory approvals and approval by Yardville shareholders.

See Note 16 Subsequent Events regarding additional information on other recently completed or announced acquisitions.

NOTE 3 SECURITIES

| In millions | Amortized Cost | Unrealized | | Fair Value |
|---------------------------------------|-------------------|------------|---------|---------------|
| | | Gains | Losses | |
| June 30, 2007 (a) | | | | |
| SECURITIES AVAILABLE FOR SALE | | | | |
| Debt securities | | | | |
| Residential mortgage-backed | \$18,962 | \$ 14 | \$(248) | \$18,728 |
| Commercial mortgage-backed | 4,239 | 1 | (91) | 4,149 |
| Asset-backed | 2,165 | | (21) | 2,144 |
| U.S. Treasury and government agencies | 285 | | (7) | 278 |
| State and municipal | 241 | 1 | (3) | 239 |
| Other debt | 29 | | | 29 |
| Total debt securities | 25,921 | 16 | (370) | 25,567 |
| Corporate stocks and other | 337 | | (1) | 336 |
| Total securities available for sale | \$26,258 | \$ 16 | \$(371) | \$25,903 |
| 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 June 30, 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 June 30, 2007, securities available for sale included a net unrealized loss of \$355 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 \$371 million gross unrealized loss amount at June 30, 2007, \$191 million related to securities that had been in a loss position for 12 months or more. The fair value of those securities totaled approximately \$6.7 billion. Of those securities in an unrealized loss position for 12 months or more as of June 30, 2007, PNC held 26 residential mortgage-backed security positions with fair value totaling \$338 million that had an unrealized loss of more than 5% when compared with

their amortized cost. The unrealized loss on these positions totaled \$31 million and, the unrealized loss amount on any individual position did not exceed \$5 million. These securities are primarily collateralized mortgage obligations where amortized cost closely approximates the par value of the security. At June 30, 2007, these securities are either US government agency issued or rated "AAA." PNC also held 14 commercial mortgage-backed security positions with fair value totaling \$283 million that had an unrealized loss of more than 5% when compared to their amortized cost and had been in an unrealized loss position for 12 months or more. The unrealized loss on these positions totaled \$17 million and, the unrealized loss amount on any individual position did not exceed \$3 million. At June 30, 2007, these securities were all rated "AAA." At June 30, 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 June 30, 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.

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The expected weighted-average life of securities available for sale (excluding corporate stocks and other) was 4 years and 2 months at June 30, 2007 and 3 years and 8 months at December 31, 2006.

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

Securities Sold

| Six months ended June 30 | | | | | |
|-----------------------------|----------------|----------------|-----------------|--------------------------|--|
| In millions | Proceeds | Gross Gains | Gross Losses | Net Gains (Losses) | Income Tax Expense/ (Benefit) |
| 2007 | \$3,872 | \$ 10 | \$ (12) | \$ (2) | \$ (1) |
| 2006 | 3,433 | 1 | (13) | (12) | (4) |

The fair value of securities pledged to secure public and trust deposits and repurchase agreements and for other purposes was \$23.7 billion at June 30, 2007 and \$10.6 billion at 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, 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 \$1.4 billion at June 30, 2007 and December 31, 2006 and is a component of Federal funds sold and Resale agreements on our Consolidated Balance Sheet. Of the permitted amount, \$1.1 billion was repledged to others at June 30, 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 | June 30 2007 | December 31 2006 |
|---|---------------|------------------|
| Nonaccrual loans | | |
| Commercial | \$ 126 | \$ 109 |
| Commercial real estate | 62 | 12 |
| Consumer | 14 | 13 |
| Residential mortgage | 14 | 12 |
| Lease financing | 2 | 1 |
| Total nonaccrual loans | 218 | 147 |
| Foreclosed and other assets | | |
| Lease | 12 | 12 |
| Residential mortgage | 12 | 10 |
| Other | 4 | 2 |
| Total foreclosed and other assets | 28 | 24 |
| Total nonperforming assets (a) (b) | \$ 246 | \$ 171 |
| Nonperforming loans to total loans | .34% | .29% |
| Nonperforming assets to total loans and foreclosed assets | .38 | .34 |
| Nonperforming assets to total assets | .20 | .17 |

(a) Excludes equity management assets carried at estimated fair value of \$13 million at June 30, 2007 and \$11 million at December 31, 2006 (amounts include troubled debt restructured assets of \$4 million at both June 30, 2007 and December 31, 2006).

(b) Excludes loans held for sale carried at lower of cost or market value of \$17 million at June 30, 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 | (58) | (46) |
| Commercial real estate | (1) | |
| Consumer | (32) | (24) |
| Total charge-offs | (91) | (70) |
| Recoveries | | |
| Commercial | 15 | 10 |
| Commercial real estate | 1 | |
| Consumer | 7 | 8 |
| Lease financing | | 4 |
| Total recoveries | 23 | 22 |
| Net recoveries (charge-offs) | | |
| Commercial | (43) | (36) |
| Consumer | (25) | (16) |
| Lease financing | | 4 |
| Total net charge-offs | (68) | (48) |
| Provision for credit losses | 62 | 66 |
| Acquired allowance – Mercantile | 137 | |
| Net change in allowance for unfunded loan commitments and letters of credit | 12 | (3) |
| Allowance at June 30 | \$703 | \$611 |

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 | (12) | 3 |
| Allowance at June 30 | \$125 | \$103 |

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NOTE 5 GOODWILL AND OTHER INTANGIBLE ASSETS

A summary of the changes in goodwill by business segment for the six months ended June 30, 2007 follows:

Goodwill

| In millions | December 31 2006 | Additions/ Adjustments | June 30 2007 |
|-----------------------------------|---------------------|---------------------------|-----------------|
| Retail Banking | \$ 1,466 | \$ 3,952 | \$5,418 |
| Corporate & Institutional Banking | 938 | 367 | 1,305 |
| PFPC | 968 | | 968 |
| BlackRock | 30 | 30 | 60 |
| Other | | (6) | (6) |
| Total | \$ 3,402 | \$ 4,343 | \$7,745 |

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 June 30, 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 | June 30 2007 | December 31 2006 |
|---|-----------------|---------------------|
| Customer-related and other intangibles | | |
| Gross carrying amount | \$ 623 | \$ 342 |
| Accumulated amortization | (215) | (178) |
| Net carrying amount | \$ 408 | \$ 164 |
| Mortgage and other loan servicing rights | | |
| Gross carrying amount | \$ 751 | \$ 689 |
| Accumulated amortization | (246) | (212) |
| Net carrying amount | \$ 505 | \$ 477 |
| Total | \$ 913 | \$ 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 six months ended June 30, 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 | 4,315 | 281 | 7 |
| Retail Banking | (2) | | 55 |
| BlackRock | 30 | | |
| Amortization | | (37) | (34) |
| Balance at June 30, 2007 | \$ 7,745 | \$ 408 | \$ 505 |

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 \$88 million and \$64 million for the six months ended June 30, 2007 and June 30, 2006, respectively. Comparable amounts for the three months ended June 30, 2007 and June 30, 2006 totaled \$45 million and \$31 million, respectively. We also generate servicing revenue from fee-based activities provided to others.

Amortization expense on intangible assets for the first half of 2007 was \$71 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: \$115 million,
- 2008: \$151 million,
- 2009: \$135 million,
- 2010: \$113 million,
- 2011: \$97 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 June 30, 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.

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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 |
|--|------------------|-----------------------|------------------|
| June 30, 2007 | | | |
| Market Street | \$ 4,134 | \$ 4,134 | \$7,058(a) |
| Collateralized debt obligations | 529 | 442 | 8 |
| Partnership interests in low income housing projects | 42 | 30 | 66 |
| Total | \$ 4,705 | \$ 4,606 | \$7,132 |
| 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 \$6.5 billion and other credit enhancements of \$6 billion at June 30, 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 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 June 30, 2007 and December 31, 2006 collateralized 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 \$447 million at June 30, 2007. For 93% of the liquidity facilities at June 30, 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 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 \$3.0 million and \$1.0 million, respectively, for the quarter ended June 30, 2007. Comparable amounts were \$5.9 million and \$1.9 million for the six months ended June 30, 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 \$6.9 million as of June 30, 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 | | |
| June 30, 2007 | \$ 761 | \$ 761 |
| 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 adoption of FASB Staff Position No. ("FSP") FIN 46(R)7, "Application of FASB

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Interpretation No. 46(R) to Investment Companies.” See Note 1 Accounting Policies. These entities are not consolidated into our financial statements as of June 30, 2007 or December 31, 2006. Information on these entities follows:

| In millions | Aggregate Assets | Aggregate Equity | PNC Risk of Loss |
|-----------------------------|------------------|------------------|------------------|
| Private Equity Funds | | | |
| June 30, 2007 | \$ 122 | \$ 122 | \$ 105 |
| 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. Our first quarter 2007 Form 10-Q and our current report on Form 8-K filed on March 30, 2007 include additional information regarding the Trust II Securities, including descriptions of replacement capital and dividend restriction covenants.

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 \$980 million at June 30, 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. In May 2007, we redeemed all of the underlying Capital Securities, totaling \$300 million, relating to PNC Institutional Capital Trust B.

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 June 30, 2007.

At June 30, 2007, our remaining Capital Securities represent non-voting preferred beneficial interests in the assets of 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.

The obligations of the respective parent of each Trust described above, 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.

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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 second quarter and first six months of 2007 and 2006 were as follows:

| | Qualified Pension Plan | | Nonqualified Pension Plan | | Post-retirement Benefits | |
|---|------------------------|--------|---------------------------|------|--------------------------|------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Three months ended June 30 In millions | | | | | | |
| Service cost | \$ 10 | \$ 8 | \$ 1 | \$ 1 | \$ 1 | \$ 1 |
| Interest cost | 20 | 17 | 2 | 1 | 4 | 3 |
| Expected return on plan assets | (39) | (33) | | | | |
| Amortization of prior service cost | | | | | (2) | (2) |
| Recognized net actuarial loss | 1 | 2 | 1 | | | |
| Net periodic cost (benefit) | \$ (8) | \$ (6) | \$ 3 | \$ 2 | \$ 3 | \$ 2 |

| | Qualified Pension Plan | | Nonqualified Pension Plan | | Post-retirement Benefits | |
|---|------------------------|--------|---------------------------|------|--------------------------|------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Six months ended June 30 In millions | | | | | | |
| Service cost | \$ 20 | \$ 17 | \$ 1 | \$ 1 | \$ 1 | \$ 1 |
| Interest cost | 39 | 34 | 3 | 2 | 7 | 7 |
| Expected return on plan assets | (76) | (65) | | | | |
| Amortization of prior service cost | | | | | (3) | (4) |
| Recognized net actuarial loss | 1 | 8 | 1 | 1 | | 1 |
| Net periodic cost (benefit) | \$ (16) | \$ (6) | \$ 5 | \$ 4 | \$ 5 | \$ 5 |

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

June 30, 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 six months of 2007 and 2006 was approximately \$12 million and \$13 million, respectively.

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 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 six months ended June 30 | 2007 | 2006 |
|---|----------|----------|
| Risk-free interest rate | 4.8% | 4.4% |
| Dividend yield | 3.4% | 3.7% |
| Volatility | 19.2% | 20.6% |
| Expected life | 4.4 yrs. | 5.5 yrs. |

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The following table summarizes PNC stock option information as of and for the six month period ending June 30, 2007:

| | Shares (thousands) | Weighted-Average Exercise Price |
|-------------------------------------|-----------------------|---------------------------------------|
| Outstanding at December 31, 2006 | 14,950 | \$ 59.29 |
| Granted | 1,951 | 73.16 |
| Exercised | (2,079) | 55.03 |
| Forfeited | (124) | 68.41 |
| Outstanding at June 30, 2007 | 14,698 | \$ 61.65 |
| Exercisable at June 30, 2007 | 10,627 | \$ 59.18 |

The weighted-average grant-date fair value of options granted during the first half of 2007 and 2006 was \$10.65 and \$10.01, respectively. During the first half of 2007 we issued approximately 1.7 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 Awards and Restricted Stock/Unit Awards

The fair value of nonvested incentive/performance unit share awards 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 share awards 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 share awards. 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 share awards 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 awards and restricted stock/unit awards during the first half of 2007 was approximately \$21 million, compared with \$24 million during the first half of 2006.

The following table summarizes PNC nonvested incentive/performance unit share awards and restricted stock/unit awards as of and for the six month period ending June 30, 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 | 133 | 69.04 | 590 | 70.01 |
| Vested | | | (890) | 60.83 |
| Forfeited | (8) | 64.31 | (73) | 61.11 |
| June 30, 2007 | 311 | \$66.24 | 2,052 | \$59.47 |

The weighted-average grant-date fair value of incentive/performance unit share awards 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 June 30, 2007, there was \$59 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 \$30 million of pretax net losses, or \$19 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

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June 30, 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 June 30, 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 \$1 million net loss for the six months ended June 30, 2007 and a \$2 million net loss for the six months ended June 30, 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, basis and total rate of return swaps, interest rate caps, floors and futures contracts, 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 June 30, 2007 we held cash and US government and mortgage-backed securities with a fair value of \$136 million and pledged cash with a fair value of \$172 million under these agreements.

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The total notional or contractual amounts, estimated net fair value and credit risk for derivatives at June 30, 2007 and December 31, 2006 were as follows:

| In millions | June 30, 2007 | | | December 31, 2006 | | |
|--|---------------------------------|-----------------------------|-------------|---------------------------------|-----------------------------|-------------|
| | Notional/ Contract amount | Estimated net fair value | Credit risk | Notional/ Contract amount | Estimated net fair value | Credit risk |
| ACCOUNTING HEDGES | | | | | | |
| Fair value hedges | \$5,917 | \$(72) | \$60 | \$4,996 | \$(1) | \$51 |
| Cash flow hedges | 7,805 | (13) | 32 | 7,815 | 62 | 72 |
| Total | \$13,722 | \$(85) | \$92 | \$12,811 | \$61 | \$123 |
| FREE-STANDING DERIVATIVES | | | | | | |
| Interest rate contracts | \$127,139 | \$77 | \$728 | \$101,749 | \$21 | \$533 |
| Equity contracts | 2,071 | (100) | 153 | 2,393 | (63) | 134 |
| Foreign exchange contracts | 9,852 | 10 | 89 | 7,203 | | 61 |
| Credit derivatives | 4,922 | (1) | 11 | 3,626 | (11) | 5 |
| Options | 56,405 | 30 | 244 | 97,669 | 68 | 306 |
| Risk participation agreements | 751 | | | 786 | | |
| Commitments related to mortgage-related assets | 3,394 | (10) | 7 | 2,723 | 10 | 15 |
| Other | | | | 20 | | |
| Total | \$204,534 | \$6 | \$1,232 | \$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 June 30 | | Six months ended June 30 | |
|--|----------------------------|---------|--------------------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| CALCULATION OF BASIC EARNINGS PER COMMON SHARE | | | | |
| Net income applicable to basic earnings per common share (a) | \$423 | \$381 | \$882 | \$735 |
| Basic weighted-average common shares outstanding (in thousands) | 342,315 | 292,674 | 325,341 | 292,352 |
| Basic earnings per common share | \$1.24 | \$1.30 | \$2.71 | \$2.51 |
| (a) Preferred dividends declared were less than \$.5 million for each period. | | | | |
| CALCULATION OF DILUTED EARNINGS PER COMMON SHARE (b) (c) | | | | |
| Net income | \$423 | \$381 | \$882 | \$735 |
| Less: BlackRock adjustment for common stock equivalents | 2 | 1 | 4 | 3 |
| Net income applicable to diluted earnings per common share | \$421 | \$380 | \$878 | \$732 |
| Basic weighted-average common shares outstanding (in thousands) | 342,315 | 292,674 | 325,341 | 292,352 |
| Conversion of preferred stock Series A and B | 65 | 72 | 65 | 73 |
| Conversion of preferred stock Series C and D | 551 | 588 | 557 | 591 |
| Conversion of debentures | 2 | 2 | 2 | 2 |
| Exercise of stock options | 1,841 | 2,027 | 1,927 | 2,136 |
| Incentive/performance unit share and restricted stock/unit awards | 1,175 | 1,549 | 1,228 | 1,583 |
| Diluted weighted-average common shares outstanding (in thousands) | 345,949 | 296,912 | 329,120 | 296,737 |
| Diluted earnings per common share | \$1.22 | \$1.28 | \$2.67 | \$2.47 |
| (b) Excludes stock options considered to be anti-dilutive (in thousands) | 4,389 | 4,600 | 4,389 | 4,610 |
| (c) Excludes exchangeable senior notes considered to be anti-dilutive (in thousands) | 7,779 | | 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 tax 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 six months of 2007, unrecognized tax benefits increased by \$41 million primarily due to our acquisition of Mercantile.

It is difficult to project the positions for which unrecognized tax benefits will change over the next 12 months, but it is reasonably possible that they could change significantly due to events such as completion of taxing authority audits and expirations of the statutes of limitations. However, we do not expect that any changes in unrecognized tax benefits would have a material impact on income tax expense during the next 12 months.

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. We continue to discuss a resolution of this matter with the IRS. 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 through June 30, 2007 increased to \$95 million, primarily due to the Mercantile acquisition.

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NOTE 12 SHAREHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME

Activity in shareholders' equity for the first six months of 2007 follows. Our preferred stock outstanding as of June 30, 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 | | | | 882 | | | 882 |
| Other comprehensive income (loss), net of tax | | | | | | | |
| Net unrealized securities losses | | | | | (131) | | (131) |
| Net unrealized losses on cash flow hedge derivatives | | | | | (64) | | (64) |
| Pension, other postretirement and postemployment benefit plan adjustments | | | | | (2) | | (2) |
| Other (a) | | | | | (7) | | (7) |
| Comprehensive income | | | | | | | 678 |
| Cash dividends declared | | | | | | | |
| Common (\$1.18 per share) | | | | (379) | | | (379) |
| Net effect of adopting FSP FAS 13-2 | | | | (149) | | | (149) |
| Treasury stock activity-acquisitions | 53 | | 881 | | | 2,898 | 3,779 |
| Treasury stock activity-all other | (4) | | (3) | | | (287) | (290) |
| Tax benefit of stock option plans | | | 13 | | | | 13 |
| Stock options granted | | | 12 | | | | 12 |
| Effect of BlackRock equity transactions | | | 50 | | | | 50 |
| Restricted stock/unit and incentive/performance unit share transactions | | | 2 | | | | 2 |
| Balance at June 30, 2007 | 342 | \$ 1,764 | \$2,606 | \$11,339 | \$ (439) | \$(766) | \$14,504 |

Comprehensive income for the six months ended June 30, 2006 totaled \$492 million.

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

| Six months ended June 30, 2007 In millions | Pretax | Tax (Expense) Benefit | After-tax |
|---|---------|-----------------------|-----------|
| Change in net unrealized securities losses | | | |
| Increase in net unrealized losses on securities held at period end | \$(221) | \$ 83 | \$(138) |
| Less: Net losses realized in net income (b) | (11) | 4 | (7) |
| Change in net unrealized securities losses | (210) | 79 | (131) |
| Change in net unrealized losses on cash flow hedge derivatives | | | |
| Increase in net unrealized losses on cash flow hedge derivatives | (106) | 37 | (69) |
| Less: Net losses realized in net income | (8) | 3 | (5) |
| Change in net unrealized losses on cash flow hedge derivatives | (98) | 34 | (64) |
| Change in pension, other postretirement and postemployment benefit plan adjustments | (8) | 6 | (2) |
| Change in other (a) | (3) | (4) | (7) |
| Change in other comprehensive income (loss) | \$(319) | \$ 115 | \$(204) |

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

| In millions | June 30, 2007 | | December 31, 2006 | |
|---|---------------|-----------|-------------------|-----------|
| | Pretax | After-tax | Pretax | After-tax |
| Net unrealized securities gains (losses) | \$(350) | \$ (222) | \$(140) | \$ (91) |
| Net unrealized gains (losses) on cash flow hedge derivatives | (118) | (77) | (20) | (13) |
| Pension, other postretirement and postemployment benefit plan adjustments | (236) | (150) | (228) | (148) |
| Other, net (a) | 24 | 10 | 27 | 17 |
| Accumulated other comprehensive loss | \$(680) | \$ (439) | \$(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

Adelphia

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 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 non-settled lawsuits. 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.

Data Treasury

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 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 Patent Office has since issued a final office action in the reexamination of one of the patents allowing all but two of the pending claims in that patent. Data Treasury has filed an amendment addressing the two rejected claims. We expect Data Treasury to move to lift the stay once that amendment has been acted upon by the Patent Office. The lawsuit has been proceeding with respect to the other patents.

CBNV Mortgage Litigation

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 was merged into one of Mercantile's banks. That bank 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.

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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.

PAGIC

In May 2007, the settlement of the securities class action lawsuit related to our three 2001 PAGIC transactions became final. Several lawsuits had been filed in 2002 in the United States District Court for the Western District of Pennsylvania. They were then consolidated as a class action on behalf of buyers of our common stock between July 19, 2001 and July 18, 2002. In their consolidated amended complaint, the plaintiffs alleged violations of federal securities laws related to disclosures about the PAGIC transactions. The complaint named PNC, our Chairman and Chief Executive Officer, our former Chief Financial Officer, our Controller, and our former independent auditors for 2001 as defendants.

In March 2005, PNC and the three individual defendants reached a settlement agreement with the plaintiffs and filed it with the court. The settlement also covered claims by three unrelated entities that were involved in the PAGIC transactions but were not parties to the lawsuit. The court approved our settlement in July 2006. Our former auditors appealed the court's approval of our settlement. While the appeal was pending, our former auditors filed their own settlement agreement with the court in December 2006. When the auditors' settlement became final in May 2007, they dismissed their appeal of our settlement. At that point, our settlement of the securities lawsuit became final, as did several settlements of related claims as described below.

Described below are the key terms of the various settlements that have become final.

- **Settlement Fund.** The insurers under our Executive Blended Risk insurance coverage funded a \$30 million settlement fund to be used for the benefit of the class. Other parties have funded additional amounts to be used for the same purpose. Neither PNC nor any of our current or former officers, directors or employees was required to contribute any amounts to this settlement fund.

Previously, a subsidiary of PNC had entered into a Deferred Prosecution Agreement with the United States Department of Justice related to the PAGIC transactions. Under this agreement, we paid \$90 million to establish a Restitution Fund. The Restitution Fund is available to settle claims, including those in the securities lawsuit. Louis W. Fryman, chair emeritus of Fox Rothschild LLP in

Philadelphia, Pennsylvania, is administering the Restitution Fund. The plaintiffs and Mr. Fryman are coordinating the administration and distribution of the settlement fund and the Restitution Fund.

- **Assignment of Claims.** We assigned to the plaintiffs claims arising from the PAGIC transactions that we may have had against our former independent auditors for 2001 and other unaffiliated third parties. This assignment did not include claims against AIG Financial Products and related parties (collectively, "AIG"). We settled our claims against AIG Financial Products and its affiliate, American International Surplus Lines Insurance Company ("AISLIC") in connection with our settlement of the securities lawsuit. AIG Financial Products was our counterparty in the PAGIC transactions. AISLIC is one of the insurers under our Executive Blended Risk insurance coverage.
- **Insurance Claims.** We have settled our claims against four of the insurers under our Executive Blended Risk insurance coverage (including, as noted above, AISLIC) related to our contribution to the Restitution Fund. We reached these settlements in December 2004, January 2005, March 2005 and May 2007. Under the March 2005 settlement, we had agreed to return the settlement amount (\$11.25 million) if the settlement of the securities lawsuit did not become final. As the settlement of the securities lawsuit is now final, we no longer could be required to return this amount. We have pending litigation against other insurers with which we have not settled.
- **IFS Claims.** Because our Incentive Savings Plan holds shares of our common stock, the Administrative Committee of this Plan retained Independent Fiduciary Services, Inc. ("IFS") in 2003 to act as independent fiduciary on behalf of the Plan and represent its interests in connection with the securities lawsuit and in evaluating other potential claims related to the PAGIC transactions. On behalf of the Plan and its participants and beneficiaries, IFS opted to participate in the settlement of the securities lawsuit, and negotiated a special payment to the Plan from the Restitution Fund. We have entered into a Settlement Agreement and Release of Claims with IFS relating to claims the Plan and its participants and beneficiaries may have in connection with the PAGIC transactions.

The United States Department of Labor had previously begun a formal investigation of PNC and the Administrative Committee with respect to its conduct relating to our common stock held by the Plan. The Department of Labor is not a party to our settlement with IFS. IFS has routinely communicated with the Department of Labor in connection with IFS's actions on behalf of the Plan and its participants.

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- **Other Claims.** The derivative claims asserted by one of our shareholders related to the PAGIC transactions were resolved as a result of the settlement of the securities lawsuit.
- **Other Releases.** We have released the insurers providing our Executive Blended Risk insurance coverage from any further liability to PNC arising out of the events that gave rise to the securities lawsuit, with certain exceptions. These releases do not cover our claims against these insurers relating to the \$90 million payment to the Restitution Fund. As noted above, we have settled these claims against four of our insurers. In addition, PNC has exchanged releases with the plaintiffs in the securities lawsuit, AIG and our former independent auditors, with respect to claims arising out of the PAGIC transactions.

We are responsible for the costs of administering the settlement fund and the Restitution Fund. We do not expect such costs to be material.

Regulatory and Governmental Inquiries

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.

Other

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 capital assigned for PFPC reflects its legal entity shareholders' equity.

BlackRock business segment results for the three months and six months ended June 30, 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 June 30, 2007 was approximately \$6.8 billion. Our BlackRock business segment information for the three months and six months ended June 30, 2006 included in this Note 14 was not restated.

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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 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 second quarter and first half 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 1,084 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 June 30, 2007, BlackRock’s assets under management were approximately \$1.23 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 \$2.4 trillion in total assets and 70 million shareholder accounts as of June 30, 2007 both domestically and internationally through its Ireland and Luxembourg operations.

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Business Segment Results

Three months ended June 30
In millions

| | Retail Banking | Corporate & Institutional Banking | BlackRock | PFPC | Other | Intercompany Eliminations | Consolidated |
|---|-------------------|---|-----------|---------|----------|------------------------------|--------------|
| 2007 | | | | | | | |
| INCOME STATEMENT | | | | | | | |
| Net interest income (expense) | \$ 533 | \$ 191 | | \$ (4) | \$ 18 | | \$ 738 |
| Noninterest income | 443 | 187 | \$ 74 | 212 | 66 | \$ (7) | 975 |
| Total revenue | 976 | 378 | 74 | 208 | 84 | (7) | 1,713 |
| Provision for (recoveries of) credit losses | 37 | 17 | | | | | 54 |
| Depreciation and amortization | 33 | 6 | | 14 | 23 | | 76 |
| Other noninterest expense | 546 | 186 | | 144 | 93 | (5) | 964 |
| Earnings (loss) before income taxes | 360 | 169 | 74 | 50 | (32) | (2) | 619 |
| Income taxes | 133 | 47 | 17 | 18 | (21) | 2 | 196 |
| Earnings (loss) | \$ 227 | \$ 122 | \$ 57 | \$ 32 | \$ (11) | \$ (4) | \$ 423 |
| Inter-segment revenue | \$ 6 | \$ 1 | \$ 4 | \$ 4 | \$ (8) | \$ (7) | |
| AVERAGE ASSETS (a) | \$44,774 | \$ 28,477 | \$ 4,048 | \$2,400 | \$47,367 | \$ (3,746) | \$ 123,320 |

2006

| | | | | | | | |
|--|----------|-----------|----------|---------|----------|------------|-----------|
| INCOME STATEMENT | | | | | | | |
| Net interest income (expense) | \$ 423 | \$ 167 | \$ 5 | \$ (10) | \$ (29) | | \$ 556 |
| Noninterest income | 358 | 209 | 360 | 218 | 102 | \$ (17) | 1,230 |
| Total revenue | 781 | 376 | 365 | 208 | 73 | (17) | 1,786 |
| Provision for credit losses | 28 | 17 | | | (1) | | 44 |
| Depreciation and amortization | 17 | 6 | 10 | 15 | 24 | | 72 |
| Other noninterest expense | 443 | 185 | 254 | 152 | 56 | (17) | 1,073 |
| Earnings (loss) before minority interest in BlackRock and income taxes | 293 | 168 | 101 | 41 | (6) | | 597 |
| Minority interest in BlackRock | | | | | 19 | | 19 |
| Income taxes | 108 | 53 | 38 | 15 | (17) | | 197 |
| Earnings (loss) | \$ 185 | \$ 115 | \$ 63 | \$ 26 | \$ (8) | | \$ 381 |
| Inter-segment revenue | \$ 3 | \$ 1 | \$ 8 | \$ 3 | \$ 2 | \$ (17) | |
| AVERAGE ASSETS (a) | \$29,283 | \$ 24,569 | \$ 1,924 | \$2,416 | \$38,470 | \$ (3,215) | \$ 93,447 |

Six months ended June 30
In millions

| | Retail Banking | Corporate & Institutional Banking | BlackRock | PFPC | Other | Intercompany Eliminations | Consolidated |
|---|-------------------|---|-----------|---------|----------|------------------------------|--------------|
| 2007 | | | | | | | |
| INCOME STATEMENT | | | | | | | |
| Net interest income (expense) | \$ 984 | \$ 371 | | \$ (9) | \$ 15 | | \$ 1,361 |
| Noninterest income | 830 | 374 | \$ 140 | 417 | 222 | \$ (17) | 1,966 |
| Total revenue | 1,814 | 745 | 140 | 408 | 237 | (17) | 3,327 |
| Provision for (recoveries of) credit losses | 60 | 1 | | | 1 | | 62 |
| Depreciation and amortization | 55 | 11 | | 29 | 47 | | 142 |
| Other noninterest expense | 1,020 | 374 | | 282 | 178 | (12) | 1,842 |
| Earnings (loss) before income taxes | 679 | 359 | 140 | 97 | 11 | (5) | 1,281 |
| Income taxes | 251 | 105 | 32 | 34 | (28) | 5 | 399 |
| Earnings (loss) | \$ 428 | \$ 254 | \$ 108 | \$ 63 | \$ 39 | \$ (10) | \$ 882 |
| Inter-segment revenue | \$ 12 | \$ 4 | \$ 8 | \$ 8 | \$ (15) | \$ (17) | |
| AVERAGE ASSETS (a) | \$39,662 | \$ 27,471 | \$ 4,048 | \$2,400 | \$45,637 | \$ (3,803) | \$ 115,415 |

2006

| | | | | | | | |
|--|----------|-----------|----------|---------|----------|------------|-----------|
| INCOME STATEMENT | | | | | | | |
| Net interest income (expense) | \$ 830 | \$ 334 | \$ 18 | \$ (19) | \$ (51) | | \$ 1,112 |
| Noninterest income | 703 | 374 | 756 | 445 | 172 | \$ (35) | 2,415 |
| Total revenue | 1,533 | 708 | 774 | 426 | 121 | (35) | 3,527 |
| Provision for credit losses | 37 | 29 | | | | | 66 |
| Depreciation and amortization | 34 | 12 | 19 | 29 | 50 | | 144 |
| Other noninterest expense | 866 | 354 | 542 | 311 | 123 | (33) | 2,163 |
| Earnings (loss) before minority interest in BlackRock and income taxes | 596 | 313 | 213 | 86 | (52) | (2) | 1,154 |
| Minority interest in BlackRock | | | | | 41 | | 41 |
| Income taxes | 221 | 96 | 79 | 33 | (50) | (1) | 378 |
| Earnings (loss) | \$ 375 | \$ 217 | \$ 134 | \$ 53 | \$ (43) | \$ (1) | \$ 735 |
| Inter-segment revenue | \$ 6 | \$ 3 | \$ 16 | \$ 4 | \$ 6 | \$ (35) | |
| AVERAGE ASSETS (a) | \$29,326 | \$ 24,181 | \$ 1,924 | \$2,416 | \$37,647 | \$ (2,702) | \$ 92,792 |

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

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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 \$267 million, \$108 million and \$64 million, respectively, at June 30, 2007. The amount of other investments at June 30, 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 hold approximately a 31% equity ownership. At June 30, 2007, our capital contribution to Steel City was approximately \$28 million with a commitment to fund an additional \$50 million. The third party investor has contributed \$63 million with a commitment to fund an additional \$112 million. We evaluated the accounting for this transaction under FIN 46R and Account Research Bulletins 51 (“ARB 51”) 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.

On May 24, 2007, we entered into a joint venture with Vornado Realty Trust to construct a new headquarters building for the Washington, DC market. The joint venture is expected to close in December 2007. We will contribute approximately \$64 million in property in exchange for a 51% ownership interest. At closing, the joint venture entity will be named PNC VNO 17th Street LLC.

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 June 30, 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 June 30, 2007.

Assets valued as of June 30, 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 June 30, 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 \$58 million at June 30, 2007.

STANDBY BOND PURCHASE AGREEMENTS AND OTHER LIQUIDITY FACILITIES

We enter into standby bond purchase agreements to support municipal bond obligations. At June 30, 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 June 30, 2007, our total commitments under these facilities were \$6.7 billion, of which \$6.5 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.

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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 \$3 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 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 six 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 June 30, 2007, the total maximum potential exposure as a result of these indemnity obligations was \$15.7 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 June 30, 2007, the fair value of the written caps and floors liability on our Consolidated Balance Sheet was \$31 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

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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 liability of \$1 million at June 30, 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 \$1.7 billion at June 30, 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 \$396 million at June 30, 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.

NOTE 16 SUBSEQUENT EVENTS

STERLING FINANCIAL CORPORATION

On July 19, 2007, we entered into a definitive agreement with Sterling Financial Corporation ("Sterling") for PNC to acquire Sterling for approximately 4.5 million shares of PNC common stock and \$224 million in cash. Based upon PNC's closing common stock price on July 17, 2007, the consideration represents \$565 million in stock and cash or approximately \$19.00 per Sterling share.

Sterling, based in Lancaster, Pennsylvania with approximately \$3.3 billion in assets and \$2.6 billion in deposits, provides banking and other financial services, including leasing, trust, investment and brokerage, to individuals and businesses through 67 branches in Pennsylvania, Maryland and Delaware. The transaction is expected to close during the first quarter of 2008 and is subject to customary closing conditions, including regulatory approvals and the approval of Sterling's shareholders.

ARCS COMMERCIAL MORTGAGE

On July 2, 2007, we acquired ARCS Commercial Mortgage Co. L.P. ("ARCS"), a Calabasas Hills, California-based lender with 10 origination offices in the United States. ARCS has been a leading originator and servicer of multifamily loans for Fannie Mae and Freddie Mac for the past decade. It originated more than \$2.1 billion of loans in 2006 and services approximately \$13 billion of commercial mortgage loans.

STATISTICAL INFORMATION (Unaudited)

THE PNC FINANCIAL SERVICES GROUP, INC.

Average Consolidated Balance Sheet And Net Interest Analysis

| Six months ended June 30 | | | | | | |
|---|---------------------|--------------------------------|-----------------------------|---------------------|--------------------------------|-----------------------------|
| | 2007 | | | 2006 | | |
| Taxable-equivalent basis Dollars in millions | Average Balances | Interest Income/ Expense | Average Yields/ Rates | Average Balances | Interest Income/ Expense | Average Yields/ Rates |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Securities available for sale | | | | | | |
| Residential mortgage-backed | \$ 18,245 | \$ 490 | 5.37% | \$ 14,066 | \$ 333 | 4.74% |
| Commercial mortgage-backed | 3,492 | 97 | 5.56 | 2,196 | 50 | 4.51 |
| Asset-backed | 2,205 | 54 | 4.93 | 1,113 | 28 | 5.05 |
| U.S. Treasury and government agencies | 369 | 8 | 4.47 | 3,322 | 73 | 4.37 |
| State and municipal | 183 | 4 | 4.63 | 154 | 4 | 5.20 |
| Other debt | 56 | 3 | 9.21 | 88 | 3 | 7.02 |
| Corporate stocks and other | 365 | 9 | 4.89 | 223 | 8 | 6.97 |
| Total securities available for sale | 24,915 | 665 | 5.34 | 21,162 | 499 | 4.71 |
| Loans, net of unearned income | | | | | | |
| Commercial | 23,246 | 853 | 7.30 | 19,954 | 689 | 6.87 |
| Commercial real estate | 7,540 | 293 | 7.72 | 3,046 | 105 | 6.86 |
| Lease financing | 2,550 | 36 | 2.81 | 2,765 | 62 | 4.49 |
| Consumer | 17,378 | 565 | 6.56 | 16,037 | 486 | 6.12 |
| Residential mortgage | 7,649 | 224 | 5.86 | 7,313 | 197 | 5.38 |
| Other | 469 | 16 | 6.87 | 349 | 12 | 6.83 |
| Total loans, net of unearned income | 58,832 | 1,987 | 6.75 | 49,464 | 1,551 | 6.27 |
| Loans held for sale | 2,782 | 84 | 6.12 | 2,577 | 73 | 5.71 |
| Federal funds sold and resale agreements | 1,962 | 49 | 4.99 | 551 | 12 | 4.43 |
| Other | 3,173 | 98 | 6.23 | 2,970 | 70 | 4.76 |
| Total interest-earning assets/interest income | 91,664 | 2,883 | 6.29 | 76,724 | 2,205 | 5.75 |
| Noninterest-earning assets: | | | | | | |
| Allowance for loan and lease losses | (652) | | | (600) | | |
| Cash and due from banks | 2,968 | | | 3,164 | | |
| Other | 21,435 | | | 13,504 | | |
| Total assets | \$115,415 | | | \$ 92,792 | | |
| Liabilities, Minority and Noncontrolling Interests, and Shareholders' Equity | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing deposits | | | | | | |
| Money market | \$ 23,245 | 413 | 3.57 | \$ 18,752 | 285 | 3.06 |
| Demand | 9,085 | 51 | 1.13 | 8,266 | 38 | .92 |
| Savings | 2,621 | 6 | .47 | 2,213 | 6 | .50 |
| Retail certificates of deposit | 16,637 | 386 | 4.68 | 13,466 | 257 | 3.85 |
| Other time | 1,888 | 49 | 5.12 | 1,316 | 29 | 4.46 |
| Time deposits in foreign offices | 3,677 | 95 | 5.17 | 3,839 | 91 | 4.69 |
| Total interest-bearing deposits | 57,153 | 1,000 | 3.52 | 47,852 | 706 | 2.96 |
| Borrowed funds | | | | | | |
| Federal funds purchased | 5,322 | 141 | 5.25 | 2,655 | 63 | 4.71 |
| Repurchase agreements | 2,184 | 51 | 4.65 | 2,267 | 49 | 4.28 |
| Bank notes and senior debt | 4,936 | 132 | 5.34 | 3,482 | 83 | 4.78 |
| Subordinated debt | 4,418 | 134 | 6.06 | 4,437 | 130 | 5.85 |
| Other | 2,223 | 50 | 4.48 | 2,536 | 49 | 3.86 |
| Total borrowed funds | 19,083 | 508 | 5.30 | 15,377 | 374 | 4.85 |
| Total interest-bearing liabilities/interest expense | 76,236 | 1,508 | 3.96 | 63,229 | 1,080 | 3.42 |
| Noninterest-bearing liabilities, minority and noncontrolling interests, and shareholders' equity: | | | | | | |
| Demand and other noninterest-bearing deposits | 16,821 | | | 13,946 | | |
| Allowance for unfunded loan commitments and letters of credit | 124 | | | 102 | | |
| Accrued expenses and other liabilities | 7,807 | | | 6,222 | | |
| Minority and noncontrolling interests in consolidated entities | 1,132 | | | 610 | | |
| Shareholders' equity | 13,295 | | | 8,683 | | |
| Total liabilities, minority and noncontrolling interests, and shareholders' equity | \$115,415 | | | \$ 92,792 | | |
| Interest rate spread | | | 2.33 | | | 2.33 |
| Impact of noninterest-bearing sources | | | .67 | | | .60 |
| Net interest income/margin | | \$ 1,375 | 3.00% | | \$ 1,125 | 2.93% |

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.

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Average Consolidated Balance Sheet And Net Interest Analysis (continued)

| Second Quarter 2007 | | | First Quarter 2007 | | | Second 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 |
| \$19,280 | \$ 261 | 5.40% | \$ 17,198 | \$ 229 | 5.33% | \$ 14,247 | \$ 171 | 4.79% |
| 3,646 | 54 | 5.90 | 3,338 | 43 | 5.19 | 2,348 | 27 | 4.62 |
| 2,531 | 28 | 4.50 | 1,876 | 26 | 5.52 | 1,170 | 15 | 5.16 |
| 344 | 4 | 4.77 | 394 | 4 | 4.20 | 3,181 | 35 | 4.38 |
| 203 | 2 | 4.39 | 162 | 2 | 4.93 | 152 | 2 | 5.24 |
| 33 | 1 | 14.38 | 79 | 2 | 7.05 | 88 | 1 | 7.12 |
| 383 | 5 | 4.85 | 347 | 4 | 4.95 | 230 | 4 | 6.34 |
| 26,420 | 355 | 5.37 | 23,394 | 310 | 5.31 | 21,416 | 255 | 4.76 |
| 24,652 | 456 | 7.31 | 21,479 | 397 | 7.28 | 20,348 | 360 | 7.00 |
| 9,513 | 190 | 7.91 | 5,478 | 103 | 7.40 | 3,071 | 56 | 7.17 |
| 2,566 | 12 | 1.87 | 2,534 | 24 | 3.81 | 2,761 | 31 | 4.47 |
| 17,886 | 296 | 6.64 | 16,865 | 269 | 6.47 | 16,049 | 248 | 6.20 |
| 8,527 | 127 | 5.95 | 7,173 | 97 | 5.84 | 7,353 | 100 | 5.39 |
| 411 | 7 | 6.97 | 527 | 9 | 6.80 | 354 | 6 | 7.04 |
| 63,555 | 1,088 | 6.81 | 54,056 | 899 | 6.68 | 49,936 | 801 | 6.38 |
| 2,611 | 39 | 6.11 | 2,955 | 45 | 6.13 | 2,411 | 36 | 5.99 |
| 1,832 | 23 | 5.02 | 2,092 | 26 | 4.96 | 613 | 7 | 4.72 |
| 3,606 | 57 | 6.28 | 2,735 | 41 | 6.17 | 2,795 | 33 | 4.70 |
| 98,024 | 1,562 | 6.35 | 85,232 | 1,321 | 6.23 | 77,171 | 1,132 | 5.84 |
| (692) | | | (612) | | | (600) | | |
| 2,991 | | | 2,945 | | | 3,140 | | |
| 22,997 | | | 19,857 | | | 13,736 | | |
| \$ 123,320 | | | \$ 107,422 | | | \$ 93,447 | | |
| \$23,979 | 213 | 3.55 | \$ 22,503 | 200 | 3.60 | \$ 19,019 | 152 | 3.20 |
| 9,494 | 26 | 1.08 | 8,671 | 25 | 1.18 | 8,229 | 20 | .98 |
| 2,988 | 3 | .47 | 2,250 | 3 | .46 | 2,177 | 3 | .49 |
| 17,426 | 205 | 4.71 | 15,691 | 181 | 4.63 | 13,686 | 136 | 3.97 |
| 2,297 | 31 | 5.18 | 1,623 | 18 | 5.04 | 1,323 | 15 | 4.63 |
| 4,220 | 54 | 5.14 | 3,129 | 41 | 5.21 | 4,276 | 53 | 4.89 |
| 60,404 | 532 | 3.52 | 53,867 | 468 | 3.52 | 48,710 | 379 | 3.11 |
| 6,102 | 83 | 5.33 | 4,533 | 58 | 5.15 | 2,715 | 34 | 4.93 |
| 2,507 | 29 | 4.61 | 1,858 | 22 | 4.70 | 2,226 | 26 | 4.48 |
| 5,681 | 76 | 5.33 | 4,182 | 56 | 5.36 | 3,145 | 39 | 5.04 |
| 4,466 | 67 | 5.95 | 4,370 | 67 | 6.17 | 4,437 | 67 | 6.05 |
| 2,565 | 29 | 4.54 | 1,877 | 21 | 4.38 | 2,504 | 25 | 3.96 |
| 21,321 | 284 | 5.28 | 16,820 | 224 | 5.33 | 15,027 | 191 | 5.06 |
| 81,725 | 816 | 3.98 | 70,687 | 692 | 3.95 | 63,737 | 570 | 3.56 |
| 17,824 | | | 15,807 | | | 13,926 | | |
| 121 | | | 126 | | | 103 | | |
| 7,655 | | | 7,961 | | | 6,305 | | |
| 1,367 | | | 893 | | | 631 | | |
| 14,628 | | | 11,948 | | | 8,745 | | |
| \$123,320 | | | \$ 107,422 | | | \$ 93,447 | | |
| | 2.37 | | | 2.28 | | | 2.28 | |
| | .66 | | | .67 | | | .62 | |
| \$ 746 | 3.03% | | \$ 629 | 2.95% | | \$ 562 | 2.90% | |

Loan fees for the six months ended June 30, 2007 and June 30, 2006 were \$19 million and \$18 million, respectively. Loan fees for the three months ended June 30, 2007, March 31, 2007 and June 30, 2006 were \$10 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 six months ended June 30, 2007 and June 30, 2006 were \$14 million and \$13 million, respectively. The taxable-equivalent adjustments to interest income for the three months ended June 30, 2007, March 31, 2007 and June 30, 2006 were \$8 million, \$6 million and \$6 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.

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 second 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) |
|--------------------|----------------------------|------------------------------|---|---|
| April 1 – April 30 | 1,084 | \$ 73.40 | 900 | 12,203 |
| May 1 – May 31 | 1,190 | \$ 73.99 | 988 | 11,215 |
| June 1 – June 30 | 2,237 | \$ 72.66 | 2,125 | 9,090 |
| Total | 4,511 | \$ 73.19 | 4,013 | |

(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 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

| | |
|-------|---|
| 10.50 | Second Amendment to Share Surrender Agreement made and entered into as of June 11, 2007 by and between the Corporation, BlackRock, Inc. and PNC Bancorp, Inc. Incorporated by reference to Exhibit 10.50 of the Corporation's Current Report on Form 8-K dated June 11, 2007 (filed June 14, 2007). |
| 10.51 | 2006-2007 Forms of employee incentive performance units agreements. |
| 10.52 | First Amendment to the Corporation's 2006 Incentive Award Plan. Incorporated by reference to Ex. 99.2 of the Registration Statement on Form S-8 (Registration No. 333-143182) filed by the Corporation (Commission File No. 001-09718) with the SEC on May 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. |
| 99.1 | Registration Rights Agreement dated as of December 20, 2006, by and among PNC Funding Corp, as Issuer, The PNC Financial Services Group, Inc., as Guarantor, and Morgan Stanley & Co Incorporated, as Initial Purchaser. |
| 99.2 | Form of Floating Rate Exchangeable Senior Notes. |
| 99.3 | Form T-1 – Statement of Eligibility Under the Trust Indenture Act of 1939 of The Bank of New York to act as Trustee under the Indenture dated December 20, 2006. |

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 August 8, 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 INFORMATION

THE PNC FINANCIAL SERVICES GROUP, INC.

CORPORATE HEADQUARTERS

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-Financial Information" 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 |
| Second | 76.15 | 70.31 | 71.58 | .63 |
| Total | | | | \$ 1.18 |
| 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 |

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

2006 - 2007 FORMS OF EMPLOYEE INCENTIVE
PERFORMANCE UNITS AGREEMENTS

2006-2008 Incentive Performance Units Grant
Performance Period: January 1, 2006 - December 31, 2008 (3 Years)
Performance Measures and Goals: Relative PNC Earnings per Share Growth
and Return on Average Common Equity (not including goodwill) Performance
100% Vests on Final Award

THE PNC FINANCIAL SERVICES GROUP, INC.
1997 LONG-TERM INCENTIVE AWARD PLAN

* * *

2006-2008 INCENTIVE PERFORMANCE UNIT AGREEMENT

* * *

| | |
|---------------------|------------------------------|
| GRANTEE: | < name > |
| GRANT DATE: | January 23, 2006 |
| TARGET SHARE UNITS: | < whole number > share units |

1. Definitions. Certain terms used in this 2006-2008 Incentive Performance Unit Agreement ("Agreement") are defined in Section 15 or elsewhere in the Agreement.

2. Grant of 2006-2008 Incentive Performance Units. Pursuant to Article 8 of the Plan (as defined in Section 15.43), The PNC Financial Services Group, Inc. ("PNC") grants to the grantee named above ("Grantee" and "Grant") an incentive award opportunity of share-denominated Performance Units (as defined in Section 15.41) with the number of target share units set forth above ("Target Share Units"). The Grant is subject to the corporate performance conditions, employment conditions, and other terms and conditions of this Agreement and to the Plan, to final award determination, and to Grantee's acceptance of the Grant in accordance with Section 18. Payment of any Final Award (as defined herein) authorized pursuant to the Agreement will generally be made in shares of PNC common stock and, to the extent, if any, that the total Final Award exceeds the Target Share Units number set forth above, in cash share-equivalents.

In general, the Grant is an opportunity for Grantee to receive, at the end of the applicable performance period, an award of shares of PNC common stock and, if applicable, cash share-equivalents, based on the degree to which the corporate

performance goals have been achieved, as determined by the Committee (defined in Section 15.15) and subject to its negative discretion, or otherwise in accordance with the terms of the Agreement, provided that Grantee satisfies the employment conditions specified in the Agreement (or qualifies for a specified exception and is deemed to have satisfied those employment conditions) and the other conditions of the Agreement are met.

The potential maximum award payout that Grantee will be eligible to receive will be denominated in share units and will be expressed as a percentage of the Adjusted Target Share Units (defined in Section 15.1), which reflect adjustments for phantom dividends on target share units converted to additional target share units. The potential maximum award payout percentage will be determined by the levels of the corporate performance goals that PNC achieves relative to its peers for each of the three years in the overall performance period and by the potential award payout schedules established by the Committee pursuant to Section 3.2, giving equal weight to each of the two corporate performance goals and to each of the three covered years, subject to certain limitations or adjustments if there is an early termination or limitation of the performance measurement period (*e.g.*, if Grantee dies or has a qualifying retirement or if there is a Change in Control, as defined herein, during a performance measurement period).

Absent a Change in Control, the Committee will determine the Final Award, if any, that Grantee receives within this calculated maximum potential payout amount, generally in early 2009 (or early in 2007 or 2008 in the event of Grantee's death prior to that time). The Committee may adjust the Final Award downward, but not upward, from this calculated performance-based amount. This potential award payout amount could be as high as 200% of the Adjusted Target Share Units if PNC outperforms its peers in both corporate performance measure categories for each year of the three-year performance period and if Grantee remains an employee of the Corporation throughout the full three-year performance period, or it could be zero if PNC fails to achieve at least the threshold level of performance specified for an award in the Agreement schedules for each such performance measure and year.

Any Final Award payout authorized pursuant to this Grant will generally be paid in shares of PNC common stock up to the number of shares set forth above as the Target Share Units number, and in cash share-equivalents thereafter. The Grant must still be outstanding at the time Final Award determinations are made for Grantee to be eligible to receive an award, and Final Awards and payment are subject to the terms and conditions set forth in the Agreement and to the Plan.

The Agreement also provides a formula for calculation of the Final Award in the event of a Change in Control of PNC and for the form and timing of payment of any such award.

3. Corporate Performance Conditions. The Grant will be subject to the following corporate performance conditions.

3.1 Performance Measures and Goals. The corporate Performance Measures for this incentive award opportunity are EPS Growth and ROCE performance, as defined in Section 15.22 and Section 15.50, respectively; and the corporate Performance Goals (the EPS Growth Performance Goal and the ROCE Performance Goal) are the level of PNC's EPS Growth and the level of PNC's ROCE performance, respectively, relative to the levels of EPS Growth and ROCE performance, respectively, of the other Peer Group members.

3.2 Annual Peer Group and Annual Potential Payout Schedules. The Committee will establish the Annual Peer Group and the Annual Potential Payout Schedule for each year of the Performance Period as schedules to this Agreement no later than the 90th day of that year, at which time the Schedules for that year will become final. Each Annual Potential Payout Schedule will provide a threshold level of corporate performance below which there will be no eligibility for an award payout with respect to that measure of performance for that year. The 2006 Annual Peer Group and 2006 Annual Potential Payout Schedule are set forth in Schedules I and II.

Once the Annual Peer Group and Annual Potential Payout Schedule for a given year are established and final, the Committee will not change the Schedules with respect to that year other than to reflect Peer name changes or the elimination from the Peer Group of any members that have been eliminated since the beginning of the year due, for example, to consolidations, mergers or other material corporate reorganizations. Peer Group members that have been eliminated during the year will not be replaced for that year or portion of a year where a limited-year calculation applies, but may be replaced when the Committee establishes the Annual Peer Group for the following year.

3.3 Calculation of Annual Potential Payout Percentages. After the end of each year of the Performance Period, PNC will: (1) determine the EPS Growth and ROCE performance for the applicable period for PNC and for each other member of the applicable Annual Peer Group remaining at the end of the period in accordance with the definitions set forth in Section 15; and (2) calculate the Annual Potential Payout Percentage, as defined in Section 15.3, achieved by PNC for that year. Such results will be presented to the Committee.

Where the Agreement requires the calculation of an Annual Potential Payout Percentage for a given period that is less than a full year (e.g., upon certain qualifying terminations or Change in Control), PNC will also determine PNC and other Peer EPS Growth and ROCE performance and the Limited-Year Annual Potential Payout Percentage for that limited period as so required by the Agreement.

4. Grantee Service Requirement and Limitation of Potential Award; Early Termination of Grant. The Grant will be subject to the following employment conditions.

4.1 Eligibility for an Award; Employment Conditions and Early Termination of Grant. Grantee will not be eligible to receive a Final Award unless the Grant remains outstanding on the Committee-determined Award Date (as defined in Section 15.5) or as of the end of the day immediately preceding the day on which a Change in Control occurs, if earlier.

The Grant will automatically terminate on Grantee's Termination Date (as defined in Section 15.56) unless an exception is available as set forth in Section 4.2, Section 4.3, Section 4.4 or Section 4.5. Where one or more of the conditions to an exception are post-employment conditions, the Grant will terminate upon the failure of any of those conditions.

In the event that Grantee's employment is terminated by the Corporation for Cause (as defined in Section 15.8), the Grant will automatically terminate on Grantee's Termination Date whether or not the termination might otherwise have qualified for an exception as a retirement or a disability termination pursuant to Section 4.3 or Section 4.4.

In the limited circumstances where the Grant remains outstanding notwithstanding Grantee's termination of employment with the Corporation, Grantee will be eligible for consideration for an award, subject to limitation as set forth in the applicable section of the Agreement. Said award, if any, will be determined and payable at the same time as the awards of those 2006-2008 Incentive Performance Units grantees who remain Corporation employees, except that in the case of death, the determination and payment of any award may be accelerated if so indicated in accordance with the applicable section of the Agreement.

Any award that the Committee may determine to make after Grantee's death will be delivered to the executor or administrator of Grantee's estate or to Grantee's other legal representative, as determined in good faith by the Committee.

Notwithstanding anything in Section 4 or Section 5 to the contrary, if a Change in Control (as defined in Section 15.10) occurs prior to the time the Committee determines Final Awards pursuant to Section 5.2 (that is, prior to the Committee-determined Award Date), awards will be determined in accordance with Section 6.

4.2 Death While an Employee. If Grantee dies while an employee of the Corporation and prior to the Committee-determined Award Date, the Grant will remain outstanding and Grantee will be eligible for consideration for a prorated award calculated in accordance with Section 5.1(b), with an applicable performance measurement date (as defined in Section 5.1) of the last day of the year in which the death occurred (but no later than December 31, 2008) and with adjustments to Adjusted Target Share Units calculated through that December 31st, payable in accordance with Section 7.

Any such award will be subject to Committee determination pursuant to Section 5.2, and may be reduced by the Committee in the exercise of its negative discretion unless such determination occurs during a CIC Coverage Period (as defined in Section 15.11).

In the event that a Change in Control occurs prior to a Committee-determined Award Date, an award will be deemed to be made pursuant to Section 6, calculated as specified in Section 6.1(b).

4.3 Qualifying Retirement. If Grantee Retires (as defined in Section 15.48) prior to the Committee-determined Award Date and the termination of employment is not also a termination by the Corporation for Cause, the Grant will remain outstanding post-employment; provided, however, that the Committee may terminate the Grant at any time prior to the Award Date, other than during a CIC Coverage Period, upon determination that Grantee has engaged in Detrimental Conduct (as defined in Section 15.18). If Grantee is Disabled (as defined in Section 15.19) at the time of Retirement and Section 4.4 is also applicable to Grantee, that subsection will govern rather than this Section 4.3.

Provided that the Grant is still outstanding at that time, Grantee will be eligible for consideration for a prorated award at the time that awards are considered for those 2006-2008 Incentive Performance Unit grantees who remain Corporation employees, calculated in accordance with Section 5.1(c) with a performance measurement date of the last day of the last full quarter completed on or prior to Grantee's Retirement date and with adjustments to Adjusted Target Share Units calculated through that same performance measurement date, payable in accordance with Section 7.

Any such award will be subject to Committee determination pursuant to Section 5.2, and may be reduced by the Committee in the exercise of its negative discretion unless such determination occurs during a CIC Coverage Period.

If Grantee dies after a qualifying Retirement but before the time set forth above for consideration of an award and provided that the Grant is still outstanding at the time of Grantee's death, the Committee will consider an award for Grantee and make an award determination and any such award will be paid during the year immediately following the year in which Grantee's death occurs, if the death occurs on or prior to December 31, 2008, or in 2009 if the death occurs in 2009 but prior to the Award Date.

In the event that a Change in Control occurs prior to a Committee-determined Award Date, an award will be deemed to be made pursuant to Section 6, calculated as specified in Section 6.1(c).

4.4 Qualifying Disability Termination. If Grantee's employment with the Corporation is terminated by reason of Disability (as defined in Section 15.19) prior to the Committee-determined Award Date, and the termination of employment is not also a termination by the Corporation for Cause, the Grant will remain outstanding post-employment; provided, however, that the Committee may terminate the Grant at any time prior to the Award Date, other than during a CIC Coverage Period, upon determination that Grantee has engaged in Detrimental Conduct (as defined in Section 15.18).

Provided that the Grant is still outstanding at that time, Grantee will be eligible for consideration for a full award at the time that awards are considered for those 2006-2008 Incentive Performance Units grantees who remain Corporation employees, calculated in accordance with Section 5.1(d), payable in accordance with Section 7.

Any such award will be subject to Committee determination pursuant to Section 5.2, and may be reduced by the Committee in the exercise of its negative discretion unless such determination occurs during a CIC Coverage Period. Although Grantee will be eligible for consideration for a full award (Standard Payout Calculation) at the scheduled time, it is anticipated that the Committee will take into account the timing and circumstances of the disability when deciding whether and the extent to which to exercise its negative discretion.

If Grantee dies after a qualifying disability termination but before the time set forth above for consideration of an award and provided that the Grant is still outstanding at the time of Grantee's death, the Committee will consider an award for Grantee and make an award determination and any such award will be paid during the year immediately following the year in which Grantee's death occurs, if the death occurs on or prior to December 31, 2008, or in 2009 if the death occurs in 2009 but prior to the Award Date; provided, however, that the maximum award that may be awarded in these circumstances is the award that could have been authorized had Grantee died while an employee of the Corporation.

In the event that a Change in Control occurs prior to a Committee-determined Award Date, an award will be deemed to be made pursuant to Section 6, calculated as specified in Section 6.1(d).

4.5 Qualifying Termination in Anticipation of a Change in Control. If Grantee's termination of employment satisfies the conditions set forth in Section 15.46 such that it is a Qualifying Termination in Anticipation of a Change in Control, then the Grant will remain outstanding notwithstanding Grantee's termination of employment with the Corporation and the Grant will not be subject to termination by the Committee for Detrimental Conduct.

To the extent that the conditions set forth in Section 15.46 are conditions that must be satisfied during a stated post-employment period, the Grant will remain outstanding during that period until it is determined that such conditions either have or have not been satisfied. If the conditions are not satisfied, the Grant will terminate unless Grantee meets one of the other exceptions set forth in this Section 4.

If all of the conditions set forth in Section 15.46 are satisfied, Grantee will be eligible for consideration for an award pursuant to Section 5.2, calculated in accordance with Section 5.1(e), or will receive an award pursuant to Section 6, calculated as specified in Section 6.1(e), as applicable.

If Grantee dies after a Qualifying Termination in Anticipation of a Change in Control but prior to the time the Committee makes an award determination pursuant to Section 5.2 or a Change-in-Control-determined Award Date, Grantee will be eligible for an award of the greater of the award Grantee could have received had he or she died while an employee or an award determined as set forth in Section 5.1(e). If a Change in Control occurs prior to a Committee-determined Award date, Grantee will be deemed to receive an award in accordance with Section 6.

5. Certification of Performance Results; Calculation of Maximum Potential Payout Amounts; and Final Award Determinations

5.1 Certification of Attainment of Performance Goals; Calculation of Final Potential Payout Percentages and Calculated Maximum Potential Payout Amounts As soon as practicable after December 31, 2008, or after the earlier relevant date if the applicable performance measurement date and potential award date are earlier under the circumstances, PNC will present information to the Committee concerning the following: (1) the levels of EPS Growth and ROCE performance achieved by PNC and the other members of the applicable Annual Peer Group for each of the applicable full and partial years for which performance is being measured under the circumstances; (2) the Annual Potential Payout Percentages determined in accordance with the applicable Schedules for such full and partial years on the basis of the levels of such EPS Growth and ROCE performance achieved by PNC relative to the other Peers for such periods; and (3) the Final Potential Payout Percentage.

Subsections (a), (b), (c), (d) and (e) below set forth additional criteria for the certifications and calculations to be made pursuant to this Section 5.1 under varying circumstances. The last day of the applicable performance measurement period is sometimes referred to as the “performance measurement date.” The time when the certification, calculation and Final Award determination process takes place is sometimes referred to as the “scheduled award determination period,” and the date when a Final Award, if any, is determined and made by the Committee is referred to as the “Committee-determined Award Date” (as set forth in Section 15.5).

Notwithstanding anything in this Section 5 to the contrary, if a Change in Control has occurred, Section 6 will apply.

(a) Non-Exceptional Circumstances – Standard Payout Calculation. Provided that Grantee remains an employee of the Corporation and the Grant remains outstanding such that Grantee remains eligible for consideration for an award, and that a Change in Control has not occurred, the Performance Period will run through December 31, 2008 and the process of certification of the attainment of Performance Goals, calculation of Final Potential Payout Percentage and Calculated Maximum Potential Payout Amounts, and determination of the Final Award, if any, will occur in early 2009.

Under the circumstances set forth in this subsection (a) above (“non-exceptional circumstances”), PNC will present information to the Committee for purposes of this Section 5.1 on the following basis:

- (i) the applicable performance measurement date will be December 31, 2008;

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- (ii) the applicable Performance Period will consist of the full years 2006, 2007 and 2008;
- (iii) the applicable Final Potential Payout Percentage will be the percentage that is the average of the Annual Potential Payout Percentages for 2006, 2007 and 2008, but in no event greater than 200%;
- (iv) the applicable Calculated Maximum Potential Payout Amount will be the number of share units equal to the Final Potential Payout Percentage of the Adjusted Target Share Units, with adjustments calculated through December 31, 2008; and
- (v) the scheduled award determination period will occur in early 2009.
- (b) Death While an Employee. In the event that Grantee dies while an employee of the Corporation and prior to the regularly scheduled award date for non-exceptional circumstances in early 2009 and the Grant remains outstanding pursuant to Section 4.2, PNC will present information to the Committee for purposes of this Section 5.1 on the following basis:
- (i) the applicable performance measurement date will be the earlier of the last day of the year in which the death occurred and December 31, 2008;
- (ii) the applicable Performance Period will be the period commencing on January 1, 2006 and ending on the applicable performance measurement date, and will consist of the one, two or three full years, as the case may be, in that period;
- (iii) the applicable Final Potential Payout Percentage will be the percentage that is the average of the Annual Potential Payout Percentages for the full years in the applicable Performance Period, but in no event greater than 200%;
- (iv) the applicable Calculated Maximum Potential Payout Amount will be the number of share units equal to (x) the applicable Final Potential Payout Percentage of the Adjusted Target Share Units, with adjustments calculated through the December 31st that is the performance measurement date, then (y) prorated (as defined in Section 15.45) based on the number of full years in the applicable Performance Period, including the year of death if prior to 2009; and
- (v) the scheduled award determination period will occur during the year immediately following the year in which Grantee died (*i.e.*, early in 2007, 2008, or 2009, as the case may be) unless Grantee dies after December 31, 2008 but prior to the Award Date, in which case the scheduled award determination period will occur in 2009.
- (c) Retirement. In the event that Grantee Retires prior to the regularly scheduled award date for non-exceptional circumstances in early 2009 but Grantee has met the conditions for a qualifying retirement termination set forth in Section 4.3 and the Grant remains outstanding, PNC will present information to the Committee for purposes of this Section 5.1 on the following basis:
- (i) the applicable performance measurement date will be the last day of the last full quarter completed prior to Grantee's Retirement date or, if the Retirement date is a quarter-end date, that quarter-end date;

(ii) the applicable limited Performance Period will be the period commencing on January 1, 2006 and ending on the applicable performance measurement date, and will consist of the full and partial years in that period;

(iii) the applicable Final Potential Payout Percentage will be a Limited-Period Final Potential Payout Percentage and will be the percentage that is the weighted average of the Annual Potential Payout Percentages for the full years, if any, and the Limited-Year Annual Potential Payout Percentage for the partial year, if any, in the applicable Performance Period, calculated as set forth in Section 15.33;

(iv) the applicable Calculated Maximum Potential Payout Amount will be the number of share units equal to (x) the applicable Limited-Period Final Potential Payout Percentage of the Adjusted Target Share Units, with adjustments calculated through the applicable performance measurement date (*i.e.*, the last day of the last full quarter completed prior to Grantee's Retirement date), then (y) prorated (as defined in Section 15.45) based on the number of full quarters in the applicable limited Performance Period (*i.e.*, in the period from January 1, 2006 through the applicable performance measurement date); and

(v) the scheduled award determination period will occur in early 2009 as provided in Section 7.1, unless Grantee dies after Retirement but before the beginning of 2008, in which case the scheduled award determination period will occur in early 2007 (if the death occurred in 2006) or early 2008 (if the death occurred in 2007), as the case may be.

In the event that Grantee is Disabled at the time of Retirement and Section 4.4 is also applicable to Grantee, then Section 5.1(d) will govern rather than this Section 5.1(c).

(d) Disability. In the event that Grantee becomes Disabled prior to the regularly scheduled award date for non-exceptional circumstances in early 2009 but Grantee has met the conditions for a qualifying disability termination set forth in Section 4.4 and the Grant remains outstanding, PNC will present information to the Committee for purposes of this Section 5.1 on the same basis as that set forth in Section 5.1(b), together with such information as the Committee may request concerning the timing and circumstances of the disability.

The scheduled award determination period will occur in early 2009, unless Grantee dies after a qualifying disability termination but before the beginning of 2008, in which case the scheduled award determination period will occur in early 2007 (if the death occurred in 2006) or early 2008 (if the death occurred in 2007), as the case may be, and in any event, the maximum award that may be approved will be the maximum that could have been awarded had Grantee died while an employee of the Corporation.

(e) Termination in Anticipation of a Change in Control. In the event that Grantee ceases to be an employee of the Corporation prior to the regularly scheduled award date for non-exceptional circumstances in early 2009 but Grantee has met the conditions for a Qualifying Termination in Anticipation of a Change in Control set forth in Section 4.5 and the Grant remains outstanding, but a Change in Control has not yet occurred, then:

- (1) If a CIC Triggering Event (as defined in Section 15.14) has occurred and has not yet failed (as CIC Failure is defined herein) such that a Change in Control transaction is pending at the regularly scheduled award date, the Grant will remain outstanding and Grantee will be eligible to receive an award pursuant to Section 5.2 on the same basis as that set forth in Section 5.1(c) for a qualifying Retiree and the Committee will have no discretion to reduce the size of such award; and
- (2) If the CIC Triggering Event fails prior to the regularly scheduled award date (as CIC Failure is defined in Section 15.12), the Grant will remain outstanding and the Committee will have discretion to authorize an award, pursuant to Section 5.2, to Grantee up to a maximum permitted award calculated on the same basis as that set forth in Section 5.1(c) for a qualifying Retiree, but the Committee will also have discretion to reduce the award as set forth in Section 5.2(b).

If Grantee dies after a Qualifying Termination in Anticipation of a Change in Control but prior to the time the Committee makes an award determination pursuant to Section 5.2 or a Change-in-Control-determined Award Date, Grantee will be eligible for an award of the greater of the award Grantee could have received had he or she died while an employee or an award determined as set forth above in this Section 5.1(e).

If a Change in Control occurs prior to a Committee-determined Award date, Grantee will be deemed to receive an award in accordance with Section 6.

5.2 Final Award Determinations by Committee.

(a) Subject to the last sentence in this paragraph, provided that the Grant is still outstanding, that Grantee is either still an employee of the Corporation or qualifies for an exception to the employment condition pursuant to Section 4.2, 4.3, 4.4 or 4.5, and that the Final Potential Payout Percentage is greater than zero, the Committee will have the authority to award to Grantee ("award") as a Final Award such share-denominated amount as may be determined by the Committee. The Final Award may not exceed the applicable Calculated Maximum Potential Payout Amount, as determined in accordance with Section 5.1, and is subject to the exercise of negative discretion by the Committee pursuant to Section 5.2(b), if applicable. The Committee will not have authority to exercise negative discretion if a CIC Coverage Period has commenced and has not yet ended. If there has been a Change in Control, the Committee's authority is subject to Section 6.

The date on which the Committee makes its determination as to whether or not it will authorize an award and, if so, the size of the Final Award, if any, it authorizes within the Calculated Maximum Potential Payout Amount determined pursuant to the Agreement is sometimes referred to in the Agreement as the Committee-determined Award Date.

Payment of the Final Award, if any, will be made in accordance with Section 7. If Grantee dies after a Final Award is determined but before payment is made, payment of the Final Award will be made to Grantee's legal representative in accordance with Section 10.

(b) Except during a CIC Coverage Period or after the occurrence of a Change in Control, the Committee may exercise negative discretion with respect to the Grant and may determine, in light of such Corporation or individual performance or other factors as the Committee may deem appropriate, that notwithstanding the levels of EPS Growth and/or ROCE performance achieved by PNC relative to the other members of the Peer Group, the Committee will not award Grantee the full Calculated Maximum Potential Payout Amount that the Committee is authorized to award pursuant to Section 5.2(a), or any of such amount.

If the Committee so determines to exercise its negative discretion pursuant to this Section 5.2(b), the Final Award, if any, will be reduced accordingly; provided, however, that the Committee may not exercise such negative discretion upon or after the occurrence of a Change in Control (or during the period after the occurrence of a CIC Triggering Event but before such triggering event results in a Change in Control or a CIC Failure of such event occurs).

(c) If a Change in Control occurs prior to the Committee-determined Award Date, the Final Award will be determined in accordance with Section 6 rather than being determined by the Committee under Section 5.2 and will not be subject to the Committee's negative discretion.

6. Change in Control Prior to a Committee-Determined Award Date

6.1 Final Award Calculation.

Notwithstanding anything in the Agreement to the contrary, upon the occurrence of a Change in Control at any time prior to a Committee-determined Award Date pursuant to Section 5.2, (i) the Performance Period, if not already ended, will be limited and will end, (ii) if Dividend Adjustment Share Units were otherwise still accruing at the time, no further Dividend Adjustment Share Units will accrue and be added to the number of Adjusted Target Share Units, and (iii) Grantee will be deemed to have been awarded a Final Award in an amount determined as set forth in this Section 6, payable to Grantee or Grantee's legal representative at the time and in the manner set forth in

Section 7, provided that the Grant is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs and has not already terminated or been terminated in accordance with the terms of Section 4 of the Agreement.

If this Section 6 is applicable and a Final Award is deemed to be awarded pursuant to Section 6, the day the Change in Control occurs will be considered the Award Date for purposes of the Agreement. This date is sometimes referred to in the Agreement as the Change-in-Control-determined Award Date (as set forth in Section 15.5).

(a) Standard CIC Payout Calculation. Provided that Grantee is an employee of the Corporation and the Grant is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs such that Grantee remains eligible for an award, Grantee's Final Award will be determined as follows:

(i) the applicable performance measurement date will be the last day of the last full quarter completed prior to the day the Change in Control occurs, or, if the Change in Control occurs on a quarter-end date, the day the Change in Control occurs;

(ii) the applicable Performance Period will be the period commencing on January 1, 2006 and ending on the applicable performance measurement date, and will consist of the full and partial years in that period;

(iii) the applicable Final Potential Payout Percentage will be the 'CIC Payout Percentage', which will be (A) or (B) below, as applicable, (but in no event greater than 200%):

(A) if the Change in Control occurs prior to December 31, 2008, such that the Performance Period is less than three full years, the CIC Payout Percentage will be the higher of (1) 100% and (2) a Limited-Period Final Potential Payout Percentage (calculated as set forth in Section 15.33) of the percentage that is the weighted average of the Annual Potential Payout Percentages for the full years, if any, and the Limited-Year Annual Potential Payout Percentage for the partial year, if any, in the applicable limited Performance Period; and

(B) if the Change in Control occurs on or after December 31, 2008, the CIC Payout Percentage will be the average of the Annual Potential Payout Percentages for the full years 2006, 2007 and 2008;

(iv) the applicable Final Award amount will be the number of share units equal to (x) the CIC Payout Percentage of the Adjusted Target Share Units, with adjustments calculated through the applicable performance measurement date (*i.e.*, through the last day of the last full quarter completed prior to the day the Change in Control occurs, or, if the Change in Control occurs on a quarter-end date, the day the Change in Control occurs), then (y) prorated (as defined in Section 15.45) based on the number of full quarters in the applicable limited Performance Period (*i.e.*, in the period from January 1, 2006 through the applicable performance measurement date), then (z) multiplied by the Transition Factor (as set forth in Section 6.2), if applicable; and

(v) the scheduled award determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee dies after the Change in Control occurs, Grantee's Final Award determined pursuant to this Section 6.1(a) will be payable to Grantee's legal representative in accordance with Section 10.

(b) Death. In the event the Grantee died while an employee of the Corporation and qualified for consideration for an award pursuant to Section 4.2 but the Committee had not yet made an award determination (either to award a specified amount or not to authorize any award) with respect to Grantee at the time the Change in Control occurs such that Grantee remains eligible for an award, Grantee's Final Award (payable to Grantee's legal representative in accordance with Section 10) will be in the amount of the lesser of:

- (1) the Calculated Maximum Potential Payout Amount determined in the same manner as set forth in Section 5.1(b) but with no Committee discretion to reduce the amount of the award; and
- (2) the award that would have been payable, but without regard to the Transition Factor, if any, pursuant to the calculations set forth in Section 6.1(a) had Grantee not died but had been an employee of the Corporation as of the end of day immediately preceding the day the Change in Control occurred.

The scheduled award determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee died while an employee and a Final Award determination was made by the Committee pursuant to Section 5.2 prior to the Change in Control, no further or different award determination will be made pursuant to this Section 6.1.

(c) Qualifying Retirement. In the event that Grantee Retired prior to the day the Change in Control occurs but Grantee has met the conditions for a qualifying retirement termination set forth in Section 4.3 and the Grant is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs such that Grantee remains eligible for an award, Grantee's Final Award will be in the amount of the lesser of:

- (1) the Calculated Maximum Potential Payout Amount determined in the same manner as set forth in Section 5.1(c) but with no Committee discretion to reduce the amount of the award; and
- (2) the award that would have been payable, but without regard to the Transition Factor, if any, pursuant to the calculations set forth in Section 6.1(a) had Grantee not Retired but had been an employee of the Corporation as of the end of the day immediately preceding the day the Change in Control occurred.

The scheduled award determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee died while a qualified Retiree and a Final Award determination was made by the Committee pursuant to Section 5.2 prior to the Change in Control, no further or different award determination will be made pursuant to this Section 6.1. If no such Final Award determination was made prior to the Change in Control, Grantee's Final Award determined pursuant to this Section 6.1(c) will be payable to Grantee's legal representative in accordance with Section 10.

(d) Disability. In the event that Grantee became Disabled and Grantee's employment terminated prior to the day the Change in Control occurs but Grantee has met the conditions for a qualifying disability termination set forth in Section 4.4 and the Grant is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs such that Grantee remains eligible for an award, Grantee's Final Award will be in the amount of the award that would have been payable, but without regard to the Transition Factor, if any, pursuant to the calculations set forth in Section 6.1(a) had Grantee still been an employee of the Corporation as of the end of the day immediately preceding the day the Change in Control occurred. The scheduled award determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee died while qualified to receive an award and a Final Award determination was made by the Committee pursuant to Section 5.2 prior to the Change in Control, no further or different award determination will be made pursuant to this Section 6.1. If no such Final Award determination was made prior to the Change in Control, Grantee's Final Award (payable to Grantee's legal representative in accordance with Section 10) will be the lesser of (i) an award determined in accordance with Section 6.1(a), and (ii) an award determined in accordance with Section 6.1(b), in either case without regard to the Transition Factor, if any.

(e) Qualifying Termination in Anticipation of a Change in Control. In the event that Grantee's termination of employment satisfies all of the conditions set forth in Section 15.46 for a qualifying termination in anticipation of a change in control such that the Grant is outstanding at the time the Change in Control occurs, Grantee will receive a Final Award on the following basis, as applicable:

- (1) If the Change in Control occurs within three (3) months of Grantee's Termination Date, Grantee will receive a Final Award on the same basis as continuing employees, as set forth in Section 6.1(a), including the application of the Transition Factor, if any; and
- (2) If the Change in Control occurs more than three (3) months after Grantee's Termination Date but the Grant is outstanding because Grantee's termination of employment qualifies under Section 15.46 by, among other conditions, having occurred after or within three months prior to a CIC Triggering Event, Grantee will receive a Final Award on the same basis as a qualifying Retiree, as set forth in Section 6.1(c).

6.2 Transition Factor. The “Transition Factor” is included in the calculation of the Final Award amount in portions of Section 6.1 in recognition of the Committee’s change, with the 2006-2008 Incentive Performance Units grants, from its prior practice (granting incentive share award opportunities every three years as part of the long-term compensation component of total compensation for certain PNC officers) to granting incentive share / performance unit award opportunities annually, in smaller amounts, while maintaining a standard three-year performance period.

In the event that a Change in Control occurs prior to the date in the first quarter of 2007 that the Committee grants incentive opportunities similar to the Grant to some or all of PNC’s executive officers (whether or not Grantee receives one of those grants) or before April 1, 2007 if no such grants are made in the first quarter of 2007, the Transition Factor will be 3.

In the event that a Change in Control occurs on or after the date in 2007 that the Committee grants incentive award opportunities similar to the Grant to some or all of PNC’s executive officers (or after March 31, 2007 if no such grants are made in 2007) but prior to the earlier of the date in the first quarter of 2008 that the Committee grants incentive award opportunities similar to the Grant to some or all of PNC’s executive officers (whether or not Grantee receives one of those grants) or March 31, 2008 if no such grants are made in the first quarter of 2008, the Transition Factor will be 1.5.

The Transition Factor will not be applicable in the event that a Change in Control occurs after March 30, 2008.

6.3 No Committee Discretion. The Committee may not exercise any negative discretion pursuant to Section 5.2(b) or otherwise exercise discretion pursuant to the Agreement in any way that would serve to reduce an award deemed to be made to Grantee pursuant to this Section 6.

6.4 CIC Severance Agreement Coordination. Unless otherwise provided by specific reference to this Agreement, in the event that Grantee is entitled to a severance payment from the Corporation pursuant to a change in control severance agreement, this Grant will be considered an incentive share award or grant for purposes of that agreement.

7. Delivery of Final Award; Termination of Grant as to Any Unawarded Units

7.1 Delivery of Final Awards Determined by Committee. Any Final Award determined by the Committee pursuant to Section 5.2 will be settled by delivery of that number of whole shares of PNC common stock equal to the number of share units denominated in the Final Award; provided that if the number of share units so denominated exceeds the number of Target Share Units specified in the Grant (without

regard to any additions for Dividend Adjustment Share Units but after any capital adjustments pursuant to Section 9), then any excess over such number of target share units will be settled in cash (sometimes referred to in the Agreement as “cash share-equivalents”) in an amount equal to such excess number of share units multiplied by the Fair Market Value of a share of PNC common stock on the Award Date or as otherwise provided in Section 9, if applicable, subject to the payment of applicable withholding taxes as set forth in Section 11.

Determination of eligibility for an award, calculation of the maximum permitted award amount, and a decision by the Committee on whether or not to authorize an award and, if so, the size of such Final Award (the “scheduled award determination process”) and then payment of any such Final Award will all generally occur in the first quarter of 2009 or as soon thereafter as practicable after the final Peer data necessary for the Committee to make its award determination is available. In general, it is expected that the Award Date will occur in 2009 and no later than the end of the second quarter of that year, and that payment of a Final Award, if any, will be made as soon as practicable after the Award Date, provided that in no event will payment occur later than March 15, 2010 other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

In the event of Grantee’s death prior to the Award Date where Grantee has satisfied all of the conditions of Section 4.2, 4.3, 4.4 or 4.5 of the Agreement and otherwise meets all applicable criteria as set forth in the Agreement for consideration for an award, (a) the scheduled award determination process will occur at the same time and in the same manner as set forth above for continuing employees, provided that if the death occurs prior to 2008, the scheduled award determination process will occur in the calendar year immediately following Grantee’s death, and (b) payment of a Final Award, if any, will be made during the calendar year immediately following the year in which Grantee died if the death occurs on or prior to December 31, 2008, or in 2009 if Grantee dies in 2009, provided that in no event will payment occur later than December 31st of the calendar year so specified as the year for payment other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

Otherwise, in the event that Grantee is no longer employed by the Corporation but has satisfied all of the conditions of Section 4.3, 4.4 or 4.5 of the Agreement and otherwise meets all applicable criteria as set forth in the Agreement for consideration for an award, (a) the scheduled award determination process will occur at the same time and in the same manner as set forth above for continuing employees, generally in 2009 during the first quarter of that year, and (b) once the Committee has made its award determination, payment of a Final Award, if any, will be made as soon as practicable after the Award Date, provided that in no event will payment be made earlier than January 1, 2009 or later than December 31, 2009 other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

In the event that one or more record dates for dividends on PNC common stock occur after the end of the applicable Performance Period but before the date the Final Award is paid pursuant to this Section 7.1, PNC will make a cash payment to Grantee in an amount equivalent to the amount of the dividends Grantee would have received had the share units denominated in the Final Award been that number of shares of PNC common stock and had such shares been issued and outstanding on January 1, 2009 and remained outstanding on the record date or dates for such dividends. Any such payment will be made at the same time as payment of the Final Award.

If there is a dispute regarding payment of the Final Award, PNC will settle the undisputed portion of the award, if any, within the time frame set forth above in this Section 7.1, and will settle any remaining portion as soon as practicable after such dispute is finally resolved.

7.2 Delivery of Final Awards Determined by Section 6 If a Final Award is deemed to be made pursuant to Section 6 rather than determined by the Committee pursuant to Section 5.2, the Final Award is fully vested as of the date of the Change in Control and will be settled in the same manner as specified in the first paragraph of Section 7.1, except that payment will be made entirely in cash if so provided in the circumstances pursuant to Section 9.2.

Payment of the Final Award will be made by PNC as soon as practicable after the date the Change in Control occurs and the amount of the Final Award is determinable and determined in accordance with Section 6, but in no event later than the 15th day of the third month of the calendar year following the calendar year in which the Change in Control occurs, other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

If there is a dispute regarding payment of the Final Award, PNC will settle the undisputed portion of the award, if any, within the time frame set forth in this Section 7.2, and will settle any remaining portion as soon as practicable after such dispute is finally resolved.

In the event that one or more record dates for dividends on PNC common stock occur on or after the date of the Change in Control but before the date the Final Award is paid pursuant to this Section 7.2, PNC will make a cash payment to Grantee in an amount equivalent to the amount of the dividends Grantee would have received had the share units denominated in the Final Award been that number of shares of PNC common stock and had such shares been issued and outstanding on the date of the Change in Control and remained outstanding on the record date or dates for such dividends. Any such payment will be made at the same time as payment of the Final Award.

7.3 Final Awards are Fully Vested. The Final Award will be fully vested at the Committee-determined Award Date or as of the date of the Change in Control, as applicable. Any shares issued pursuant to this Section 7 will be fully vested at the time of issuance, and PNC will issue such shares and deliver any cash payable pursuant to this Section 7 to, or at the proper direction of, Grantee or Grantee's legal representative, as determined in good faith by the Committee. No fractional shares will be issued, and if the Final Award includes 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 or Grantee's legal representative in cash at the time the shares are issued.

In the event that Grantee is deceased, payment will be delivered to the executor or administrator of Grantee's estate or to Grantee's other legal representative, as determined in good faith by the Committee.

7.4 Termination of Grant as to Any Unawarded Units. Once an award determination has been made by the Committee pursuant to Section 5.2 or a Final Award is deemed to have been made by virtue of the application of Section 6, the incentive award opportunity represented by this Grant will terminate as to any portion of the Performance Units not so awarded.

Termination of all or a portion of the Grant pursuant to this Section 7.4, or pursuant to Section 4, if applicable, will in no way affect Grantee's covenants or the other provisions of Sections 16 and 17.

8. No Rights as Shareholder until Final Award and Issuance. Grantee will have no rights as a shareholder by virtue of this Grant unless and until a Final Award, if any, is made and shares are issued and delivered in settlement of all or a portion of such Final Award, if any.

9. Capital Adjustments.

9.1 Except as otherwise provided in Section 9.2, if applicable, in the event that a corporate transaction or transactions (including, without limitation, stock dividends, stock splits, spin-offs, split-offs, recapitalizations, mergers, consolidations or reorganizations of or by PNC (each, a "Corporate Transaction")) occurs prior to the time a Final Award, if any, is paid, the Committee will make those adjustments, if any, in the number and class of the Target Share Units that it deems appropriate 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 of any share-denominated award authorized for payment to Grantee by reference to the per share value of the consideration payable to a PNC common shareholder in connection with such Corporate Transaction, and (b) authorizing payment of the entire Final Award, if any, in cash at the time otherwise specified in Section 7.

9.2 Upon the occurrence of a Change in Control (or during the period after the occurrence of a CIC Triggering Event and before such triggering event results in a Change in Control or a CIC Failure of such event occurs), (a) the number and class of the Target Share Units will automatically be adjusted to reflect the same changes as are made to outstanding shares of PNC common stock generally, (b) the value per share unit of any share-denominated award that is deemed to be awarded to Grantee in accordance with Section 6 will be measured by reference to the per share value of the consideration payable to a PNC common shareholder in connection with such Corporate Transaction or Transactions, and (c) if the effect of the Corporate Transaction or Transactions on a PNC common shareholder is to convert that shareholder's holdings into consideration that does not consist solely (other than as to a minimal amount) of shares of PNC common stock, then the value of an award to Grantee pursuant to Section 6 will be payable solely in cash at the time otherwise specified by Section 7.

10. Prohibitions Against Sale, Assignment, etc.; Payment to Legal Representative

(a) The Grant may not be sold, assigned, transferred, exchanged, pledged, hypothecated or otherwise encumbered.

(b) If Grantee is deceased at the time any Final Award authorized by this Agreement is to be paid, 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 payment made in good faith by PNC to Grantee's executor, administrator or other legal representative shall extinguish all right to payment hereunder.

11. Withholding Taxes; Payment Upon Inclusion Under 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 Final Award then payable to Grantee. To the extent that any portion of a Final Award is payable in the form of cash, the Corporation will withhold first from such cash portion of the award 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 the portion of any Final Award that is payable 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 11, 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 Final

Award after any cash portion of the award 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 with the Final Award, no additional withholding may be made.

It is the intention of the parties that the Grant and the Agreement comply with the provisions of Section 409A to the extent, if any, that such provisions are applicable to the Agreement. In the event that, notwithstanding such intention, the arrangement fails to meet the requirements of Section 409A and the regulations promulgated thereunder, then PNC may at that time permit the acceleration of the time for payment to Grantee under the Agreement notwithstanding any of the other provisions of the Agreement, but any such accelerated payment may not exceed the amount required to be included in Grantee's income as a result of the failure to comply with the requirements of Section 409A and the regulations promulgated thereunder. For purposes of this provision, an amount will be deemed to have been included in Grantee's income if the amount is timely reported on Form W-2 or Form 1099-MISC, as appropriate.

12. Employment. Neither the Grant nor the calculation, determination and payment of any Final Award hereunder 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 (as defined in Section 15.54) to employ Grantee for any period or in any way alter Grantee's status as an employee at will.

13. 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 under the authority of the Committee, whether made or issued before or after the Grant Date.

14. 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.

15. Certain Definitions. Except where the context otherwise indicates, the following definitions apply for purposes of the Agreement.

15.1 “Adjusted Target Share Units” means the number of share units equal to the Target Share Units as adjusted for the addition of all Dividend Adjustment Share Units accrued through the date specified by the Agreement, which will be December 31, 2008 unless an earlier date is specified by the Agreement (*e.g.*, in the case of a qualifying retirement or a Change in Control prior to December 31, 2008).

15.2 “Annual Peer Group” or “Peer Group” means the group of financial institutions, including PNC, designated by the Committee pursuant to Section 3.2 as PNC’s Peer Group for a given year. A member of the Peer Group is sometimes referred to as a “Peer”.

15.3 “Annual Potential Payout Percentage.” The Annual Potential Payout Percentage for a given full covered year within the Performance Period (*i.e.*, for 2006, 2007 or 2008) is the percentage determined by taking the average of the potential payout percentages achieved for that year by PNC with respect to the two Performance Measures (EPS Growth performance and ROCE performance) as determined in accordance with the Annual Potential Payout Schedule applicable for that year, rounded to the nearest one-hundredth percent.

Where the Agreement requires the calculation of an Annual Potential Payout Percentage for a given period that is less than a full year (sometimes referred to as a “partial year” or a “limited year” or “limited period”), then the Annual Potential Payout Percentage for that covered period is sometimes referred to as a “Limited-Year Annual Potential Payout Percentage”.

A “Limited-Year Annual Potential Payout Percentage” will be calculated in the same manner as the Annual Potential Payout Percentage for a full covered year except that it will be based on measurements of EPS Growth and ROCE performance with respect to PNC and the other Peers for, or with respect to, the year-to-date period (using full quarters only) beginning on January 1 of the given partial year and ending on the performance measurement date specified by the Agreement, and will be measured for PNC and for those other Peers that are remaining by the end of that limited period.

15.4 “Annual Potential Payout Schedule” for a given full or partial covered year means the schedule established by the Committee pursuant to Section 3.2 for that year that determines the method by which the Annual Potential Payout Percentage will be calculated for that year, or for the relevant portion of that year if a partial or limited year calculation is required by the Agreement, based on the levels of EPS Growth and ROCE performance achieved by PNC relative to the EPS Growth and ROCE performance of the other Peers remaining by the end of the relevant period.

15.5 “Award Date” means: (1) the date on which the Committee makes its determination as to whether or not it will authorize an award, and if so, as to the size of the Final Award, if any, it authorizes pursuant to Section 5.2 within the permitted Calculated Maximum Potential Payout Amount determined in accordance with the Agreement (sometimes referred to as the “Committee-determined Award Date”); or (2)

if a Change in Control has occurred and Grantee is deemed to have been awarded a Final Award pursuant to Section 6, the Award Date will be the date the Change in Control occurs (sometimes referred to as the “Change-in-Control-determined Award Date”).

15.6 “Board” means the Board of Directors of PNC.

15.7 “Calculated Maximum Potential Payout Amount” means the maximum size of the award, denominated in share units, that the Committee may award to Grantee based on PNC’s level of achievement of the Performance Goals and the applicable Annual Potential Payout Schedules established by the Committee and on Grantee’s level of satisfaction, or deemed satisfaction, of the service requirements set forth in Section 4, including any limitations on the maximum potential payout amount that may apply in the circumstances (e.g., in the case of a qualifying retirement).

15.8 “Cause”.

(a) “Cause” during a CIC Coverage Period. If a termination of Grantee’s employment with the Corporation occurs during a CIC Coverage Period, then, for purposes of the Agreement, “Cause” means:

(i) the willful and continued failure of Grantee to substantially perform Grantee’s duties with the Corporation (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to Grantee by the Board or the CEO which specifically identifies the manner in which the Board or the CEO believes that Grantee has not substantially performed Grantee’s duties; or

(ii) the willful engaging by Grantee in illegal conduct or gross misconduct that is materially and demonstrably injurious to PNC or any Subsidiary.

For purposes of the preceding clauses (i) and (ii), no act or failure to act, on the part of Grantee, will be considered willful unless it is done, or omitted to be done, by Grantee in bad faith and without reasonable belief that Grantee’s action or omission was in the best interests of the Corporation. Any act, or failure to act, based upon the instructions or prior approval of the Board, the CEO, or Grantee’s superior or based upon the advice of counsel for the Corporation, will be conclusively presumed to be done, or omitted to be done, by Grantee in good faith and in the best interests of the Corporation.

The cessation of employment of Grantee will be deemed to be a termination of Grantee’s employment with the Corporation for Cause for purposes of the Agreement only if and when there shall have been delivered to Grantee, as part of the notice of Grantee’s termination, a copy of a resolution duly adopted by the affirmative vote of not less than a majority of the entire membership of the Board, at a Board meeting called and held for the purpose of considering such termination, finding on the basis of clear and convincing evidence that, in the good faith opinion of the Board, Grantee is guilty of conduct described in clause (i) or clause (ii) above and, in either case, specifying the

particulars thereof in detail. Such resolution shall be adopted only after (1) reasonable notice of such Board meeting is provided to Grantee, together with written notice that PNC believes that Grantee is guilty of conduct described in clause (i) or clause (ii) above and, in either case, specifying the particulars thereof in detail, and (2) Grantee is given an opportunity, together with counsel, to be heard before the Board.

(b) “Cause” other than during a CIC Coverage Period. If a termination of Grantee’s employment with the Corporation occurs other than during a CIC Coverage Period, then, for purposes of the Agreement, “Cause” means:

(i) the willful and continued failure of Grantee to substantially perform Grantee’s duties with the Corporation (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to Grantee by PNC that specifically identifies the manner in which it is believed that Grantee has not substantially performed Grantee’s duties;

(ii) a material breach by Grantee of (1) any code of conduct of PNC or a Subsidiary or (2) other written policy of PNC or a Subsidiary, in either case required by law or established to maintain compliance with applicable law;

(iii) any act of fraud, misappropriation, material dishonesty, or embezzlement by Grantee against PNC or a Subsidiary or any client or customer of PNC or a Subsidiary;

(iv) any conviction (including a plea of guilty or of *nolo contendere*) of Grantee for, or entry by Grantee into a pre-trial disposition with respect to, the commission of a felony; or

(v) entry of any order against Grantee, by any governmental body having regulatory authority with respect to the business of PNC or any Subsidiary, that relates to or arises out of Grantee’s employment or other service relationship with the Corporation.

The cessation of employment of Grantee will be deemed to have been a termination of Grantee’s employment with the Corporation for Cause for purposes of the Agreement only if and when the CEO or his or her designee (or, if Grantee is the CEO, the Board) determines that Grantee is guilty of conduct described in clause (i), (ii) or (iii) above or that an event described in clause (iv) or (v) above has occurred with respect to Grantee and, if so, determines that the termination of Grantee’s employment with the Corporation will be deemed to have been for Cause.

15.9 “CEO” means the chief executive officer of PNC.

15.10 “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 will not by itself constitute a Change in Control.

15.11 "CIC 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 CIC Coverage Period commences on the date of a CIC Triggering Event, such CIC 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 CIC Coverage Period, another CIC Coverage Period will commence upon the earlier to occur of clause (a)(i) and clause (a)(ii) in the preceding sentence.

15.12 "CIC Failure" means the following:

(a) with respect to a CIC Triggering Event described in Section 15.14(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 15.14(b), the proxy contest fails to replace or remove a majority of the members of the Board.

15.13 "CIC Payout Percentage" has the meaning set forth in Section 6(a)(iii).

15.14 "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 15.10; 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.

15.15 "Committee" means the Personnel and Compensation Committee of the Board, or such person or persons as may be designated by that committee as its delegate.

15.16 "Competitive Activity" means, for purposes of the Agreement, any participation in, employment by, ownership of any equity interest exceeding one percent (1%) in, or promotion or organization of, any Person other than PNC or any Subsidiary (a) engaged in business activities similar to some or all of the business activities of PNC or any Subsidiary as of Grantee's Termination Date or (b) engaged in business activities which Grantee knows PNC or any Subsidiary intends to enter within the first twelve (12) months after Grantee's Termination Date or, if later and if applicable, after the date specified in clause (ii) of Section 15.18(a), in either case whether Grantee is acting as agent, consultant, independent contractor, employee, officer, director, investor, partner, shareholder, proprietor or in any other individual or representative capacity therein.

15.17 "Corporation" means PNC and its Subsidiaries.

15.18 “Detrimental Conduct” means:

(a) Grantee has engaged, without the prior written consent of PNC (with consent to be given at PNC’s sole discretion), in any Competitive Activity in the continental United States at any time during the period commencing on Grantee’s Termination Date and extending through (and including) the first (1st) anniversary of the later of (i) Grantee’s Termination Date and, if different, (ii) the first date after Grantee’s Termination Date as of which Grantee ceases to be engaged by the Corporation in any capacity for which Grantee receives compensation from the Corporation, including but not limited to acting for compensation as a consultant, independent contractor, employee, officer, director or advisory director;

(b) any act of fraud, misappropriation, or embezzlement by Grantee against PNC or a Subsidiary or any client or customer of PNC or a Subsidiary; or

(d) any conviction (including a plea of guilty or of *nolo contendere*) of Grantee for, or any entry by Grantee into a pre-trial disposition with respect to, the commission of a felony that relates to or arises out of Grantee’s employment or other service relationship with the Corporation.

Grantee will be deemed to have engaged in Detrimental Conduct for purposes of the Agreement only if and when the Committee, if Grantee is an “executive officer” of PNC as defined in SEC Regulation S-K, or the CEO, if Grantee is not a PNC executive officer, determines that Grantee has engaged in conduct described in clauses (a) or (b) above or that an event described in clause (c) above has occurred with respect to Grantee and, if so, determines that Grantee will be *deemed* to have engaged in Detrimental Conduct.

15.19 “Disabled” means, unless the Committee determines otherwise, Grantee’s disability as determined to be total and permanent by the Corporation for purposes of the Agreement.

15.20 “Dividend Adjustment Share Units.” Once the Agreement has become effective in accordance with Section 18, for each PNC common stock cash dividend payment date that occurs during the period from and after the Grant Date through and including December 31, 2008 (or, if earlier and if so required by the Agreement, through the date so specified by the Agreement), there will be added, subject to any applicable Plan limits, as of that dividend payment date to the number of Adjusted Target Share Units a number of share units (including fractional share units computed to six decimal places) equal to (i) the amount of the cash dividends that would have been paid on that dividend payment date on the target number of share units, as adjusted for all previous additions to such target number pursuant to this Section 15.20 up to that date, had each such share unit been an issued and outstanding share of PNC common stock on the record date for such dividend, divided by (ii) the Fair Market Value of a share of PNC common stock on that dividend payment date.

Cumulatively, these additional share units are referred to as the “Dividend Adjustment Share Units”, and the Target Share Units as adjusted for the addition of all accrued Dividend Adjustment Share Units are referred to as the “Adjusted Target Share Units”.

15.21 “EPS” for PNC or another Peer, for purposes of the Agreement, is calculated, for a given full year or shorter 3, 6, or 9 month period, as: (a) the publicly-reported diluted earnings per share of such Peer for that year (or shorter 3, 6, or 9 month period) prepared in accordance with GAAP; then (b) adjusted, as applicable, for extraordinary items, discontinued operations, merger integration costs (where such costs, including with respect to PNC, can be reasonably determined from publicly-disclosed financial information), and the impacts of stock splits (whether in the form of a stock split or a stock dividend), all as determined on the basis of publicly-reported financial information. All of the preceding terms, other than merger integration costs, will have the meanings assigned to such terms in accordance with GAAP. EPS will be rounded to the nearest one cent (*e.g.*, \$0.00, with \$0.005 being rounded upward to \$0.01).

The Committee may, in its discretion, direct management to provide additional information to the Committee on the impact that other specified adjustments, applied on a consistent basis to the EPS of each member of the Peer Group, would have had on relative EPS Growth performance, but no such other adjustments will have the effect of increasing the Calculated Maximum Potential Payout Amount or the Final Award.

15.22 “EPS Growth” means, for purposes of the Agreement for a given full covered year, with respect to each of PNC and each other Annual Peer Group member, the percentage obtained by (1) subtracting the EPS (calculated as set forth in Section 15.21) of such Peer for the year immediately preceding the given year from the EPS of such Peer for the given year, and (2) dividing the resulting number by the EPS of such Peer for such preceding year and rounding to the nearest one cent, then (3) expressing the resulting amount as a percent, rounded to the nearest one-hundredth (*e.g.*, 0.00%, with 0.005% being rounded upward to 0.01%).

Where the Agreement requires a measurement of EPS Growth with respect to PNC and the other Peers for a given covered period that is a partial rather than a full year, EPS Growth will be measured in the same manner as set forth above but comparing the EPS of each such Peer for the year-to-date period of the given partial year (using full quarters only) to the EPS of such Peer for the comparable period of the immediately preceding year.

15.23 “Exchange Act” means the Securities Exchange Act of 1934 as amended, and the rules and regulations promulgated thereunder.

15.24 “Fair Market Value” as it relates to a share of PNC common stock means the average of the reported high and low trading prices of a share of PNC common stock on the New York Stock Exchange (or such successor reporting system as PNC may select) on the relevant 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.

15.25 "Final Award" means the amount, if any, (a) awarded to Grantee by the Committee in accordance with Section 5.2, or (b) deemed awarded to Grantee pursuant to Section 6. The Final Award will be denominated in share units and will be payable in accordance with Section 7, generally in shares and cash share-equivalents.

15.26 "Final Potential Payout Percentage." The Final Potential Payout Percentage will have the meaning set forth in (a), (b) or (c) below, whichever is applicable in the circumstances.

(a) Where the Performance Period is limited pursuant to Section 6 by reason of the occurrence of a Change in Control prior to December 31, 2008 or if a Change in Control occurs on or after December 31, 2008, then the Final Potential Payout Percentage will be the CIC Payout Percentage, calculated as set forth in Section 6(a)(iii)(A) or (B), as applicable.

(b) Where the Performance Period specified by the Agreement is the full three-year period commencing January 1, 2006 through and including December 31, 2008, then, except as otherwise provided in subparagraph (a) above where a Change in Control occurs on or after December 31, 2008, the Final Potential Payout Percentage will be the percentage that is the average (but in no event greater than 200%) of the Annual Potential Payout Percentages for the three full covered years in the Performance Period (*i.e.*, one-third (1/3rd) of the sum of the annual percentages for the full years 2006, 2007 and 2008). If all of the Annual Potential Payout Percentages are 0%, then the Final Potential Payout Percentage will be 0%.

(c) Where the applicable performance measurement date specified by the Agreement is a quarter-end date other than December 31, 2008, then, except as otherwise provided in subparagraph (a) above where the Performance Period is limited pursuant to Section 6 by reason of the occurrence of a Change in Control, the Final Potential Payout Percentage will be a Limited-Period Final Potential Payout Percentage and will be calculated as set forth in Section 15.33.

15.27 "GAAP" means accounting principles generally accepted in the United States of America.

15.28 "Good Reason" means:

(a) the assignment to Grantee of any duties inconsistent in any respect with Grantee's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities immediately prior to either the CIC Triggering Event or the Change in Control, or any other action by the Corporation which results in a diminution in any respect in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith that is remedied by the Corporation promptly after receipt of notice thereof given by Grantee;

(b) a reduction by the Corporation in Grantee's annual base salary as in effect on the Grant Date, as the same may be increased from time to time;

(c) the Corporation's requiring Grantee to be based at any office or location that is more than fifty (50) miles from Grantee's office or location immediately prior to either the CIC Triggering Event or the Change in Control;

(d) the failure by the Corporation (i) to continue in effect any bonus, stock option or other cash or equity-based incentive plan or program in which Grantee participates immediately prior to either the CIC Triggering Event or the Change in Control that is material to Grantee's total compensation, unless a substantially equivalent arrangement (embodied in an ongoing substitute or alternative plan or program) has been made with respect to such plan or program, or (ii) to continue Grantee's participation in such plan or program (or in such substitute or alternative plan or program) on a basis at least as favorable, both in terms of the amount of benefits provided and the level of Grantee's participation relative to other participants, as existed immediately prior to the CIC Triggering Event or the Change in Control; or

(e) the failure by the Corporation to continue to provide Grantee with benefits substantially similar to those received by Grantee under any of the Corporation's pension (including, but not limited to, tax-qualified plans), life insurance, health, accident, disability or other welfare plans or programs in which Grantee was participating, at costs substantially similar to those paid by Grantee, immediately prior to the CIC Triggering Event or the Change in Control.

15.29 "Grant" means the grant, pursuant to Section 2, to Grantee of an incentive award opportunity of share-denominated Performance Units with the number of Target Share Units specified in the Agreement, subject to the performance conditions, employment conditions, and other terms and conditions of the Agreement and to the Plan.

15.30 "Grant Date" means the Grant Date set forth on page 1 of the Agreement, and is the date the Committee authorized the Grant.

15.31 "Grantee" means the person identified as Grantee on page 1 of the Agreement.

15.32 "Internal Revenue Code" means the Internal Revenue Code of 1986 as amended, and the rules and regulations promulgated thereunder.

15.33 "Limited-Period Final Potential Payout Percentage": Where the Agreement requires the calculation of a Limited-Period Final Potential Payout Percentage and the applicable performance measurement date specified by the Agreement is a quarter-end date other than December 31st of 2006 or 2007, and thus the applicable

Performance Period consists of one or more full years and/or a partial year, then the Limited-Period Final Potential Payout Percentage will be the percentage that is the weighted average of the Annual Potential Payout Percentages for the full years, if any, and the Limited-Year Annual Potential Payout Percentage for the partial year in the applicable limited Performance Period calculated as follows:

- (a) the sum of (i) four times the sum of the Annual Potential Payout Percentages for the full years in the period, if any, and (ii) the number of full completed quarters in the partial year of the applicable limited Performance Period, if any, times the Limited-Period Annual Potential Payout Percentage for that partial year, if any;
divided by
- (b) the total number of quarters in the applicable limited Performance Period.

Where the Agreement requires the calculation of a Limited-Period Final Potential Payout Percentage and the applicable performance measurement date specified by the Agreement is December 31st of 2006 or 2007 and thus the applicable Performance Period consists of one or more full years (and no partial years), then the Limited-Period Final Potential Payout Percentage will be the percentage that is the average (but in no event greater than 200%) of the Annual Potential Payout Percentages for the covered years in the Performance Period (e.g., one-half (1/2) of the sum of the two annual percentages if the applicable Performance Period is limited to the full years 2006 and 2007). If all of the Annual Potential Payout Percentages are 0%, then the Limited-Period Final Potential Payout Percentage will be 0%.

15.34 “Limited-Year Annual Potential Payout Percentage” has the meaning set forth in the last paragraph of the definition of Annual Potential Payout Percentage in Section 15.3.

15.35 “Peer”. A member of the Peer Group or Annual Peer Group, including PNC, is sometimes referred to as a “Peer”.

15.36 “Peer Group” or “Annual Peer Group” is defined in Section 15.2.

15.37 “Performance Goal(s).” The Performance Goals (“EPS Growth Performance Goal” and “ROCE Performance Goal”) are the level of PNC’s EPS Growth and the level of PNC’s ROCE performance, respectively, relative to the levels of EPS Growth and ROCE performance, respectively, of the other Peer Group members.

15.38 “Performance measurement date” has the meaning set forth in Section 5.1 and refers to the last day of the relevant performance measurement period.

15.39 “Performance Measure(s).” The Performance Measures are EPS Growth and ROCE performance, as defined in Section 15.22 and Section 15.50, respectively.

15.40 "Performance Period" means the period during which each corporate performance criterion of the Performance Units will be measured against the performance standards established by the Committee pursuant to Section 3.2. The Performance Period will be the period commencing January 1, 2006 through (and including) the applicable performance measurement date specified in the Agreement.

Subject to early termination or limitation where so indicated in the Agreement by specifying an earlier performance measurement date, the performance measurement date will be December 31, 2008 and the Performance Period will be the period commencing January 1, 2006 through (and including) December 31, 2008.

If the Performance Period is terminated early or limited pursuant to the terms of the Agreement, it is sometimes referred to as the "limited performance period". The three full years in the full Performance Period (2006, 2007 and 2008), or, if applicable, the full and partial years in the limited performance period, are sometimes referred to as "covered years".

15.41 "Performance Units" means the performance units granted to Grantee in this Grant in accordance with Article 8 of the Plan and denominated in shares of PNC common stock.

15.42 "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.

15.43 "Plan" means The PNC Financial Services Group, Inc. 1997 Long-Term Incentive Award Plan as amended from time to time.

15.44 "PNC" means The PNC Financial Services Group, Inc.

15.45 "Prorate" or "Prorated" means multiplying by a fraction (not to exceed 1) equal to the following:

If the Agreement specifies "prorating by years": (a) the number of full years in the applicable Performance Period, (b) divided by three, which is the number of years in the full 3-year period from January 1, 2006 through December 31, 2008.

If the Agreement specifies "prorating by quarters": (a) the number of full quarters in the applicable Performance Period, (b) divided by twelve, which is the number of quarters in the full 3-year period from January 1, 2006 through December 31, 2008.

15.46 "Qualifying Termination in Anticipation of a Change in Control" Grantee's termination of employment with the Corporation will be deemed to have been a "Qualifying Termination in Anticipation of a Change in Control" for purposes of the Agreement if Grantee's employment was terminated (other than by reason of Grantee's death) by the Corporation without Cause or by Grantee for Good Reason and the circumstances of such termination fall within one of the following:

- (1) such termination of employment by the Corporation without Cause or by Grantee for Good Reason occurred after the occurrence of a CIC Triggering Event but before such triggering event resulted in a Change in Control or a CIC Failure of such event occurred;

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- (2) such termination of employment was (a) by the Corporation without Cause, and (b) was either (i) at the request of a third party that had taken steps reasonably calculated to effect a Change in Control or (ii) otherwise arose in anticipation of a Change in Control, and (c) a CIC Coverage Period commences (by reason of the occurrence of either a CIC Triggering Event or a Change in Control) within three (3) months of Grantee's Termination Date; or
- (3) such termination of employment was (a) by Grantee for Good Reason, and (b) the circumstance or event that constitutes Good Reason either (i) occurred at the request of a third party that has taken steps reasonably calculated to effect a Change in Control or (ii) otherwise arose in anticipation of a Change in Control, and (c) a CIC Coverage Period commences (by reason of the occurrence of either a CIC Triggering Event or a Change in Control) within three (3) months of Grantee's Termination Date.

If Grantee is relying on clause (2) or clause (3) to meet the condition of this definition, Grantee will have the burden of proving that the requirements of such clause have been met and the standard of proof to be met by Grantee will be clear and convincing evidence.

For purposes of clause (2) and clause (3) of this Section 15.46 only, the definition of Change in Control in Section 15.10 will exclude the proviso in Section 15.10(a).

15.47 "Retiree". Grantee is sometimes referred to as a "Retiree" if Grantee Retires, as defined in Section 15.48.

15.48 "Retires" or "Retirement". Grantee "Retires" if his or her employment with the Corporation terminates (a) at any time on or after the first day of the first 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 determines otherwise, termination in connection with a divestiture of assets or of one or more Subsidiaries. If Grantee "Retires" as defined herein, the termination of Grantee's employment with the Corporation is sometimes referred to as "Retirement".

15.49 “ROCE” for PNC or another Peer, for purposes of the Agreement for a given full year period, is calculated, on the basis of publicly-reported financial information, as the percentage obtained by (1) dividing the annualized net income of such Peer by average annualized common shareholders’ equity as adjusted by excluding goodwill, all adjusted as applicable for the cumulative effects of accounting changes, extraordinary items, discontinued operations, and merger integration costs, and (2) expressing the resulting amount as a percent, rounded to the nearest one-hundredth (*e.g.*, 0.00%, with 0.005% being rounded upward to 0.01%).

Where the Agreement requires a measurement of ROCE with respect to PNC and the other Peers for a given period that is a partial rather than a full year, ROCE for purposes of the Agreement will be calculated in the same manner as set forth above but using net income for such 3, 6 or 9 month period in place of annualized net income and using average common shareholders’ equity for that year-to-date period, as adjusted by excluding goodwill, in place of average annualized common shareholders’ equity excluding goodwill, all on the basis of publicly-reported financial information and all adjusted as applicable as set forth above for the cumulative effects of accounting changes, extraordinary items, discontinued operations, and merger integration costs, and expressed as a percent, rounded to the nearest one-hundredth (*e.g.*, 0.00%, with 0.005% being rounded upward to 0.01%).

All of the preceding terms used in this definition of ROCE, other than merger integration costs, will have the meanings assigned to such terms in accordance with GAAP. ROCE, as used in the Agreement, will include adjustments for merger integration costs only where such costs, including with respect to PNC, can be reasonably determined from publicly-disclosed financial information.

The Committee may, in its discretion, direct management to provide additional information to the Committee on the impact that other specified adjustments, applied on a consistent basis to the ROCE of each member of the Peer Group, would have had on relative ROCE performance, but no such other adjustments will have the effect of increasing the Calculated Maximum Potential Payout Amount or the Final Award.

15.50 “ROCE performance” means, for purposes of the Agreement for a given full year period or shorter 3, 6 or 9 month period, with respect to each of PNC and each other Annual Peer Group member, the ROCE of each such Peer for such period, calculated as set forth in Section 15.49.

15.51 “Schedules” mean the Annual Peer Group and Annual Potential Payout Schedules established by the Committee pursuant to Section 3.2 for 2006, 2007 and 2008.

15.52 “SEC” means the United States Securities and Exchange Commission.

15.53 “Section 409A” means Section 409A of the Internal Revenue Code.

15.54 "Subsidiary" means a corporation, bank, partnership, business trust, limited liability company, or other form of business organization that is a consolidated subsidiary of PNC under GAAP.

15.55 "Target Share Units" means the number of share units specified on page 1 of the Agreement as Target Share Units.

15.56 "Termination Date" means Grantee's last date of employment with the Corporation. If Grantee is employed by a Subsidiary that ceases to be a Subsidiary of PNC and Grantee does not continue to be employed by PNC or a Subsidiary, then for purposes of the Agreement, Grantee's employment with the Corporation terminates effective at the time this occurs.

15.57 "Transition Factor" has the meaning set forth in Section 6.2.

16. Grantee Covenants.

16.1 General. Grantee and PNC acknowledge and agree that Grantee has received adequate consideration with respect to enforcement of the provisions of Sections 16 and 17 by virtue of receiving this Grant of an award opportunity (regardless of whether a Final Award is ultimately determined and delivered or of the size of such Final Award, if any); that such provisions are reasonable and properly required for the adequate protection of the business of the Corporation; and that enforcement of such provisions will not prevent Grantee from earning a living.

16.2 Non-Solicitation; No-Hire. Grantee agrees to comply with the provisions of subsections (a) and (b) of this Section 16.2 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 Subsidiary, solicit, call on, do business with, 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.

(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 Subsidiary, 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 the Corporation, nor shall Grantee assist any other Person in such activities.

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 CIC Coverage Period (as defined in Section 15.xx), then commencing immediately after such Termination Date, the provisions of subsections (a) and (b) of this Section 16.2 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.

16.3 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.

16.4 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 Subsidiary 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 16.4 shall be performed by Grantee without further compensation and will continue beyond Grantee's Termination Date.

17. Enforcement Provisions. Grantee understands and agrees to the following provisions regarding enforcement of the Agreement.

17.1 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.

17.2 Equitable Remedies. A breach of the provisions of any of Sections 16.2, 16.3 or 16.4 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.

17.3 Tolling Period. If it becomes necessary or desirable for the Corporation to seek compliance with the provisions of Section 16.2 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.

17.4 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.

17.5 Severability. The restrictions and obligations imposed by Sections 16.2, 16.3 and 16.4 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.

17.6 Reform. In the event any of Sections 16.2, 16.3 and 16.4 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.

17.7 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 16.2, 16.3 and 16.4.

17.8 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.

17.9. Compliance with Internal Revenue Code Section 409A It is the intention of the parties that the Grant and the Agreement comply with the provisions of Section 409A to the extent, if any, that such provisions are applicable to the Agreement, and the Agreement will be administered by PNC in a manner consistent with this intent.

If any payments or benefits hereunder may be deemed to constitute nonconforming deferred compensation subject to taxation under the provisions of Section 409A, Grantee agrees that PNC may, without the consent of Grantee, modify the Agreement to the extent and in the manner PNC deems necessary or advisable or take such other action or actions, including an amendment or action with retroactive effect, that PNC deems appropriate in order either to preclude any such payments or benefits from being deemed "deferred compensation" within the meaning of Section 409A or to provide such payments or benefits in a manner that complies with the provisions of Section 409A such that they will not be taxable thereunder.

18. Acceptance of Grant; PNC Right to Cancel; Effectiveness of Agreement

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, the Agreement is effective.

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:

Chairman and Chief Executive Officer

ATTEST:

By:

Corporate Secretary

ACCEPTED AND AGREED TO by GRANTEE

Grantee

* * *

2006 ANNUAL PEER GROUP

* * *

The Peer Group for 2006 consists of the following members:

BB&T Corporation

Bank of New York Company, Inc.

Fifth Third Bancorp

KeyCorp

National City Corporation

PNC

Regions Financial Corporation

SunTrust Banks, Inc.

U.S. Bancorp

Wachovia Corporation

Wells Fargo & Company

2006 ANNUAL POTENTIAL PAYOUT SCHEDULE

The Annual Potential Payout Percentage for 2006 ("2006 Annual Potential Payout Percentage") will be the average of the 2006 potential payout percentage for EPS Growth performance and the 2006 potential payout percentage for ROCE performance, rounded to the nearest one-hundredth percent (*e.g.*, 0.00%, with 0.005% being rounded upward to 0.01%).

If the 2006 potential payout percentage with respect to either EPS Growth performance or ROCE performance is 0% but is a positive number with respect to the other performance standard, the 2006 Annual Potential Payout Percentage will be the percentage that is one-half (1/2) of that positive number. If the 2006 potential payout percentage with respect to both EPS Growth performance and ROCE performance is 0%, the 2006 Annual Potential Payout Percentage will be 0%.

The 2006 potential payout percentages for EPS Growth performance and ROCE performance, respectively, will be determined as follows.

(1) Percentage Range. The 2006 potential payout percentage for each of EPS Growth performance and ROCE performance will be the percentage that corresponds to PNC's ranking with respect to that performance standard in the following chart. Where the chart indicates a percentage range rather than a specific percentage, the specific percentage within that range will depend on PNC's performance relative to that of the Peers ranked immediately above and below PNC ("Peer A" and "Peer B," respectively), and will be calculated as set forth in Item (2) below.

| <u>Peer Group Position with respect to EPS Growth Performance or ROCE Performance</u> | <u>Potential Payout Percentage</u> |
|---|------------------------------------|
| Top Performer | 200% |
| #2 | 170-190% |
| #3 | 150-170% |
| #4 | 130-150% |
| #5 | 110-130% |
| #6 | 90-110% |
| #7 | 70-90% |
| #8 | 50-70% |
| #9 | 30-50% |
| #10 | 0% |
| #11 | 0% |

Peer Group positions in the chart will be determined by calculating, using the definitions set forth in the 2006-2008 Incentive Performance Unit Agreement, the EPS Growth performance or ROCE performance, as the case may be, achieved for 2006 by each then existing member of the 2006 Peer Group and then ranking each such member of the 2006 Peer Group by that performance, with the Peer with the best 2006 performance being ranked the Top Performer, the Peer with the second best 2006 performance being ranked #2, and so on. The potential payout percentages or percentage ranges in the chart by Peer Group position will remain unchanged even if the number of Peers in the Peer Group by the end of 2006 has been reduced, due, for example, to consolidations, mergers, or other material corporate reorganizations.

(2) Refinements Within Percentage Range. If PNC achieves Top Performer ranking, the 2006 potential payout percentage for that performance standard will be 200%, subject to Item (3) below. If PNC's 2006 performance compared to the 2006 performance of the other then existing Peers ranks PNC as #10 or lower, the 2006 potential payout percentage for that performance standard will be 0%. Otherwise, subject to Item (3) below, the 2006 potential payout percentage with respect to a given performance standard will be equal to the following sum ((i) plus (ii)):

(i) the percentage that is the lowest percentage number of the range that corresponds to PNC's ranking as set forth in the chart,

plus

(ii) X%, where "X" is the product of 20 (the size of the range) and a fraction equal to "Y" divided by "Z", where:

"Y" is the difference between PNC's 2006 performance and Peer B's 2006 performance,

and

"Z" is the difference between Peer A's 2006 performance and Peer B's 2006 performance.

If there is no Peer B by the end of 2006, then the 2006 potential payout percentage for that performance standard will be the percentage that is the midpoint of the percentage range set forth in the chart for PNC's ranking.

(3) Committee Negative Discretion. Once the specific potential payout percentages for PNC's 2006 EPS Growth performance and 2006 ROCE performance have been determined by reference to the chart in accordance with Items (1) and (2) above, the Committee may, in its discretion, decide to reduce either or both of those percentages (as long as such decision is not made during a CIC Coverage Period, as defined in the 2006-2008 Incentive Performance Unit Agreement) but may not increase them.

* * *

2007 ANNUAL PEER GROUP

* * *

The Peer Group for 2007 consists of the following members:

BB&T Corporation

Comerica Inc.

Fifth Third Bancorp

KeyCorp

National City Corporation

PNC

Regions Financial Corporation

SunTrust Banks, Inc.

U.S. Bancorp

Wachovia Corporation

Wells Fargo & Company

* * *

2007 ANNUAL POTENTIAL PAYOUT SCHEDULE

* * *

The Annual Potential Payout Percentage for 2007 (“2007 Annual Potential Payout Percentage”) will be the average of the 2007 potential payout percentage for EPS Growth performance and the 2007 potential payout percentage for ROCE performance, rounded to the nearest one-hundredth percent (*e.g.*, 0.00%, with 0.005% being rounded upward to 0.01%).

If the 2007 potential payout percentage with respect to either EPS Growth performance or ROCE performance is 0% but is a positive number with respect to the other performance standard, the 2007 Annual Potential Payout Percentage will be the percentage that is one-half (1/2) of that positive number. If the 2007 potential payout percentage with respect to both EPS Growth performance and ROCE performance is 0%, the 2007 Annual Potential Payout Percentage will be 0%.

The 2007 potential payout percentages for EPS Growth performance and ROCE performance, respectively, will be determined as follows.

(1) Percentage Range. The 2007 potential payout percentage for each of EPS Growth performance and ROCE performance will be the percentage that corresponds to PNC’s ranking with respect to that performance standard in the following chart. Where the chart indicates a percentage range rather than a specific percentage, the specific percentage within that range will depend on PNC’s performance relative to that of the Peers ranked immediately above and below PNC (“Peer A” and “Peer B,” respectively), and will be calculated as set forth in Item (2) below.

| Peer Group Position with respect to EPS Growth Performance or ROCE Performance | Potential Payout Percentage |
|--|-----------------------------|
| Top Performer | 200% |
| #2 | 170-190% |
| #3 | 150-170% |
| #4 | 130-150% |
| #5 | 110-130% |
| #6 | 90-110% |
| #7 | 70-90% |
| #8 | 50-70% |
| #9 | 30-50% |
| #10 | 0% |
| #11 | 0% |

Peer Group positions in the chart will be determined by calculating, using the definitions set forth in the 2006-2008 Incentive Performance Unit Agreement, the EPS Growth performance or ROCE performance, as the case may be, achieved for 2007 by each then existing member of the 2007 Peer Group and then ranking each such member of the 2007 Peer Group by that performance, with the Peer with the best 2007 performance being ranked the Top Performer, the Peer with the second best 2007 performance being ranked #2, and so on. The potential payout percentages or percentage ranges in the chart by Peer Group position will remain unchanged even if the number of Peers in the Peer Group by the end of 2007 has been reduced, due, for example, to consolidations, mergers, or other material corporate reorganizations.

(2) Refinements Within Percentage Range. If PNC achieves Top Performer ranking, the 2007 potential payout percentage for that performance standard will be 200%, subject to Item (3) below. If PNC's 2007 performance compared to the 2007 performance of the other then existing Peers ranks PNC as #10 or lower, the 2007 potential payout percentage for that performance standard will be 0%. Otherwise, subject to Item (3) below, the 2007 potential payout percentage with respect to a given performance standard will be equal to the following sum ((i) plus (ii)):

(i) the percentage that is the lowest percentage number of the range that corresponds to PNC's ranking as set forth in the chart,

plus

(ii) X%, where "X" is the product of 20 (the size of the range) and a fraction equal to "Y" divided by "Z", where:

"Y" is the difference between PNC's 2007 performance and Peer B's 2007 performance,

and

"Z" is the difference between Peer A's 2007 performance and Peer B's 2007 performance.

If there is no Peer B by the end of 2007, then the 2007 potential payout percentage for that performance standard will be the percentage that is the midpoint of the percentage range set forth in the chart for PNC's ranking.

(3) Committee Negative Discretion. Once the specific potential payout percentages for PNC's 2007 EPS Growth performance and 2007 ROCE performance have been determined by reference to the chart in accordance with Items (1) and (2) above, the Committee may, in its discretion, decide to reduce either or both of those percentages (as long as such decision is not made during a CIC Coverage Period, as defined in the 2006-2008 Incentive Performance Unit Agreement) but may not increase them.

2007-2009 Incentive Performance Units Grant
Performance Period: January 1, 2007—December 31, 2009 (3 Years)
Performance Criteria: Levels of PNC Earnings per Share Growth and
Return on Average Common Equity (not including goodwill) Performance
Relative to Peer Performance
100% Vests on Final Award

THE PNC FINANCIAL SERVICES GROUP, INC.
2006 INCENTIVE AWARD PLAN

* * *
2007-2009 INCENTIVE PERFORMANCE UNITS AGREEMENT
* * *

GRANTEE: < name >
GRANT DATE: January 4, 2007
TARGET SHARE UNITS: < whole number > Share Units

1. Definitions. Certain terms used in this 2007-2009 Incentive Performance Units Agreement (“Agreement”) are defined in Section 15 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., “Corporation” means PNC and its Consolidated Subsidiaries, and “Plan” means The PNC Financial Services Group, Inc. 2006 Incentive Award Plan.

2. Grant of 2007-2009 Incentive Performance Units. Pursuant to the Plan and subject to the terms and conditions of the Agreement, PNC hereby grants to the grantee named above (“Grant” and “Grantee”) a Share-denominated incentive award opportunity of Performance Units with the number of target Share Units set forth above (“Target Share Units”).

The Grant is subject to the corporate performance conditions, employment conditions, and other terms and conditions of this Agreement and to the Plan, to final award determination, and to Grantee’s acceptance of the Grant in accordance with Section 18. Payment of any Final Award (as defined in Section 15.26) authorized pursuant to the Agreement will generally be made in shares of PNC common stock (“Shares”) up to the same number of Shares as the number set forth above as the number of Target Share Units (which is also the maximum number of Shares, subject to capital adjustments, if any, pursuant to Section 9, that may be paid with respect to the Performance Units hereunder). To the extent, if any, that the total Final Award amount exceeds the Target Share Units number set forth above, any remainder shall be paid in cash Share-equivalents.

In general, the Grant is an opportunity for Grantee to receive, at the end of the applicable performance period, an award of Shares and, if applicable, cash Share-equivalents, based on the degree to which specified corporate performance criteria have been achieved, as determined by the Committee (defined in Section 15.15) and subject to its negative discretion, or otherwise in accordance with the terms of the Agreement, provided that Grantee satisfies the employment conditions specified in the Agreement (or qualifies for a specified exception and is deemed to have satisfied those employment conditions) and the other conditions of the Agreement are met.

The potential maximum award payout that Grantee will be eligible to receive will be denominated in Share Units and will be expressed as a percentage of the Adjusted Target Share Units (defined in Section 15.1), which reflect adjustments for phantom dividends on target share units converted to additional target share units. The potential maximum award payout percentage will be determined by the levels of corporate performance that PNC achieves with respect to the performance criteria specified by the Committee relative to the corporate performance of PNC's peers for each of the three years in the overall performance period and by the potential award payout schedules established by the Committee pursuant to Section 3.2, giving equal weight to each of the two specified corporate performance standards and to each of the three covered years, subject to certain limitations or adjustments if there is an early termination or limitation of the performance measurement period (*e.g.*, if Grantee dies or has a qualifying retirement or if there is a Change in Control, as defined herein, during a performance measurement period).

Absent a Change in Control (as defined herein), the Committee will determine the Final Award, if any, that Grantee receives within this calculated maximum potential payout amount, generally in early 2010 (or early in 2008 or 2009 in the event of Grantee's death prior to that time). The Committee may adjust the Final Award downward, but not upward, from this calculated performance-based amount. This potential award payout amount could be as high as 200% of the Adjusted Target Share Units if PNC outperforms its peers with respect to both of the specified corporate performance standards for each year of the three-year performance period and if Grantee remains an employee of the Corporation throughout the full three-year performance period, or it could be zero if PNC fails to achieve at least the threshold level of corporate performance specified for an award in the Agreement schedules with respect to each such performance standard and year.

Any Final Award payout authorized pursuant to this Grant will generally be paid in Shares up to the same number of Shares as the number set forth above as the number of Target Share Units, and any remainder will be paid in cash Share-equivalents. The Grant must still be outstanding at the time Final Award determinations are made for Grantee to be eligible to receive an award, and Final Awards and payment are subject to the terms and conditions set forth in the Agreement and to the Plan.

The Agreement also provides a formula for calculation of the Final Award in the event of a Change in Control of PNC and for the form and timing of payment of any such award.

3. Corporate Performance Conditions. The Grant is subject to the following corporate performance conditions.

3.1 Performance Criteria. The corporate performance standards ("Performance Criteria") established by the Committee for this incentive award opportunity are the levels of EPS Growth performance and ROCE performance, as defined in Section 15.23 and Section 15.50, respectively, achieved by PNC as measured against the levels of EPS Growth performance and ROCE performance, respectively, of the other Peer Group members.

3.2 Annual Peer Group and Accompanying Annual Potential Payout Calculation Schedules. The Committee will establish the Annual Peer Group and the accompanying Annual Potential Payout Calculation Schedules for each year of the Performance Period as Schedules with respect to this Grant no later than the 90th day of that year, at which time the Schedules for that year will become final. Each Annual Potential Payout Calculation Schedule will provide a threshold level of corporate performance below which there will be no eligibility for an award payout with respect to corporate performance for that year.

Once the Annual Peer Group and accompanying Annual Potential Payout Calculation Schedules for a given year are established and final, the Committee will not change the Schedules with respect to that year other than to reflect Peer name changes or the elimination from the Peer Group of any members that have been eliminated since the beginning of the year due, for example, to consolidations, mergers or other material corporate reorganizations. Peer Group members that have been eliminated during the year will not be replaced for that year (or portion of a year where a limited-year calculation applies), but may be replaced when the Committee establishes the Annual Peer Group for the following year.

3.3 Calculation of Applicable Annual Potential Payout Percentages. After the end of each year of the Performance Period, PNC will: (1) determine the EPS Growth and ROCE performance for the applicable period for PNC and for each other member of the applicable Annual Peer Group remaining at the end of the period in accordance with the definitions set forth in Section 15; and (2) calculate the Annual Potential Payout Percentage, as defined in Section 15.3, achieved by PNC for that year. Such results will be presented to the Committee.

Where the Agreement requires the calculation of an Annual Potential Payout Percentage for a given period that is less than a full year (e.g., upon certain qualifying terminations or Change in Control), PNC will determine PNC and other Peer EPS Growth and ROCE performance and the Limited-Year Annual Potential Payout Percentage for that limited period as so required by the Agreement.

4. Grantee Service Requirement and Limitation of Potential Award: Early Termination of Grant The Grant is subject to the following employment conditions.

4.1 Eligibility for an Award: Employment Conditions and Early Termination of Grant Grantee will not be eligible to receive a Final Award unless the Grant remains outstanding on the Committee-determined Award Date (as defined in Section 15.5) or as of the end of the day immediately preceding the day on which a Change in Control occurs, if earlier.

The Grant will automatically terminate on Grantee's Termination Date (as defined in Section 15.56) unless an exception is available as set forth in Section 4.2, Section 4.3, Section 4.4 or Section 4.5. Where one or more of the conditions to an exception are post-employment conditions, the Grant will terminate upon the failure of any of those conditions.

In the event that Grantee's employment is terminated by the Corporation for Cause (as defined in Section 15.8), the Grant will automatically terminate on Grantee's Termination Date whether or not the termination might otherwise have qualified for an exception as a retirement or a disability termination pursuant to Section 4.3 or Section 4.4.

In the limited circumstances where the Grant remains outstanding notwithstanding Grantee's termination of employment with the Corporation, Grantee will be eligible for consideration for an award, subject to limitation as set forth in the applicable section of the Agreement. Said award, if any, will be determined and payable at the same time as the awards of those 2007-2009 Incentive Performance Units grantees who remain Corporation employees, except that in the case of death, the determination and payment of any award may be accelerated if so indicated in accordance with the applicable section of the Agreement.

Any award that the Committee may determine to make after Grantee's death will be paid to Grantee's legal representative, as determined in good faith by the Committee, in accordance with Section 10.

Notwithstanding anything in Section 4 or Section 5 to the contrary, if a Change in Control (as defined in Section 15.10) occurs prior to the time the Committee determines a Final Award pursuant to Section 5.2 (that is, prior to the Committee-determined Award Date), an award will be determined in accordance with Section 6.

4.2 Death While an Employee. If Grantee dies while an employee of the Corporation and prior to the Committee-determined Award Date, the Grant will remain outstanding and Grantee will be eligible for consideration for a prorated award calculated in accordance with Section 5.1(b), with an applicable performance measurement date (as defined in Section 5.1) of the earlier of the last day of the year in which the death occurred and December 31, 2009, and with adjustments to Adjusted Target Share Units calculated through that December 31st, payable in accordance with Section 7.

Any such award will be subject to Committee determination pursuant to Section 5.2, and may be reduced or eliminated by the Committee in the exercise of its negative discretion unless such determination occurs during a CIC Coverage Period (as defined in Section 15.11).

In the event that a Change in Control occurs prior to the time the Committee makes an award determination with respect to Grantee (either to award a specified amount or not to authorize any award), an award will be deemed to be made pursuant to Section 6, calculated as specified in Section 6.1(b).

4.3 Qualifying Retirement. If Grantee Retires (as defined in Section 15.48) prior to the Committee-determined Award Date and the termination of employment is not also a termination by the Corporation for Cause, the Grant will remain outstanding post-employment; provided, however, that the Committee may terminate the Grant at any time prior to the Award Date, other than during a CIC Coverage Period, upon determination that Grantee has engaged in Detrimental Conduct (as defined in Section 15.19). If Grantee is Disabled (as defined in Section 15.20) at the time of Retirement and Section 4.4 is also applicable to Grantee, that subsection will govern rather than this Section 4.3.

Provided that the Grant has not been terminated by the Committee prior to the award date for Detrimental Conduct and is still outstanding at that time, Grantee will be eligible for consideration for a prorated award at the time that awards are considered for those 2007-2009 Incentive Performance Unit grantees who remain Corporation employees, calculated in accordance with Section 5.1(c) with a performance measurement date of the last day of the last full quarter completed on or prior to Grantee's Retirement date, but in no event later than December 31, 2009, and with adjustments to Adjusted Target Share Units calculated through that same performance measurement date, payable in accordance with Section 7.

Any such award will be subject to Committee determination pursuant to Section 5.2, and may be reduced or eliminated by the Committee in the exercise of its negative discretion unless such determination occurs during a CIC Coverage Period.

If Grantee dies after a qualifying Retirement but before the time set forth above for consideration of an award and provided that the Grant has not been terminated by the Committee for Detrimental Conduct and is still outstanding at the time of Grantee's death, the Committee will consider an award for Grantee and make an award determination with respect to Grantee (either to award a specified amount or not to authorize any award). Such award, if any, will be paid during the calendar year immediately following the year in which Grantee's death occurs, if the death occurs on or prior to December 31, 2009, or in 2010 if the death occurs in 2010 but prior to the Award Date.

In the event that a Change in Control occurs prior to a Committee-determined Award Date, an award will be deemed to be made pursuant to Section 6, calculated as specified in Section 6.1(c).

4.4 Qualifying Disability Termination. If Grantee's employment with the Corporation is terminated by reason of Disability (as defined in Section 15.20) prior to the Committee-determined Award Date and the termination of employment is not also a termination by the Corporation for Cause, the Grant will remain outstanding post-employment; provided, however, that the Committee may terminate the Grant at any time prior to the Award Date, other than during a CIC Coverage Period, upon determination that Grantee has engaged in Detrimental Conduct (as defined in Section 15.19).

Provided that the Grant is still outstanding at that time, Grantee will be eligible for consideration for a full award at the time that awards are considered for those 2007-2009 Incentive Performance Units grantees who remain Corporation employees, calculated in accordance with Section 5.1(d), payable in accordance with Section 7.

Any such award will be subject to Committee determination pursuant to Section 5.2, and may be reduced by the Committee in the exercise of its negative discretion unless such determination occurs during a CIC Coverage Period. Although Grantee will be eligible for consideration for a full award (Standard Payout Calculation) at the scheduled time, it is anticipated that the Committee will take into account the timing and circumstances of the disability when deciding whether and the extent to which to exercise its negative discretion.

If Grantee dies after a qualifying disability termination but before the time set forth above for consideration of an award and provided that the Grant has not been terminated by the Committee for Detrimental Conduct and is still outstanding at the time of Grantee's death, the Committee will consider an award for Grantee and make an award determination with respect to Grantee (either to award a specified amount or not to authorize any award). Such award, if any, will be paid during the year immediately following the year in which Grantee's death occurs, if the death occurs on or prior to December 31, 2009, or in 2010 if the death occurs in 2010 but prior to the Award Date; provided, however, that the maximum award that may be approved in these circumstances is the award that could have been authorized had Grantee died while an employee of the Corporation.

In the event that a Change in Control occurs prior to a Committee-determined Award Date, an award will be deemed to be made pursuant to Section 6, calculated as specified in Section 6.1(d).

4.5 Qualifying Termination in Anticipation of a Change in Control. If Grantee's termination of employment satisfies the conditions set forth in Section 15.46 such that it is a Qualifying Termination in Anticipation of a Change in Control, then the

Grant will remain outstanding notwithstanding Grantee's termination of employment with the Corporation and the Grant will not be subject to termination by the Committee for Detrimental Conduct.

To the extent that the conditions set forth in Section 15.46 are conditions that must be satisfied during a stated post-employment period, the Grant will remain outstanding during that period until it is determined that such conditions either have or have not been satisfied. If the conditions are not satisfied, the Grant will terminate unless Grantee meets one of the other exceptions set forth in this Section 4.

If all of the conditions set forth in Section 15.46 are satisfied, Grantee will be eligible for consideration for an award pursuant to Section 5.2, calculated in accordance with Section 5.1(e), or will receive an award pursuant to Section 6, calculated as specified in Section 6.1(e), as applicable.

If Grantee dies after a Qualifying Termination in Anticipation of a Change in Control but prior to the time the Committee makes an award determination pursuant to Section 5.2 or a Change-in-Control-determined Award Date, Grantee will be eligible for Committee consideration of an award of the greater of the award Grantee could have received had he or she died while an employee of the Corporation or an award determined as set forth in Section 5.1(e). If a Change in Control occurs prior to a Committee-determined Award Date, Grantee will be deemed to receive an award in accordance with Section 6.

5. Certification of Performance Results; Calculation of Maximum Potential Payout Amount; and Final Award Determination

5.1 Certification of Level of Achievement of Corporate Performance with respect to Performance Criteria; Calculation of Final Potential Payout Percentage and Calculated Maximum Potential Payout Amount. As soon as practicable after December 31, 2009, or after the earlier relevant date if the applicable performance measurement date and potential award date are earlier under the circumstances, PNC will present information to the Committee concerning the following: (1) the levels of EPS Growth performance and ROCE performance achieved by PNC and the other members of the applicable Annual Peer Group for each of the applicable full and partial years for which performance is being measured under the circumstances; (2) the calculated Annual Potential Payout Percentages determined in accordance with the applicable Schedules for such full and partial years on the basis of the levels of such EPS Growth performance and ROCE performance achieved by PNC relative to the other Peers for such periods; and (3) the calculated Final Potential Payout Percentage.

Subsections (a), (b), (c), (d) and (e) below set forth additional criteria for the certifications and calculations to be made pursuant to this Section 5.1 under varying circumstances. The last day of the applicable performance measurement period is sometimes referred to as the "performance measurement date." The time when the certification, calculation and Final Award determination process will take place is sometimes referred to as the "scheduled award-determination period," and the date when a Final Award, if any, is determined and made by the Committee is sometimes referred to as the "Committee-determined Award Date" (as set forth in Section 15.5).

Notwithstanding anything in this Section 5 to the contrary, if a Change in Control has occurred, Section 6 will apply.

(a) Non-Exceptional Circumstances – Standard Payout Calculation. Provided that Grantee remains an employee of the Corporation and the Grant remains outstanding such that Grantee remains eligible for consideration for an award, and that a Change in Control has not occurred, the Performance Period will run through December 31, 2009 and the process of certification of the level of achievement of corporate performance with respect to the Performance Criteria, the calculation of the Final Potential Payout Percentage and the Calculated Maximum Potential Payout Amount, and the determination of the Final Award, if any, will occur in early 2010.

Under the circumstances set forth in this subsection (a) above (“non-exceptional circumstances”), PNC will present information to the Committee for purposes of this Section 5.1 on the following basis:

(i) the applicable performance measurement date will be December 31, 2009;

(ii) the applicable Performance Period will consist of the full years 2007, 2008 and 2009;

(iii) the applicable Final Potential Payout Percentage will be the percentage that is the average of the Annual Potential Payout Percentages for 2007, 2008 and 2009, but in no event greater than 200%;

(iv) the applicable Calculated Maximum Potential Payout Amount will be the number of Share Units equal to the Final Potential Payout Percentage of the Adjusted Target Share Units, with adjustments calculated through December 31, 2009; and

(v) the scheduled award-determination period will occur in early 2010.

(b) Death While an Employee. In the event that Grantee dies while an employee of the Corporation and prior to the regularly scheduled award date for non-exceptional circumstances in early 2010 and the Grant remains outstanding pursuant to Section 4.2, PNC will present information to the Committee for purposes of this Section 5.1 on the following basis:

(i) the applicable performance measurement date will be the earlier of the last day of the year in which the death occurred and December 31, 2009;

(ii) the applicable Performance Period will be the period commencing on January 1, 2007 and ending on the applicable performance measurement date, and will consist of the one, two or three full years, as the case may be, in that period;

(iii) the applicable Final Potential Payout Percentage will be the percentage that is the average of the Annual Potential Payout Percentages for the full years in the applicable Performance Period, but in no event greater than 200%;

(iv) the applicable Calculated Maximum Potential Payout Amount will be the number of Share Units equal to (x) the applicable Final Potential Payout Percentage of the Adjusted Target Share Units, with adjustments calculated through the December 31st that is the applicable performance measurement date, then (y) prorated (as defined in Section 15.45) based on the number of full years in the applicable Performance Period, including the year of death if prior to 2010; and

(v) the scheduled award-determination period will occur during the year immediately following the year in which Grantee died *i.e.*, early in 2008, 2009, or 2010, as the case may be) unless Grantee dies after December 31, 2009 but prior to the award date, in which case the scheduled award-determination period will occur in 2010.

(c) Retirement. In the event that Grantee Retires prior to the regularly scheduled award date for non-exceptional circumstances in early 2010 but Grantee has met the conditions for a qualifying retirement termination set forth in Section 4.3 and the Grant has not been terminated by the Committee prior to the award date pursuant to Section 4.3 for Detrimental Conduct and remains outstanding, PNC will present information to the Committee for purposes of this Section 5.1 on the following basis:

(i) the applicable performance measurement date will be the last day of the last full quarter completed prior to Grantee's Retirement date or, if the Retirement date is a quarter-end date, that quarter-end date, but in no event later than December 31, 2009;

(ii) the applicable limited Performance Period will be the period commencing on January 1, 2007 and ending on the applicable performance measurement date, and will consist of the full and partial years in that period;

(iii) the applicable Final Potential Payout Percentage will be a Limited-Period Final Potential Payout Percentage and will be the percentage that is the weighted average of the Annual Potential Payout Percentages for the full years, if any, and the Limited-Year Annual Potential Payout Percentage for the partial year, if any, in the applicable Performance Period, calculated as set forth in Section 15.35;

(iv) the applicable Calculated Maximum Potential Payout Amount will be the number of Share Units equal to (x) the applicable Limited-Period Final Potential Payout Percentage of the Adjusted Target Share Units, with adjustments calculated through the quarter-end date that is the applicable performance measurement date, then (y) prorated (as defined in Section 15.45) based on the number of full quarters in the applicable limited Performance Period (*i.e.*, in the period from January 1, 2007 through the applicable performance measurement date); and

(v) the scheduled award-determination period will occur in early 2010 as provided in Section 7.1, unless Grantee dies after Retirement but before the beginning of 2009, in which case the scheduled award-determination period will occur in early 2008 (if the death occurred in 2007) or early 2009 (if the death occurred in 2008), as the case may be.

In the event that Grantee is Disabled at the time of Retirement and Section 4.4 is also applicable to Grantee, then Section 5.1(d) will govern rather than this Section 5.1(c).

(d) Disability. In the event that Grantee becomes Disabled prior to the regularly scheduled award date for non-exceptional circumstances in early 2010 but Grantee has met the conditions for a qualifying disability termination set forth in Section 4.4 and the Grant has not been terminated by the Committee prior to the award date pursuant to Section 4.4 for Detrimental Conduct and remains outstanding, PNC will present information to the Committee for purposes of this Section 5.1 on the same basis as that set forth in Section 5.1(a), together with such information as the Committee may request concerning the timing and circumstances of the disability.

The scheduled award-determination period will occur in early 2010, unless Grantee dies after a qualifying disability termination but before the beginning of 2009, in which case the scheduled award-determination period will occur in early 2008 (if the death occurred in 2007) or early 2009 (if the death occurred in 2008), as the case may be. If Grantee dies after a qualifying disability termination but prior to the award date, the maximum award that may be approved in these circumstances will be the maximum that could have been awarded had Grantee died while an employee of the Corporation.

(e) Termination in Anticipation of a Change in Control. In the event that Grantee ceases to be an employee of the Corporation prior to the regularly scheduled award date for non-exceptional circumstances in early 2010 but Grantee has met the conditions for a Qualifying Termination in Anticipation of a Change in Control set forth in Section 4.5 and the Grant remains outstanding, but a Change in Control has not yet occurred, then:

- (1) If a CIC Triggering Event (as defined in Section 15.14) has occurred and has not yet failed (as CIC Failure is defined herein) such that a Change in Control transaction is pending at the regularly scheduled award date, the Grant will remain outstanding and Grantee will be eligible to receive an award pursuant to Section 5.2 on the same basis as that set forth in Section 5.1(c) for a qualifying Retiree and the Committee will have no discretion to reduce the size of such award; and
- (2) If the CIC Triggering Event fails prior to the regularly scheduled award date (as CIC Failure is defined in Section 15.12), the Grant will remain outstanding and the Committee will have discretion to authorize an award, pursuant to Section 5.2, to Grantee up to a maximum permitted award calculated on the same basis as that set forth in Section 5.1(c) for a qualifying Retiree, but the Committee will also have discretion to reduce the award as set forth in Section 5.2(b).

If Grantee dies after a Qualifying Termination in Anticipation of a Change in Control but prior to the time the Committee makes an award determination pursuant to Section 5.2 or a Change-in-Control-determined Award Date, Grantee will be eligible for an award of the greater of the award Grantee could have received had he or she died while an employee of the Corporation or an award determined as set forth above in this Section 5.1(e).

If a Change in Control occurs prior to a Committee-determined Award Date, Grantee will be deemed to receive an award in accordance with Section 6.

5.2 Final Award Determination by Committee.

(a) Subject to the last sentence in this paragraph, provided that the Grant is still outstanding, that Grantee is either still an employee of the Corporation or qualifies for an exception to the employment condition pursuant to Section 4.2, 4.3, 4.4 or 4.5, and that the Final Potential Payout Percentage is greater than zero, the Committee will have the authority to award to Grantee ("award") as a Final Award such amount, denominated as a specified number of Share Units, as may be determined by the Committee. The Final Award may not exceed the applicable Calculated Maximum Potential Payout Amount, as determined in accordance with Section 5.1, and is subject to the exercise of negative discretion by the Committee pursuant to Section 5.2(b), if applicable. The Committee will not have authority to exercise negative discretion if a CIC Coverage Period has commenced and has not yet ended. If there has been a Change in Control, the Committee's authority is subject to Section 6.

The date on which the Committee makes its determination as to whether or not it will authorize an award and, if so, the size of the Final Award, if any, it authorizes within the Calculated Maximum Potential Payout Amount determined pursuant to the Agreement is sometimes referred to in the Agreement as the "Committee-determined Award Date" (as set forth in Section 15.5).

Payment of the Final Award, if any, will be made in accordance with Section 7. If Grantee dies after a Final Award is determined but before payment is made, payment of the Final Award will be made to Grantee's legal representative, as determined in good faith by the Committee, in accordance with Section 10.

(b) Except during a CIC Coverage Period or after the occurrence of a Change in Control, the Committee may exercise negative discretion with respect to the Grant and may determine, in light of such Corporation or individual performance or other factors as the Committee may deem appropriate, that notwithstanding the levels of EPS Growth and/or ROCE performance achieved by PNC relative to the other members of the Peer Group, the Committee will not award Grantee the full Calculated Maximum Potential Payout Amount that the Committee is authorized to award pursuant to Section 5.2(a), or any of such amount.

If the Committee so determines to exercise its negative discretion pursuant to this Section 5.2(b), the Final Award, if any, will be reduced accordingly provided, however,

that the Committee may not exercise such negative discretion upon or after the occurrence of a Change in Control (or during the period after the occurrence of a CIC Triggering Event but before such triggering event either results in a Change in Control or a CIC Failure of such event occurs).

(c) If a Change in Control occurs prior to the Committee-determined Award Date, the Final Award will be determined in accordance with Section 6 rather than being determined by the Committee under Section 5.2 and will not be subject to the Committee's negative discretion.

6. Change in Control Prior to a Committee-Determined Award Date

6.1 Final Award Calculation.

Notwithstanding anything in the Agreement to the contrary, upon the occurrence of a Change in Control at any time prior to a Committee-determined Award Date pursuant to Section 5.2, (i) the Performance Period, if not already ended, will be limited and will end, (ii) if Dividend Adjustment Share Units were otherwise still accruing at the time, no further Dividend Adjustment Share Units will accrue and be added to the number of Adjusted Target Share Units, and (iii) Grantee will be deemed to have been awarded a Final Award in an amount determined as set forth in this Section 6, payable to Grantee or Grantee's legal representative at the time and in the manner set forth in Section 7, provided that the Grant is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs and has not already terminated or been terminated in accordance with the terms of Section 4.

If this Section 6 is applicable and a Final Award is deemed to be awarded pursuant to Section 6, the day the Change in Control occurs will be considered the Award Date for purposes of the Agreement. This date is sometimes referred to in the Agreement as the "Change-in-Control-determined Award Date" (as set forth in Section 15.5).

(a) Standard CIC Payout Calculation. Provided that Grantee is an employee of the Corporation and the Grant is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs such that Grantee remains eligible for an award, Grantee's Final Award will be determined as follows:

(i) the applicable performance measurement date will be the last day of the last full quarter completed prior to the day the Change in Control occurs, or, if the Change in Control occurs on a quarter-end date, the day the Change in Control occurs, but in no event later than December 31, 2009;

(ii) the applicable Performance Period will be the period commencing on January 1, 2007 and ending on the applicable performance measurement date, and will consist of the full and partial years in that period;

(iii) the applicable Final Potential Payout Percentage will be the ‘CIC Payout Percentage’, which will be (A) or (B) below, as applicable, (but in no event greater than 200%):

(A) if the Change in Control occurs prior to December 31, 2009, such that the Performance Period is less than three full years, the CIC Payout Percentage will be the higher of (1) 100% and (2) a Limited-Period Final Potential Payout Percentage (calculated as set forth in Section 15.34) of the percentage that is the weighted average of the Annual Potential Payout Percentages for the full years, if any, and the Limited-Year Annual Potential Payout Percentage for the partial year, if any, in the applicable limited Performance Period; and

(B) if the Change in Control occurs on or after December 31, 2009, the CIC Payout Percentage will be the average of the Annual Potential Payout Percentages for the full years 2007, 2008 and 2009;

(iv) the applicable Final Award amount will be the number of Share Units equal to (x) the CIC Payout Percentage of the Adjusted Target Share Units, with adjustments calculated through the quarter-end date that is the applicable performance measurement date, then (y) prorated (as defined in Section 15.45) based on the number of full quarters in the applicable limited Performance Period (*i.e.*, in the period from January 1, 2007 through the quarter-end date that is the applicable performance measurement date), then (z) multiplied by the Transition Factor (as set forth in Section 6.2), if applicable; and

(v) the scheduled award-determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee dies after the Change in Control occurs, Grantee’s Final Award determined pursuant to this Section 6.1(a) will be paid to Grantee’s legal representative, as determined in good faith by the Committee, in accordance with Section 10.

(b) Death. In the event the Grantee died while an employee of the Corporation and qualified for consideration for an award pursuant to Section 4.2 but the Committee had not yet made an award determination (either to award a specified amount or not to authorize any award) with respect to Grantee at the time the Change in Control occurs such that Grantee remains eligible for an award, Grantee’s Final Award (payable to Grantee’s legal representative, as determined in good faith by the Committee, in accordance with Section 10) will be in the amount of the lesser of:

(1) the Calculated Maximum Potential Payout Amount determined in the same manner as set forth in Section 5.1(b) but with no Committee discretion to reduce the amount of the award; and

(2) the award that would have been payable, but without regard to the Transition Factor, if any, pursuant to the calculations set forth in Section 6.1(a) had Grantee not died but had been an employee of the Corporation as of the end of day immediately preceding the day the Change in Control occurred.

The scheduled award-determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee died while an employee of the Corporation and a Final Award determination (either to award a specified amount or not to authorize any award) was made by the Committee pursuant to Section 5.2 prior to the Change in Control, no further or different award determination will be made pursuant to this Section 6.1.

(c) Qualifying Retirement. In the event that Grantee Retired prior to the day the Change in Control occurs but Grantee has met the conditions for a qualifying retirement termination set forth in Section 4.3 and the Grant has not been terminated by the Committee prior to the Change in Control pursuant to Section 4.3 for Detrimental Conduct and is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs such that Grantee remains eligible for an award, Grantee's Final Award will be in the amount of the lesser of:

- (1) the Calculated Maximum Potential Payout Amount determined in the same manner as set forth in Section 5.1(c) but with no Committee discretion to reduce the amount of the award; and
- (2) the award that would have been payable, but without regard to the Transition Factor, if any, pursuant to the calculations set forth in Section 6.1(a) had Grantee not Retired but had been an employee of the Corporation as of the end of the day immediately preceding the day the Change in Control occurred.

The scheduled award-determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee died while a qualified Retiree and a Final Award determination (either to award a specified amount or not to authorize any award) was made by the Committee pursuant to Section 5.2 prior to the Change in Control, no further or different award determination will be made pursuant to this Section 6.1. If no such Final Award determination was made prior to the Change in Control, Grantee's Final Award determined pursuant to this Section 6.1(c) will be paid to Grantee's legal representative, as determined in good faith by the Committee, in accordance with Section 10.

(d) Disability. In the event that Grantee became Disabled and Grantee's employment with the Corporation terminated prior to the day the Change in Control occurs but Grantee has met the conditions for a qualifying disability termination set forth in Section 4.4 and the Grant has not been terminated by the Committee prior to the Change in Control pursuant to Section 4.4 for Detrimental Conduct and is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs such that Grantee remains eligible for an award, Grantee's Final Award will be in the amount of the award that would have been payable, but without regard to the

Transition Factor, if any, pursuant to the calculations set forth in Section 6.1(a) had Grantee still been an employee of the Corporation as of the end of the day immediately preceding the day the Change in Control occurred. The scheduled award-determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee died while qualified to receive an award and a Final Award determination (either to award a specified amount or not to authorize any award) was made by the Committee pursuant to Section 5.2 prior to the Change in Control, no further or different award determination will be made pursuant to this Section 6.1. If no such Final Award determination was made prior to the Change in Control, Grantee's Final Award (payable to Grantee's legal representative, as determined in good faith by the Committee, in accordance with Section 10) will be the lesser of (i) an award determined in accordance with Section 6.1(a) as if Grantee had been an employee of the Corporation as of the end of the day immediately preceding the day the Change in Control occurred, and (ii) an award determined in accordance with Section 6.1(b) as if Grantee had died while an employee of the Corporation, in either case without regard to the Transition Factor, if any.

(e) **Qualifying Termination in Anticipation of a Change in Control** In the event that Grantee's termination of employment satisfies all of the conditions set forth in Section 4.5 and Section 15.46 for a qualifying termination in anticipation of a change in control such that the Grant is outstanding at the time the Change in Control occurs and Grantee remains eligible for an award, Grantee will receive a Final Award on the following basis, as applicable:

- (1) If the Change in Control occurs within three (3) months of Grantee's Termination Date, Grantee will receive a Final Award on the same basis as a continuing employee of the Corporation as set forth in Section 6.1(a), including the application of the Transition Factor, if any; and
- (2) If the Change in Control occurs more than three (3) months after Grantee's Termination Date but the Grant is outstanding because Grantee's termination of employment qualifies under Section 4.5 and Section 15.46 by, among other conditions, having occurred after or within three months prior to a CIC Triggering Event, Grantee will receive a Final Award on the same basis as a qualifying Retiree as set forth in Section 6.1(c).

If Grantee died while qualified to receive an award and a Final Award determination (either to award a specified amount or not to authorize any award) was made by the Committee pursuant to Section 5.2 prior to the Change in Control, no further or different award determination will be made pursuant to this Section 6.1. If no such Final Award determination was made prior to the Change in Control, Grantee's Final Award (payable to Grantee's legal representative, as determined in good faith by the Committee, in accordance with Section 10) will be the same amount as the Final Award that would have been paid to Grantee pursuant to this Section 6.1(e) had Grantee still been alive on the Change-in-Control-determined Award Date.

6.2 Transition Factor. The “Transition Factor” is included in the calculation of the Final Award amount in portions of Section 6.1 in recognition of the Committee’s change, beginning with the 2006-2008 Incentive Performance Units grants, from its prior practice (granting incentive share award opportunities every three years as part of the long-term compensation component of total compensation for certain senior PNC officers) to granting incentive share / performance unit award opportunities annually, in smaller amounts, while maintaining a standard three-year performance period.

In the event that a Change in Control occurs prior to the earlier of the date in the first quarter of 2008 that the Committee grants incentive award opportunities similar to the Grant to some or all of PNC’s executive officers (whether or not Grantee receives one of those grants) or March 31, 2008 if no such grants are made in the first quarter of 2008, the Transition Factor will be 1.5.

The Transition Factor will not be applicable in the event that a Change in Control occurs after March 30, 2008.

6.3 No Committee Discretion. The Committee may not exercise any negative discretion pursuant to Section 5.2(b) or otherwise exercise discretion pursuant to the Agreement in any way that would serve to reduce an award deemed to be made to Grantee pursuant to this Section 6.

6.4 CIC Severance Agreement Coordination. Unless otherwise provided by specific reference to this Agreement, in the event that Grantee is entitled to a severance payment from the Corporation pursuant to a change in control severance agreement, this Grant will be considered an incentive share award or grant for purposes of that agreement.

7. Delivery of Final Award; Termination of Grant as to Any Unawarded Performance Units

7.1 Delivery of Final Award Determined by Committee. Any Final Award determined by the Committee pursuant to Section 5.2 will be settled by delivery of that number of whole Shares equal to the number of Share Units specified in the Final Award; provided, that, if the number of Share Units so specified exceeds the number specified in the Grant as the Target Share Units number (which number, without regard to any additions for Dividend Adjustment Share Units but after any capital adjustments pursuant to Section 9, is also the maximum number of Shares that may be paid with respect to the Performance Units hereunder), then any excess of such number of Share Units over such maximum number of Shares will be settled in cash (sometimes referred to in the Agreement as “cash Share-equivalents”) in an amount equal to such excess number of Share Units multiplied by the Fair Market Value (as defined in Section 15.25) of a share of PNC common stock on the Award Date or as otherwise provided in Section 9, if applicable, subject to the payment of applicable withholding taxes as set forth in Section 11.

Determination of eligibility for an award, calculation of the maximum permitted award amount, and a decision by the Committee on whether or not to authorize an award and, if so, the size of such Final Award (the “scheduled award-determination process”) and then payment of any such Final Award will all generally occur in the first quarter of 2010 or as soon thereafter as practicable after the final Peer data necessary for the Committee to make its award determination is available. In general, it is expected that the Award Date will occur in 2010 and no later than the end of the second quarter of that year, and that payment of a Final Award, if any, will be made as soon as practicable after the Award Date, provided that in no event will payment occur later than March 15, 2011 other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

In the event of Grantee’s death prior to the Award Date where Grantee has satisfied all of the conditions of Section 4.2, 4.3, 4.4 or 4.5 of the Agreement and otherwise meets all applicable criteria as set forth in the Agreement for consideration for an award, (a) the scheduled award-determination process will occur at the same time and in the same manner as set forth above for grantees of 2007-2009 Incentive Performance Units who remain employees of the Corporation, provided that if the death occurs prior to 2009, the scheduled award-determination process will occur in the calendar year immediately following Grantee’s death, and (b) payment of a Final Award, if any, will be made during the calendar year immediately following the year in which Grantee died if the death occurs on or prior to December 31, 2009, or in 2010 if Grantee dies in 2010, provided, that, in no event will payment occur later than December 31st of the calendar year so specified as the year for payment, other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

Otherwise, in the event that Grantee is no longer employed by the Corporation but has satisfied all of the conditions of Section 4.3, 4.4 or 4.5 of the Agreement and otherwise meets all applicable criteria as set forth in the Agreement for consideration for an award, (a) the scheduled award-determination process will occur at the same time and in the same manner as set forth above for grantees of 2007-2009 Incentive Performance Units who remain employees of the Corporation, generally in 2010 during the first quarter of that year, and (b) once the Committee has made its award determination, payment of a Final Award, if any, will be made as soon as practicable after the Award Date, provided that in no event will payment be made earlier than January 1, 2010 or later than December 31, 2010, other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

In the event that one or more record dates for dividends on PNC common stock occur after December 31, 2009 (or, in the event of Grantee’s death prior to 2009, after the end of the applicable Performance Period) but before the date the Final Award, if any, is paid pursuant to this Section 7.1, PNC will make a cash payment to Grantee in an amount equivalent to the amount of the dividends Grantee would have received had the number

of Share Units specified in the Final Award been that number of shares of PNC common stock and had such shares been issued and outstanding on January 1, 2010 (or, in the event of Grantee's death prior to 2009, on the January 1st immediately following the last day of the applicable Performance Period) and had remained outstanding on the record date or dates for such dividends. Any such payment will be made at the same time as payment of the Final Award.

If there is a dispute regarding payment of the Final Award, PNC will settle the undisputed portion of the award, if any, within the time frame set forth above in this Section 7.1, and will settle any remaining portion as soon as practicable after such dispute is finally resolved.

7.2 Delivery of Final Award Determined by Section 6 If a Final Award is deemed to be made pursuant to Section 6 rather than determined by the Committee pursuant to Section 5.2, the Final Award is fully vested as of the date of the Change in Control and will be settled in the same manner as specified in the first paragraph of Section 7.1, except that payment will be made entirely in cash if so provided in the circumstances pursuant to Section 9.2.

Payment of the Final Award will be made by PNC as soon as practicable after the date the Change in Control occurs and the amount of the Final Award is determinable and determined in accordance with Section 6, but in no event later than the 15th day of the third month of the calendar year following the calendar year in which the Change in Control occurs, other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

If there is a dispute regarding payment of the Final Award, PNC will settle the undisputed portion of the award, if any, within the time frame set forth in this Section 7.2, and will settle any remaining portion as soon as practicable after such dispute is finally resolved.

In the event that one or more record dates for dividends on PNC common stock occur on or after the date of the Change in Control but before the date the Final Award is paid pursuant to this Section 7.2, PNC will make a cash payment to Grantee in an amount equivalent to the amount of the dividends Grantee would have received had the number of Share Units specified in the Final Award been that number of shares of PNC common stock and had such shares been issued and outstanding on the date of the Change in Control and remained outstanding on the record date or dates for such dividends. Any such payment will be made at the same time as payment of the Final Award.

7.3 Final Award Fully Vested The Final Award, if any, will be fully vested at the Committee-determined Award Date or as of the date of the Change in Control, as applicable. Any Shares issued pursuant to this Section 7 will be fully vested at the time of issuance, and PNC will issue such Shares and deliver any cash payable pursuant to this Section 7 to, or at the proper direction of, Grantee or Grantee's legal representative, as

determined in good faith by the Committee. No fractional shares will be issued, and if a Final Award includes 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 or Grantee's legal representative in cash at the time the Shares are issued.

In the event that Grantee is deceased, payment will be delivered to the executor or administrator of Grantee's estate or to Grantee's other legal representative, as determined in good faith by the Committee.

7.4 Termination of Grant as to Any Unawarded Performance Units Once an award determination has been made by the Committee pursuant to Section 5.2 or a Final Award is deemed to have been made by virtue of the application of Section 6, the share-denominated incentive award opportunity represented by this Grant of Performance Units will terminate as to any portion of the Performance Units not so awarded.

Termination of all or a portion of the Grant pursuant to this Section 7.4, or pursuant to Section 4, if applicable, will in no way affect Grantee's covenants or the other provisions of Sections 16 and 17.

8. No Rights as Shareholder until Final Award and Issuance of Shares. Grantee will have no rights as a shareholder by virtue of this Grant unless and until a Final Award, if any, is made and Shares are issued and delivered in settlement of all or a portion of such Final Award, if any.

9. Capital Adjustments.

9.1 Except as otherwise provided in Section 9.2, if applicable, in the event that a corporate transaction or transactions (including, without limitation, stock dividends, stock splits, spin-offs, split-offs, recapitalizations, mergers, consolidations or reorganizations of or by PNC (each, a "Corporate Transaction")) occurs prior to the time a Final Award, if any, is paid, the Committee shall make those adjustments, if any, in the number, class or kind of the Target Share Units 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 of any share-denominated award authorized for payment to Grantee by reference to the per share value of the consideration payable to a PNC common shareholder in connection with such Corporate Transaction, and (b) authorizing payment of the entire Final Award, if any, in cash at the time otherwise specified in Section 7.

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.

9.2 Upon the occurrence of a Change in Control (or during the period after the occurrence of a CIC Triggering Event and before such triggering event results in a

Change in Control or a CIC Failure of such event occurs), (a) the number, class and kind of the Target Share Units will automatically be adjusted to reflect the same changes as are made to outstanding shares of PNC common stock generally, (b) the value per Share Unit of any share-denominated award that is deemed to be awarded to Grantee in accordance with Section 6 will be measured by reference to the per share value of the consideration payable to a PNC common shareholder in connection with such Corporate Transaction or Transactions, and (c) if the effect of the Corporate Transaction or Transactions on a PNC common shareholder is to convert that shareholder's holdings into consideration that does not consist solely (other than as to a minimal amount) of shares of PNC common stock, then the value of an award to Grantee pursuant to Section 6 will be payable solely in cash at the time otherwise specified by Section 7.

10. Prohibitions Against Sale, Assignment, etc.; Payment to Legal Representative

- (a) The Grant of Performance Units made hereunder may not be sold, assigned, transferred, exchanged, pledged, hypothecated or otherwise encumbered.
- (b) If Grantee is deceased at the time any Final Award authorized by this Agreement is to be paid, 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.

11. Withholding Taxes; Payment Upon Inclusion Under 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 Final Award then payable to Grantee. To the extent that any portion of a Final Award is payable in the form of cash, the Corporation will withhold first from such cash portion of the award 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 the portion of any Final Award that is payable 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 11, 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 Final

Award after any cash portion of the award 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 with the Final Award, no additional withholding may be made.

It is the intention of the parties that the Grant and the Agreement comply with the provisions of Section 409A to the extent, if any, that such provisions are applicable to the Agreement. In the event that, notwithstanding such intention, the arrangement fails to meet the requirements of Section 409A and the regulations promulgated thereunder, then PNC may at that time permit the acceleration of the time for payment to Grantee under the Agreement notwithstanding any of the other provisions of the Agreement, but any such accelerated payment may not exceed the amount required to be included in Grantee's income as a result of the failure to comply with the requirements of Section 409A and the regulations promulgated thereunder. For purposes of this provision, an amount will be deemed to have been included in Grantee's income if the amount is timely reported on Form W-2 or Form 1099-MISC, as appropriate.

12. Employment. Neither the Grant of Performance Units nor the calculation, determination and payment of any Final Award hereunder 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.

13. 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.

14. 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.

15. Certain Definitions. Except where the context otherwise indicates, the following definitions apply for purposes of the Agreement.

15.1 “Adjusted Target Share Units” means the number of Share Units equal to the Target Share Units as adjusted for the addition of all Dividend Adjustment Share Units accrued through the date specified by the Agreement, which will be December 31, 2009 unless an earlier date is specified by the Agreement (*e.g.*, in the case of a qualifying retirement or a Change in Control prior to December 31, 2009).

15.2 “Annual Peer Group” or “Peer Group” means the group of financial institutions, including PNC, designated by the Committee pursuant to Section 3.2 as PNC’s Peer Group for a given year. A member of the Peer Group is sometimes referred to as a “Peer”.

15.3 “Annual Potential Payout Percentage.” The Annual Potential Payout Percentage for a given full covered year within the Performance Period (*i.e.*, for 2007, 2008 or 2009) is the percentage determined by taking the average of the potential payout percentages achieved for that year by PNC with respect to the levels of EPS Growth performance and ROCE performance, respectively, achieved by PNC relative to the levels of EPS Growth performance and ROCE performance, respectively, of the other Peer Group members as determined in accordance with the Annual Potential Payout Calculation Schedule applicable for that year, rounded to the nearest one-hundredth percent.

Where the Agreement requires the calculation of an Annual Potential Payout Percentage for a given period that is less than a full year (sometimes referred to as a “partial year” or a “limited year” or “limited period”), then the Annual Potential Payout Percentage for that covered period is sometimes referred to as a “Limited-Year Annual Potential Payout Percentage”.

A “Limited-Year Annual Potential Payout Percentage” will be calculated in the same manner as the Annual Potential Payout Percentage for a full covered year except that it will be based on measurements of EPS Growth performance and ROCE performance with respect to PNC and the other Peers for, or with respect to, the year-to-date period (using full quarters only) beginning on January 1 of the given partial year and ending on the performance measurement date specified by the Agreement, and will be measured for PNC and for those other Peers that are remaining by the end of that limited period.

15.4 “Annual Potential Payout Calculation Schedule” for a given full or partial covered year means the schedule established by the Committee pursuant to Section 3.2 for that year that determines the method by which the Annual Potential Payout Percentage will be calculated for that year, or for the relevant portion of that year if a partial or limited year calculation is required by the Agreement, based on the levels of EPS Growth performance and ROCE performance achieved by PNC relative to the EPS Growth performance and ROCE performance of the other Peers remaining by the end of the relevant period.

15.5 “Award Date” means: (1) the date on which the Committee makes its determination as to whether or not it will authorize an award, and if so, as to the size of the Final Award, if any, it authorizes pursuant to Section 5.2 within the permitted Calculated Maximum Potential Payout Amount determined in accordance with the Agreement (sometimes referred to as the “Committee-determined Award Date”); or (2) if a Change in Control has occurred and Grantee is deemed to have been awarded a Final Award pursuant to Section 6, the Award Date will be the date the Change in Control occurs (sometimes referred to as the “Change-in-Control-determined Award Date”).

15.6 “Board” means the Board of Directors of PNC.

15.7 “Calculated Maximum Potential Payout Amount” means the maximum size of the award, denominated as a specified number of Share Units, that the Committee may award to Grantee based on the degree to which the specified corporate Performance Criteria have been achieved by PNC and the applicable Annual Potential Payout Calculation Schedules established by the Committee and on Grantee’s level of satisfaction, or deemed satisfaction, of the service requirements set forth in Section 4, including any limitations on the maximum potential payout amount that may apply in the circumstances (*e.g.*, in the case of a qualifying retirement).

15.8 “Cause”.

(a) “Cause” during a CIC Coverage Period. If a termination of Grantee’s employment with the Corporation occurs during a CIC Coverage Period, then, for purposes of the Agreement, “Cause” means:

(i) the willful and continued failure of Grantee to substantially perform Grantee’s duties with the Corporation (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to Grantee by the Board or the CEO which specifically identifies the manner in which the Board or the CEO believes that Grantee has not substantially performed Grantee’s duties; or

(ii) the willful engaging by Grantee in illegal conduct or gross misconduct that is materially and demonstrably injurious to PNC or any of its subsidiaries.

For purposes of the preceding clauses (i) and (ii), no act or failure to act, on the part of Grantee, shall be considered willful unless it is done, or omitted to be done, by Grantee in bad faith and without reasonable belief that Grantee’s action or omission was in the best interests of the Corporation. Any act, or failure to act, based upon the instructions or prior approval of the Board, the CEO, or Grantee’s superior or based upon the advice of counsel for the Corporation, shall be conclusively presumed to be done, or omitted to be done, by Grantee in good faith and in the best interests of the Corporation.

The cessation of employment of Grantee will be deemed to be a termination of Grantee’s employment with the Corporation for Cause for purposes of the Agreement

only if and when there shall have been delivered to Grantee, as part of the notice of Grantee's termination, a copy of a resolution duly adopted by the affirmative vote of not less than a majority of the entire membership of the Board, at a Board meeting called and held for the purpose of considering such termination, finding on the basis of clear and convincing evidence that, in the good faith opinion of the Board, Grantee is guilty of conduct described in clause (i) or clause (ii) above and, in either case, specifying the particulars thereof in detail. Such resolution shall be adopted only after (1) reasonable notice of such Board meeting is provided to Grantee, together with written notice that PNC believes that Grantee is guilty of conduct described in clause (i) or clause (ii) above and, in either case, specifying the particulars thereof in detail, and (2) Grantee is given an opportunity, together with counsel, to be heard before the Board.

(b) "Cause" other than during a CIC Coverage Period. If a termination of Grantee's employment with the Corporation occurs other than during a CIC Coverage Period, then, for purposes of the Agreement, "Cause" means:

(i) the willful and continued failure of Grantee to substantially perform Grantee's duties with the Corporation (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to Grantee by PNC that specifically identifies the manner in which it is believed that Grantee has not substantially performed Grantee's duties;

(ii) a material breach by Grantee of (1) any code of conduct of PNC or any code of conduct of a subsidiary of PNC that is applicable to Grantee or (2) other written policy of PNC or other written policy of a subsidiary of PNC that is applicable to Grantee, in either case required by law or established to maintain compliance with applicable law;

(iii) any act of fraud, misappropriation, material dishonesty, or embezzlement by Grantee against PNC or any of its subsidiaries or any client or customer of PNC or any of its subsidiaries;

(iv) any conviction (including a plea of guilty or of *nolo contendere*) of Grantee for, or entry by Grantee into a pre-trial disposition with respect to, the commission of a felony; or

(v) entry of any order against Grantee, by any governmental body having regulatory authority with respect to the business of PNC or any of its subsidiaries, that relates to or arises out of Grantee's employment or other service relationship with the Corporation.

The cessation of employment of Grantee will be deemed to have been a termination of Grantee's employment with the Corporation for Cause for purposes of the Agreement only if and when the CEO or his or her designee (or, if Grantee is the CEO, the Board) determines that Grantee is guilty of conduct described in clause (i), (ii) or (iii) above or that an event described in clause (iv) or (v) above has occurred with respect to Grantee and, if so, determines that the termination of Grantee's employment with the Corporation will be deemed to have been for Cause.

15.9 “CEO” means the chief executive officer of PNC.

15.10 “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 shall not by itself constitute a Change in Control.

15.11 “CIC 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 CIC Coverage Period commences on the date of a CIC Triggering Event, such CIC 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 CIC Coverage Period, another CIC Coverage Period will commence upon the earlier to occur of clause (a)(i) and clause (a)(ii) in the preceding sentence.

15.12 “CIC Failure” means the following:

(a) with respect to a CIC Triggering Event described in Section 15.14(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 15.14(b), the proxy contest fails to replace or remove a majority of the members of the Board.

15.13 “CIC Payout Percentage” has the meaning set forth in Section 6.1(a)(iii).

15.14 “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 15.10; 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.

15.15 “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.

15.16 “Competitive Activity” means any participation in, employment by, ownership of any equity interest exceeding one percent (1%) in, or promotion or organization of, any Person other than PNC or any of its subsidiaries (a) engaged in

business activities similar to some or all of the business activities of PNC or any subsidiary as of Grantee's Termination Date or (b) engaged in business activities which Grantee knows PNC or any subsidiary intends to enter within the first twelve (12) months after Grantee's Termination Date or, if later and if applicable, after the date specified in clause (ii) of Section 15.19(a), in either case whether Grantee is acting as agent, consultant, independent contractor, employee, officer, director, investor, partner, shareholder, proprietor or in any other individual or representative capacity therein.

15.17 "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.

15.18 "Corporation" means PNC and its Consolidated Subsidiaries.

15.19 "Detrimental Conduct" means:

(a) Grantee has engaged, without the prior written consent of PNC (with consent to be given at PNC's sole discretion), in any Competitive Activity in the continental United States at any time during the period commencing on Grantee's Termination Date and extending through (and including) the first (1st) anniversary of the later of (i) Grantee's Termination Date and, if different, (ii) the first date after Grantee's Termination Date as of which Grantee ceases to be engaged by the Corporation in any capacity for which Grantee receives compensation from the Corporation, including but not limited to acting for compensation as a consultant, independent contractor, employee, officer, director or advisory director;

(b) any act of fraud, misappropriation, or embezzlement by Grantee against PNC or one of its subsidiaries or any client or customer of PNC or one of its subsidiaries; or

(d) any conviction (including a plea of guilty or of *nolo contendere*) of Grantee for, or any entry by Grantee into a pre-trial disposition with respect to, the commission of a felony that relates to or arises out of Grantee's employment or other service relationship with the Corporation.

Grantee will be deemed to have engaged in Detrimental Conduct for purposes of the Agreement only if and when the Committee (if Grantee was an "executive officer" of PNC as defined in SEC Regulation S-K when he or she ceased to be an employee of the Corporation) or the CEO (if Grantee was not such an executive officer) determines that Grantee has engaged in conduct described in clause (a) or clause (b) above or that an event described in clause (c) above has occurred with respect to Grantee, and, if so, determines that Grantee will be deemed to have engaged in Detrimental Conduct.

15.20 “Disabled” means, unless the Committee or its delegate determines otherwise, Grantee’s disability as determined to be total and permanent by the Corporation for purposes of the Agreement.

15.21 “Dividend Adjustment Share Units.” Once the Agreement has become effective in accordance with Section 18, for each PNC common stock cash dividend payment date that occurs during the period from and after the Grant Date through and including December 31, 2009 (or, if earlier and if so required by the Agreement, through the date so specified by the Agreement), there will be added, subject to any applicable Plan limits, as of that dividend payment date to the number of Adjusted Target Share Units a number of Share Units (including fractional Share Units computed to six decimal places) equal to (i) the amount of the cash dividends that would have been paid on that dividend payment date on the target number of share units, as adjusted for all previous additions to such target number pursuant to this Section 15.21 up to that date, had each such Share Unit been an issued and outstanding share of PNC common stock on the record date for such dividend, divided by (ii) the Fair Market Value of a share of PNC common stock on that dividend payment date.

Cumulatively, these additional Share Units are referred to as the “Dividend Adjustment Share Units”, and the Target Share Units as adjusted for the addition of all accrued Dividend Adjustment Share Units are referred to as the “Adjusted Target Share Units”.

15.22 “EPS” for PNC or another Peer, for purposes of the Agreement, is calculated, for a given full year or shorter 3, 6, or 9 month period, as: (a) the publicly-reported diluted earnings per share of such Peer for that year (or shorter 3, 6, or 9 month period) prepared in accordance with GAAP; then (b) adjusted, on an after-tax basis, for the impact of any extraordinary items, discontinued operations, acquisition costs and merger integration costs, and stock splits (whether in the form of a stock split or a stock dividend), all as determined on the basis of publicly-reported financial information; provided, however, that for purposes of the 2007-2009 Incentive Performance Units and this Agreement only, EPS for the full year 2006 or shorter 3, 6, or 9 month period of 2006, shall be further adjusted, on an after-tax basis, (1) for the impact of the following significant 2006 items: (i) gain on the BlackRock / Merrill Lynch Investment Managers transaction; (ii) securities portfolio rebalancing loss; and (iv) mortgage loan portfolio repositioning loss, and (2) as if PNC had recorded its investment in BlackRock on the equity method for all of 2006, all as determined from financial information publicly disclosed by PNC.

All of the preceding terms, other than acquisition costs and merger integration costs and the additional 2006 adjustments set forth above, will have the meanings assigned to such terms in accordance with GAAP, and all after-tax adjustments for PNC and for all other Peers will be calculated using the same methodology for making such adjustments on an after-tax basis. EPS, as used in the Agreement, will include adjustments for the impact of any acquisition costs and merger integration costs only where such costs, including with respect to PNC, can be reasonably determined from publicly-disclosed financial information. EPS will be rounded to the nearest one cent (*e.g.*, \$0.00, with \$0.005 being rounded upward to \$0.01).

The Committee may, in its discretion, direct management to provide additional information to the Committee on the impact that other specified adjustments, applied on a consistent basis to the EPS of each member of the Peer Group, would have had on relative EPS Growth performance, but no such other adjustments will have the effect of increasing the Calculated Maximum Potential Payout Amount or the Final Award.

15.23 “EPS Growth” or “EPS Growth performance” means, for purposes of the Agreement for a given full covered year, with respect to each of PNC and each other Annual Peer Group member, the percentage obtained by (1) subtracting the EPS (calculated as set forth in Section 15.22) of such Peer for the year immediately preceding the given year from the EPS of such Peer for the given year, and (2) dividing the resulting number by the EPS of such Peer for such preceding year and rounding to the nearest one cent, then (3) expressing the resulting amount as a percent, rounded to the nearest one-hundredth (*e.g.*, 0.00%, with 0.005% being rounded upward to 0.01%).

Where the Agreement requires a measurement of EPS Growth with respect to PNC and the other Peers for a given covered period that is a partial rather than a full year, EPS Growth will be measured in the same manner as set forth above but comparing the EPS of each such Peer for the year-to-date period of the given partial year (using full quarters only) to the EPS of such Peer for the comparable period of the immediately preceding year.

15.24 “Exchange Act” means the Securities Exchange Act of 1934 as amended, and the rules and regulations promulgated thereunder.

15.25 “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.

15.26 “Final Award” means the amount, if any, (a) awarded to Grantee by the Committee in accordance with Section 5.2, or (b) deemed to be awarded to Grantee pursuant to Section 6. The Final Award will be denominated as a specified number of Share Units and will be payable in accordance with Section 7, generally in Shares and cash Share-equivalents.

15.27 “Final Potential Payout Percentage.” The Final Potential Payout Percentage will have the meaning set forth in (a), (b) or (c) below, whichever is applicable in the circumstances.

(a) Where the Performance Period is limited pursuant to Section 6 by reason of the occurrence of a Change in Control prior to December 31, 2009 or if a Change in Control occurs on or after December 31, 2009, then the Final Potential Payout Percentage will be the CIC Payout Percentage, calculated as set forth in Section 6.1(a)(iii)(A) or (B), as applicable.

(b) Where the Performance Period specified by the Agreement is the full three-year period commencing January 1, 2007 through and including December 31, 2009, then, except as otherwise provided in subparagraph (a) above where a Change in Control occurs on or after December 31, 2009, the Final Potential Payout Percentage will be the percentage that is the average (but in no event greater than 200%) of the Annual Potential Payout Percentages for the three full covered years in the Performance Period (*i.e.*, one-third (1/3rd) of the sum of the annual percentages for the full years 2007, 2008 and 2009). If all of the Annual Potential Payout Percentages are 0%, then the Final Potential Payout Percentage will be 0%.

(c) Where the applicable performance measurement date specified by the Agreement is a quarter-end date other than December 31, 2009, then, except as otherwise provided in subparagraph (a) above where the Performance Period is limited pursuant to Section 6 by reason of the occurrence of a Change in Control, the Final Potential Payout Percentage will be a Limited-Period Final Potential Payout Percentage and will be calculated as set forth in Section 15.34.

15.28 “GAAP” or “generally accepted accounting principles” means accounting principles generally accepted in the United States of America.

15.29 “Good Reason” means:

(a) the assignment to Grantee of any duties inconsistent in any respect with Grantee’s position (including status, offices, titles and reporting requirements), authority, duties or responsibilities immediately prior to either the CIC Triggering Event or the Change in Control, or any other action by the Corporation which results in a diminution in any respect in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith that is remedied by the Corporation promptly after receipt of notice thereof given by Grantee;

(b) a reduction by the Corporation in Grantee’s annual base salary as in effect on the Grant Date, as the same may be increased from time to time;

(c) the Corporation’s requiring Grantee to be based at any office or location that is more than fifty (50) miles from Grantee’s office or location immediately prior to either the CIC Triggering Event or the Change in Control;

(d) the failure by the Corporation (i) to continue in effect any bonus, stock option or other cash or equity-based incentive plan or program in which Grantee participates immediately prior to either the CIC Triggering Event or the Change in

Control that is material to Grantee's total compensation, unless a substantially equivalent arrangement (embodied in an ongoing substitute or alternative plan or program) has been made with respect to such plan or program, or (ii) to continue Grantee's participation in such plan or program (or in such substitute or alternative plan or program) on a basis at least as favorable, both in terms of the amount of benefits provided and the level of Grantee's participation relative to other participants, as existed immediately prior to the CIC Triggering Event or the Change in Control; or

(e) the failure by the Corporation to continue to provide Grantee with benefits substantially similar to those received by Grantee under any of the Corporation's pension (including, but not limited to, tax-qualified plans), life insurance, health, accident, disability or other welfare plans or programs in which Grantee was participating, at costs substantially similar to those paid by Grantee, immediately prior to the CIC Triggering Event or the Change in Control.

15.30 "Grant" means the grant, pursuant to Section 2, to Grantee of a Share-denominated incentive award opportunity of Performance Units with the number of Target Share Units specified in the Agreement, subject to the corporate performance conditions, employment conditions, and other terms and conditions of the Agreement and to the Plan.

15.31 "Grant Date" means the Grant Date set forth on page 1 of the Agreement, and is the date as of which the Committee authorized the Grant of the Performance Units in accordance with the Plan.

15.32 "Grantee" means the person to whom the Grant is made, and is identified as Grantee on page 1 of the Agreement.

15.33 "Internal Revenue Code" means the Internal Revenue Code of 1986 as amended, and the rules and regulations promulgated thereunder.

15.34 "Limited-Period Final Potential Payout Percentage". Where the Agreement requires the calculation of a Limited-Period Final Potential Payout Percentage and the applicable performance measurement date specified by the Agreement is a quarter-end date other than December 31st of 2007 or 2008, and thus the applicable Performance Period consists of one or more full years and/or a partial year, then the Limited-Period Final Potential Payout Percentage will be the percentage that is the weighted average of the Annual Potential Payout Percentages for the full years, if any, and the Limited-Year Annual Potential Payout Percentage for the partial year in the applicable limited Performance Period calculated as follows:

(a) the sum of (i) four times the sum of the Annual Potential Payout Percentages for the full years in the period, if any, and (ii) the number of full completed quarters in the partial year of the applicable limited Performance Period, if any, times the Limited-Period Annual Potential Payout Percentage for that partial year, if any;

divided by

(b) the total number of quarters in the applicable limited Performance Period.

Where the Agreement requires the calculation of a Limited-Period Final Potential Payout Percentage and the applicable performance measurement date specified by the Agreement is December 31st of 2007 or 2008 and thus the applicable Performance Period consists of one or more full years (and no partial years), then the Limited-Period Final Potential Payout Percentage will be the percentage that is the average (but in no event greater than 200%) of the Annual Potential Payout Percentages for the covered years in the Performance Period (*e.g.*, one-half (1/2) of the sum of the two annual percentages if the applicable Performance Period is limited to the full years 2007 and 2008). If all of the Annual Potential Payout Percentages are 0%, then the Limited-Period Final Potential Payout Percentage will be 0%.

15.35 “Limited-Year Annual Potential Payout Percentage” has the meaning set forth in the last two paragraphs of the definition of Annual Potential Payout Percentage in Section 15.3.

15.36 “Peer”. A member of the Peer Group or Annual Peer Group, including PNC, is sometimes referred to as a “Peer”.

15.37 “Peer Group” or “Annual Peer Group” is defined in Section 15.2.

15.38 “Performance Criteria” means the corporate performance standards established by the Committee for the Performance Units as set forth in Section 3.1.

15.39 “Performance measurement date” has the meaning set forth in Section 5.1 and refers to the last day of the relevant performance measurement period.

15.40 “Performance Period” means the period during which PNC’s corporate performance will be measured against the performance standards established by the Committee pursuant to Section 3. The Performance Period will be the period commencing January 1, 2007 through (and including) the applicable performance measurement date specified in the Agreement.

Subject to early termination or limitation where so indicated in the Agreement by specifying an earlier performance measurement date, the performance measurement date will be December 31, 2009 and the Performance Period will be the period commencing January 1, 2007 through (and including) December 31, 2009.

If the Performance Period is terminated early or limited pursuant to the terms of the Agreement, it is sometimes referred to as the “limited performance period”. The three full years in the full Performance Period (2007, 2008 and 2009), or, if applicable, the full and partial years in the limited performance period, are sometimes referred to as “covered years”.

15.41 "Performance Units" means the Share-denominated incentive award opportunity of performance units granted to Grantee in this Grant in accordance with Article 10.3 of the Plan.

15.42 "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.

15.43 "Plan" means The PNC Financial Services Group, Inc. 2006 Incentive Award Plan as amended from time to time.

15.44 "PNC" means The PNC Financial Services Group, Inc.

15.45 "Prorate" or "Prorated" means multiplying by a fraction (not to exceed 1) equal to the following:

If the Agreement specifies "prorating by years": (a) the number of full years in the applicable Performance Period, (b) divided by three, which is the number of years in the full 3-year period from January 1, 2007 through December 31, 2009.

If the Agreement specifies "prorating by quarters": (a) the number of full quarters in the applicable Performance Period, (b) divided by twelve, which is the number of quarters in the full 3-year period from January 1, 2007 through December 31, 2009.

15.46 "Qualifying Termination in Anticipation of a Change in Control" Grantee's termination of employment with the Corporation will be deemed to have been a "Qualifying Termination in Anticipation of a Change in Control" for purposes of the Agreement if Grantee's employment was terminated (other than by reason of Grantee's death) by the Corporation without Cause or by Grantee for Good Reason and the circumstances of such termination fall within one of the following:

- (1) such termination of employment by the Corporation without Cause or by Grantee for Good Reason occurred after the occurrence of a CIC Triggering Event but before such triggering event resulted in a Change in Control or a CIC Failure of such event occurred;
- (2) such termination of employment was (a) by the Corporation without Cause, and (b) was either (i) at the request of a third party that had taken steps reasonably calculated to effect a Change in Control or (ii) otherwise arose in anticipation of a Change in Control, and (c) a CIC Coverage Period commences (by reason of the occurrence of either a CIC Triggering Event or a Change in Control) within three (3) months of Grantee's Termination Date; or

- (3) such termination of employment was (a) by Grantee for Good Reason, and (b) the circumstance or event that constitutes Good Reason either (i) occurred at the request of a third party that has taken steps reasonably calculated to effect a Change in Control or (ii) otherwise arose in anticipation of a Change in Control, and (c) a CIC Coverage Period commences (by reason of the occurrence of either a CIC Triggering Event or a Change in Control) within three (3) months of Grantee's Termination Date.

If Grantee is relying on clause (2) or clause (3) to meet the condition of this definition, Grantee will have the burden of proving that the requirements of such clause have been met and the standard of proof to be met by Grantee will be clear and convincing evidence.

For purposes of clause (2) and clause (3) of this Section 15.46 only, the definition of Change in Control in Section 15.10 will exclude the proviso in Section 15.10(a).

15.47 "Retiree". Grantee is sometimes referred to as a "Retiree" if Grantee Retires, as defined in Section 15.48.

15.48 "Retires" or "Retirement". Grantee "Retires" if his or her employment with the Corporation terminates (a) at any time on or after the first (^{1st}) day of the first (1st) 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. If Grantee "Retires" as defined herein, the termination of Grantee's employment with the Corporation is sometimes referred to as "Retirement".

15.49 "ROCE" for PNC or another Peer, for purposes of the Agreement for a given full year period, is calculated, on the basis of publicly-reported financial information, as the percentage obtained by (1) dividing (x) the annualized net income of such Peer, as adjusted, on an after-tax basis, for the impact of any extraordinary items, discontinued operations, and acquisition costs and merger integration costs, by (y) average annualized common shareholders' equity, as adjusted by excluding, on an after-tax basis, the impact of any goodwill, cumulative effects of accounting changes, extraordinary items, discontinued operations, and acquisition costs and merger integration costs, and (2) expressing the resulting amount as a percent, rounded to the nearest one-hundredth (*e.g.*, 0.00%, with 0.005% being rounded upward to 0.01%).

Where the Agreement requires a measurement of ROCE with respect to PNC and the other Peers for a given period that is a partial rather than a full year, ROCE for

purposes of the Agreement will be calculated in the same manner as set forth above but using net income, as adjusted, for such 3, 6 or 9 month period in place of annualized net income, as adjusted, and using average common shareholders' equity for that year-to-date period, as adjusted, in place of average annualized common shareholders' equity, as adjusted, all on the basis of publicly-reported financial information and all adjusted for the impact of the same items, if any, as set forth above, and expressed as a percent, rounded to the nearest one-hundredth (e.g., 0.00%, with 0.005% being rounded upward to 0.01%).

All of the preceding terms used in this definition of ROCE, other than acquisition costs and merger integration costs, will have the meanings assigned to such terms in accordance with GAAP, and all after-tax adjustments for PNC and for all other Peers will be calculated using the same methodology for making such adjustments on an after-tax basis. ROCE, as used in the Agreement, will include adjustments for the impact of any acquisition costs and merger integration costs only where such costs, including with respect to PNC, can be reasonably determined from publicly-disclosed financial information.

The Committee may, in its discretion, direct management to provide additional information to the Committee on the impact that other specified adjustments, applied on a consistent basis to the ROCE of each member of the Peer Group, would have had on relative ROCE performance, but no such other adjustments will have the effect of increasing the Calculated Maximum Potential Payout Amount or the Final Award.

15.50 "ROCE performance" means, for purposes of the Agreement for a given full year period or shorter 3, 6 or 9 month period, with respect to each of PNC and each other Annual Peer Group member, the ROCE of each such Peer for such period, calculated as set forth in Section 15.49.

15.51 "Schedules" mean the Annual Peer Group and accompanying Annual Potential Payout Calculation Schedules established by the Committee pursuant to Section 3.2 for 2007, 2008 and 2009.

15.52 "SEC" means the United States Securities and Exchange Commission.

15.53 "Section 409A" means Section 409A of the Internal Revenue Code.

15.54 "Share" means a share of PNC common stock.

15.55 "Target Share Units" means the number of Share Units specified on page 1 of the Agreement as Target Share Units, subject to capital adjustments pursuant to Section 9, if any.

15.56 "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.

15.57 "Transition Factor" has the meaning set forth in Section 6.2.

16. Grantee Covenants.

16.1 General. Grantee and PNC acknowledge and agree that Grantee has received adequate consideration with respect to enforcement of the provisions of Sections 16 and 17 by virtue of receiving this Grant of an award opportunity of Performance Units (regardless of whether a Final Award is ultimately determined and delivered or of the size of such Final Award, if any); 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.

16.2 Non-Solicitation; No-Hire. Grantee agrees to comply with the provisions of subsections (a) and (b) of this Section 16.2 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, call on, do business with, 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.

(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.

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 CIC Coverage Period (as defined in Section 15.11), then commencing immediately after such Termination Date, the provisions of subsections (a) and (b) of this Section 16.2 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.

16.3 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.

16.4 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 16.4 shall be performed by Grantee without further compensation and will continue beyond Grantee's Termination Date.

17. Enforcement Provisions. Grantee understands and agrees to the following provisions regarding enforcement of the Agreement.

17.1 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.

17.2 Equitable Remedies. A breach of the provisions of any of Sections 16.2, 16.3 or 16.4 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.

17.3 Tolling Period. If it becomes necessary or desirable for the Corporation to seek compliance with the provisions of Section 16.2 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.

17.4 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.

17.5 Severability. The restrictions and obligations imposed by Sections 16.2, 16.3 and 16.4 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.

17.6 Reform. In the event any of Sections 16.2, 16.3 and 16.4 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.

17.7 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 16.2, 16.3 and 16.4.

17.8 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.

17.9 Compliance with Internal Revenue Code Section 409A. It is the intention of the parties that the Grant and the Agreement comply with the provisions of Section 409A to the extent, if any, that such provisions are applicable to the Agreement, and the Agreement will be administered by PNC in a manner consistent with this intent.

If any payments or benefits hereunder may be deemed to constitute nonconforming deferred compensation subject to taxation under the provisions of Section 409A, Grantee agrees that PNC may, without the consent of Grantee, modify the Agreement to the extent and in the manner PNC deems necessary or advisable or take such other action or actions, including an amendment or action with retroactive effect, that PNC deems appropriate in order either to preclude any such payments or benefits from being deemed "deferred compensation" within the meaning of Section 409A or to provide such payments or benefits in a manner that complies with the provisions of Section 409A such that they will not be taxable thereunder.

18. Acceptance of Grant; PNC Right to Cancel; Effectiveness of Agreement.

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, the Agreement is effective.

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:

Chairman and Chief Executive Officer

ATTEST:

By:

Corporate Secretary

Grantee

* * *

The Peer Group for 2007 consists of the following members:

BB&T Corporation

Comerica Inc.

Fifth Third Bancorp

KeyCorp

National City Corporation

PNC

Regions Financial Corporation

SunTrust Banks, Inc.

U.S. Bancorp

Wachovia Corporation

Wells Fargo & Company

2007 ANNUAL POTENTIAL PAYOUT CALCULATION SCHEDULE

* * *

The Annual Potential Payout Percentage for 2007 ("2007 Annual Potential Payout Percentage") will be the average of the 2007 potential payout percentage for EPS Growth performance and the 2007 potential payout percentage for ROCE performance, rounded to the nearest one-hundredth percent (e.g., 0.00%, with 0.005% being rounded upward to 0.01%).

If the 2007 potential payout percentage with respect to either EPS Growth performance or ROCE performance is 0% but is a positive number with respect to the other performance standard, the 2007 Annual Potential Payout Percentage will be the percentage that is one-half (1/2) of that positive number. If the 2007 potential payout percentage with respect to both EPS Growth performance and ROCE performance is 0%, the 2007 Annual Potential Payout Percentage will be 0%.

The 2007 potential payout percentages for EPS Growth performance and ROCE performance, respectively, will be determined as follows.

(1) Percentage Range. The 2007 potential payout percentage for each of EPS Growth performance and ROCE performance will be the percentage that corresponds to PNC's ranking with respect to that performance standard in the following chart. Where the chart indicates a percentage range rather than a specific percentage, the specific percentage within that range will depend on PNC's performance relative to that of the Peers ranked immediately above and below PNC ("Peer A" and "Peer B," respectively), and will be calculated as set forth in Item (2) below.

| Peer Group Position with respect to EPS Growth Performance or ROCE Performance | Potential Payout Percentage |
|--|-----------------------------|
| Top Performer | 200% |
| #2 | 170-190% |
| #3 | 150-170% |
| #4 | 130-150% |
| #5 | 110-130% |
| #6 | 90-110% |
| #7 | 70-90% |
| #8 | 50-70% |
| #9 | 30-50% |
| #10 | 0% |
| #11 | 0% |

Peer Group positions in the chart will be determined by calculating, using the definitions set forth in the 2007-2009 Incentive Performance Units Agreement, the EPS Growth performance or ROCE performance, as the case may be, achieved for 2007 by each then existing member of the 2007 Peer Group and then ranking each such member of the 2007 Peer Group by that performance, with the Peer with the best 2007 performance being ranked the Top Performer, the Peer with the second best 2007 performance being ranked #2, and so on. The potential payout percentages or percentage ranges in the chart by Peer Group position will remain unchanged even if the number of Peers in the Peer Group by the end of 2007 has been reduced, due, for example, to consolidations, mergers, or other material corporate reorganizations.

(2) Refinements Within Percentage Range. If PNC achieves Top Performer ranking, the 2007 potential payout percentage for that performance standard will be 200%, subject to Item (3) below. If PNC's 2007 performance compared to the 2007 performance of the other then existing Peers ranks PNC as #10 or lower, the 2007 potential payout percentage for that performance standard will be 0%. Otherwise, subject to Item (3) below, the 2007 potential payout percentage with respect to a given performance standard will be equal to the following sum ((i) plus (ii)):

(i) the percentage that is the lowest percentage number of the range that corresponds to PNC's ranking as set forth in the chart,

plus

(ii) X%, where "X" is the product of 20 (the size of the range) and a fraction equal to "Y" divided by "Z", where:

"Y" is the difference between PNC's 2007 performance and Peer B's 2007 performance,

and

"Z" is the difference between Peer A's 2007 performance and Peer B's 2007 performance.

If there is no Peer B by the end of 2007, then the 2007 potential payout percentage for that performance standard will be the percentage that is the midpoint of the percentage range set forth in the chart for PNC's ranking.

(3) Committee Negative Discretion. Once the specific potential payout percentages for PNC's 2007 EPS Growth performance and 2007 ROCE performance have been determined by reference to the chart in accordance with Items (1) and (2) above, the Committee may, in its discretion, decide to reduce either or both of those percentages (as long as such decision is not made during a CIC Coverage Period, as defined in the 2007-2009 Incentive Performance Units Agreement) but may not increase them.

2006 Performance Unit Incentive Award Opportunity Grant
Performance Period: January 1, 2006 - December 31, 2008 (3 Years)
Performance Goals: Annual Levels of Financial Returns from Investing and Proprietary Trading
Activities Achieved by PNC's A&L Unit Relative to Benchmark
100% Vests on Final Award

THE PNC FINANCIAL SERVICES GROUP, INC.
1997 LONG-TERM INCENTIVE AWARD PLAN

* * *
2006 PERFORMANCE UNIT AGREEMENT
* * *

GRANTEE: _____
GRANT DATE: February 14, 2006
TARGET SHARE UNITS: _____ share units

1. Definitions. Certain terms used in this 2006 Performance Unit Agreement ("Agreement") are defined in Section 14 or elsewhere in the Agreement.

2. Performance Unit Grant. Pursuant to Article 8 of the Plan (as defined in Section 14.37), The PNC Financial Services Group, Inc. ("PNC") grants to the grantee named above ("Grantee" and "Grant") an incentive award opportunity of share-denominated Performance Units (as defined in Section 14.35) with the number of target share units set forth above ("Target Share Units"). The Grant is subject to the corporate performance conditions, employment conditions, and other terms and conditions of this Agreement and to the Plan, to final award determination, and to Grantee's acceptance of the Grant in accordance with Section 17. Payment of any Final Award (as defined herein) authorized pursuant to the Agreement will be made in cash in an amount equal to the number of share units denominated in the Final Award multiplied by the per share price of PNC common stock on the award date (sometimes referred to in the Agreement as payment in "cash share-equivalents").

In general, the Grant is an opportunity for Grantee to receive, at the end of the applicable performance period, an award in cash share-equivalents based on the degree to which the corporate performance goals specified in the Agreement for PNC's Asset & Liability Unit ("A&L Unit") have been achieved, as determined by the Committee (defined in Section 14.15) and subject to its negative discretion, or otherwise in accordance with the terms of the Agreement, provided that Grantee satisfies the employment conditions specified in the Agreement (or qualifies for a specified exception and is deemed to have satisfied those employment conditions) and the other conditions of the Agreement are met.

The potential maximum award payout that Grantee will be eligible to receive will be denominated in share units and will be expressed as a percentage of the Target Share Units set forth on page 1 of the Agreement. The potential maximum award payout percentage will be determined by the level of financial returns from investing and proprietary trading activities that the A&L Unit achieves relative to benchmark performance (in basis points) for each of the three years in the overall performance period and by the potential award payout schedule established by the Committee, giving equal weight to each of the three covered years, subject to certain limitations or adjustments if there is an early termination or limitation of the performance measurement period (e.g., if Grantee dies or has a qualifying retirement or if there is a Change in Control, as defined herein, during a performance measurement period).

Absent a Change in Control, the Committee will determine the Final Award, if any, that Grantee receives within this calculated maximum potential payout amount, generally in early 2009 (or early in 2007 or 2008 in the event of Grantee's death prior to that time). The Committee may adjust the Final Award downward, but not upward, from this calculated performance-based amount. This potential award payout amount could be as high as 200% of the Target Share Units for A&L Unit performance significantly above the applicable benchmark index as specified by the Agreement for each year of the three-year performance period and if Grantee remains an employee of the Corporation throughout the full three-year performance period, or it could be zero if the A&L Unit fails to achieve a level of performance above the threshold level specified in the Agreement for at least one of the covered years.

Any Final Award payout authorized pursuant to this Grant will be paid in cash share-equivalents. The Grant must still be outstanding at the time Final Award determinations are made for Grantee to be eligible to receive an award, and Final Awards and payment are subject to the terms and conditions set forth in the Agreement and to the Plan.

The Agreement also provides a formula for calculation of the Final Award in the event of a Change in Control of PNC and for the form and timing of payment of any such award.

3. Corporate Performance Conditions. The Grant will be subject to the following corporate performance conditions.

3.1 Performance Goals. The corporate Performance Goals are the levels of financial returns from investing and proprietary trading activities achieved by the A&L Unit relative to the applicable Benchmark Performance Index, as defined in Section 14.5. This performance is measured annually for each year (or shorter partial-year period where required by the Agreement) in the Performance Period.

3.2 Annual Benchmark Performance Index and Annual Potential Payout Schedule: The Committee has determined that the Benchmark Performance Index for each year (or shorter partial-year period where required by the Agreement) in the Performance Period will be the same benchmark performance index that PNC uses internally to evaluate the investment performance of the A&L Unit as in effect as of March 30 of that year, so that, for example, 2006 performance will be compared to PNC's internal performance benchmark index for the A&L Unit in effect on March 30, 2006, 2007 performance will be compared to the performance benchmark index for the A&L Unit in effect on March 30, 2007, *etc.*

The Annual Potential Payout Schedule as established by the Committee is set forth in Schedule I of this Agreement and will apply to each year and/or shorter partial-year period where required by the Agreement in the Performance Period.

3.3 Calculation of Applicable Annual Potential Payout Percentages: After the end of each year of the Performance Period, PNC will: (1) determine the level of financial returns from investing and proprietary trading activities achieved by the A&L Unit for the applicable period and the comparison in basis points of such performance to the applicable Benchmark Performance Index; and (2) calculate the Annual Potential Payout Percentage, as defined in Section 14.2, achieved by the A&L Unit for that year in accordance with the Annual Potential Payout Schedule set forth in Schedule I. Such results will be presented to the Committee.

Where the Agreement requires the calculation of an Annual Potential Payout Percentage for a given period that is less than a full year (e.g., upon certain qualifying terminations or Change in Control), PNC will determine the level of financial returns from investing and proprietary trading activities achieved by the A&L Unit relative to benchmark for that limited period and the Limited-Year Annual Potential Payout Percentage for that limited period as so required by the Agreement.

4. Grantee Service Requirement and Limitation of Potential Award: Early Termination of Grant: The Grant will be subject to the following employment conditions.

4.1 Eligibility for an Award: Employment Conditions and Early Termination of Grant: Grantee will not be eligible to receive a Final Award unless the Grant remains outstanding on the Committee-determined Award Date (as defined in Section 14.4) or as of the end of the day immediately preceding the day on which a Change in Control occurs, if earlier.

The Grant will automatically terminate on Grantee's Termination Date (as defined in Section 14.47) unless an exception is available as set forth in Section 4.2, Section 4.3, Section 4.4 or Section 4.5. Where one or more of the conditions to an exception are post-employment conditions, the Grant will terminate upon the failure of any of those conditions.

In the event that Grantee's employment is terminated by the Corporation for Cause (as defined in Section 14.8), the Grant will automatically terminate on Grantee's Termination Date whether or not the termination might otherwise have qualified for an exception as a retirement or a disability termination pursuant to Section 4.3 or Section 4.4.

In the limited circumstances where the Grant remains outstanding notwithstanding Grantee's termination of employment with the Corporation, Grantee will be eligible for consideration for an award, subject to limitation as set forth in the applicable section of the Agreement. Said award, if any, will be determined and payable at the same time that such an award would have been determined and payable had Grantee remained a Corporation employee, except that in the case of death, the determination and payment of any award may be accelerated if so indicated in accordance with the applicable section of the Agreement.

Any award that the Committee may determine to make after Grantee's death will be delivered to the executor or administrator of Grantee's estate or to Grantee's other legal representative, as determined in good faith by the Committee.

Notwithstanding anything in Section 4 or Section 5 to the contrary, if a Change in Control (as defined in Section 14.10) occurs prior to the time the Committee determines Final Awards pursuant to Section 5.2 (that is, prior to the Committee-determined Award Date), awards will be determined in accordance with Section 6.

4.2 Death While an Employee. If Grantee dies while an employee of the Corporation and prior to the Committee-determined Award Date, the Grant will remain outstanding and Grantee will be eligible for consideration for a prorated award calculated in accordance with Section 5.1(b), with an applicable performance measurement date (as defined in Section 5.1) of the earlier of the last day of the year in which the death occurred and December 31, 2008, payable in accordance with Section 7.

Any such award will be subject to Committee determination pursuant to Section 5.2, and may be reduced by the Committee in the exercise of its negative discretion unless such determination occurs during a CIC Coverage Period (as defined in Section 14.11).

In the event that a Change in Control occurs prior to a Committee-determined Award Date, an award will be deemed to be made pursuant to Section 6, calculated as specified in Section 6.1(b).

4.3 Qualifying Retirement. If Grantee Retires (as defined in Section 14.42) prior to the Committee-determined Award Date and the termination of employment is not also a termination by the Corporation for Cause, the Grant will remain outstanding post-employment; provided, however, that the Committee may terminate the Grant at any time prior to the Award Date, other than during a CIC Coverage Period, upon determination that Grantee has engaged in Detrimental Conduct (as defined in

Section 14.18). If Grantee is Disabled (as defined in Section 14.19) at the time of Retirement and Section 4.4 is also applicable to Grantee, that subsection will govern rather than this Section 4.3.

Provided that the Grant is still outstanding at that time, Grantee will be eligible for consideration for a prorated award at the time that such an award would have been determined and payable had Grantee remained a Corporation employee, calculated in accordance with Section 5.1(c) with a performance measurement date of the last day of the last full quarter completed on or prior to Grantee's Retirement date, payable in accordance with Section 7.

Any such award will be subject to Committee determination pursuant to Section 5.2, and may be reduced by the Committee in the exercise of its negative discretion unless such determination occurs during a CIC Coverage Period.

If Grantee dies after a qualifying Retirement but before the time set forth above for consideration of an award and provided that the Grant is still outstanding at the time of Grantee's death, the Committee will consider an award for Grantee and make an award determination and any such award will be paid during the year immediately following the year in which Grantee's death occurs, if the death occurs on or prior to December 31, 2008, or in 2009 if the death occurs in 2009 but prior to the Award Date.

In the event that a Change in Control occurs prior to a Committee-determined Award Date, an award will be deemed to be made pursuant to Section 6, calculated as specified in Section 6.1(c).

4.4 Qualifying Disability Termination. If Grantee's employment with the Corporation is terminated by reason of Disability (as defined in Section 14.19) prior to the Committee-determined Award Date, and the termination of employment is not also a termination by the Corporation for Cause, the Grant will remain outstanding post-employment; provided, however, that the Committee may terminate the Grant at any time prior to the Award Date, other than during a CIC Coverage Period, upon determination that Grantee has engaged in Detrimental Conduct (as defined in Section 14.18).

Provided that the Grant is still outstanding at that time, Grantee will be eligible for consideration for a full award at the time that such an award would have been determined and payable had Grantee remained a Corporation employee, calculated in accordance with Section 5.1(d), payable in accordance with Section 7.

Any such award will be subject to Committee determination pursuant to Section 5.2, and may be reduced by the Committee in the exercise of its negative discretion unless such determination occurs during a CIC Coverage Period. Although Grantee will be eligible for consideration for a full award (Standard Payout Calculation) at the scheduled time, it is anticipated that the Committee will take into account the timing and circumstances of the disability when deciding whether and the extent to which to exercise its negative discretion.

If Grantee dies after a qualifying disability termination but before the time set forth above for consideration of an award and provided that the Grant is still outstanding at the time of Grantee's death, the Committee will consider an award for Grantee and make an award determination and any such award will be paid during the year immediately following the year in which Grantee's death occurs, if the death occurs on or prior to December 31, 2008, or in 2009 if the death occurs in 2009 but prior to the Award Date; provided, however, that the maximum award that may be awarded in these circumstances is the award that could have been authorized had Grantee died while an employee of the Corporation.

In the event that a Change in Control occurs prior to a Committee-determined Award Date, an award will be deemed to be made pursuant to Section 6, calculated as specified in Section 6.1(d).

4.5 Qualifying Termination in Anticipation of a Change in Control If Grantee's termination of employment satisfies the conditions set forth in Section 14.40 such that it is a Qualifying Termination in Anticipation of a Change in Control, then the Grant will remain outstanding notwithstanding Grantee's termination of employment with the Corporation and the Grant will not be subject to termination by the Committee for Detrimental Conduct.

To the extent that the conditions set forth in Section 14.40 are conditions that must be satisfied during a stated post-employment period, the Grant will remain outstanding during that period until it is determined that such conditions either have or have not been satisfied. If the conditions are not satisfied, the Grant will terminate unless Grantee meets one of the other exceptions set forth in this Section 4.

If all of the conditions set forth in Section 14.40 are satisfied, Grantee will be eligible for consideration for an award pursuant to Section 5.2, calculated in accordance with Section 5.1(e), or will receive an award pursuant to Section 6, calculated as specified in Section 6.1(e), as applicable.

If Grantee dies after a Qualifying Termination in Anticipation of a Change in Control but prior to the time the Committee makes an award determination pursuant to Section 5.2 or a Change-in-Control-determined Award Date, Grantee will be eligible for Committee consideration of an award of the greater of the award Grantee could have received had he or she died while an employee of the Corporation or an award determined as set forth in Section 5.1(e). If a Change in Control occurs prior to a Committee-determined Award date, Grantee will be deemed to receive an award in accordance with Section 6.

5. Certification of Performance Results; Calculation of Maximum Potential Payout Amount; and Final Award Determination

5.1 Certification of Attainment of Performance Goals; Calculation of Final Potential Payout Percentage and Calculated Maximum Potential Payout Amount As soon as practicable after December 31, 2008, or after the earlier relevant date if the applicable performance measurement date and potential award date are earlier under the circumstances, PNC will present information to the Committee concerning the following: (1) the levels of financial returns from investing and proprietary trading activities achieved by the A&L Unit for each of the applicable full and partial years for which performance is being measured under the circumstances, and the comparison, in basis points, of such performance to applicable Benchmark Performance Index for each such period; (2) the Annual Potential Payout Percentages determined in accordance with Schedule I for such full and partial years on the basis of the performance achieved by the A&L Unit compared to applicable benchmark for such periods; and (3) the Final Potential Payout Percentage.

Subsections (a), (b), (c), (d) and (e) below set forth additional criteria for the certifications and calculations to be made pursuant to this Section 5.1 under varying circumstances. The last day of the applicable performance measurement period is sometimes referred to as the “performance measurement date.” The time when the certification, calculation and Final Award determination process takes place is sometimes referred to as the “scheduled award determination period,” and the date when a Final Award, if any, is determined and made by the Committee is referred to as the “Committee-determined Award Date” (as set forth in Section 14.4).

Notwithstanding anything in this Section 5 to the contrary, if a Change in Control has occurred, Section 6 will apply.

(a) Non-Exceptional Circumstances – Standard Payout Calculation. Provided that Grantee remains an employee of the Corporation and the Grant remains outstanding such that Grantee remains eligible for consideration for an award, and that a Change in Control has not occurred, the Performance Period will run through December 31, 2008 and the process of certification of the attainment of Performance Goals, calculation of Final Potential Payout Percentage and Calculated Maximum Potential Payout Amount, and determination of the Final Award, if any, will occur in early 2009.

Under the circumstances set forth in this subsection (a) above (“non-exceptional circumstances”), PNC will present information to the Committee for purposes of this Section 5.1 on the following basis:

- (i) the applicable performance measurement date will be December 31, 2008;
- (ii) the applicable Performance Period will consist of the full years 2006, 2007 and 2008;

(iii) the applicable Final Potential Payout Percentage will be the percentage that is the average of the Annual Potential Payout Percentages for 2006, 2007 and 2008, but in no event greater than 200%;

(iv) the applicable Calculated Maximum Potential Payout Amount will be the number of share units equal to the Final Potential Payout Percentage of the Target Share Units; and

(v) the scheduled award determination period will occur in early 2009.

(b) Death While an Employee. In the event that Grantee dies while an employee of the Corporation and prior to the regularly scheduled award date for non-exceptional circumstances in early 2009 and the Grant remains outstanding pursuant to Section 4.2, PNC will present information to the Committee for purposes of this Section 5.1 on the following basis:

(i) the applicable performance measurement date will be the earlier of the last day of the year in which the death occurred and December 31, 2008;

(ii) the applicable Performance Period will be the period commencing on January 1, 2006 and ending on the applicable performance measurement date, and will consist of the one, two or three full years, as the case may be, in that period;

(iii) the applicable Final Potential Payout Percentage will be the percentage that is the average of the Annual Potential Payout Percentages for the full years in the applicable Performance Period, but in no event greater than 200%;

(iv) the applicable Calculated Maximum Potential Payout Amount will be the number of share units equal to (x) the applicable Final Potential Payout Percentage of the Target Share Units, then (y) prorated (as defined in Section 14.39) based on the number of full years in the applicable Performance Period, including the year of death if prior to 2009; and

(v) the scheduled award determination period will occur during the year immediately following the year in which Grantee died (*i.e.*, early in 2007, 2008, or 2009, as the case may be) unless Grantee dies after December 31, 2008 but prior to the Award Date, in which case the scheduled award determination period will occur in 2009.

(c) Retirement. In the event that Grantee Retires prior to the regularly scheduled award date for non-exceptional circumstances in early 2009 but Grantee has met the conditions for a qualifying retirement termination set forth in Section 4.3 and the Grant has not been terminated by the Committee prior to the Award Date pursuant to Section 4.3 for Detrimental Conduct and remains outstanding, PNC will present information to the Committee for purposes of this Section 5.1 on the following basis:

(i) the applicable performance measurement date will be the last day of the last full quarter completed prior to Grantee's Retirement date or, if the Retirement date is a quarter-end date, that quarter-end date, but in no event later than December 31, 2008;

(ii) the applicable limited Performance Period will be the period commencing on January 1, 2006 and ending on the applicable performance measurement date, and will consist of the full and partial years in that period;

(iii) the applicable Final Potential Payout Percentage will be a Limited-Period Final Potential Payout Percentage and will be the percentage that is the weighted average of the Annual Potential Payout Percentages for the full years, if any, and the Limited-Year Annual Potential Payout Percentage for the partial year, if any, in the applicable Performance Period, calculated as set forth in Section 14.30;

(iv) the applicable Calculated Maximum Potential Payout Amount will be the number of share units equal to (x) the applicable Limited-Period Final Potential Payout Percentage of the Target Share Units, then (y) prorated (as defined in Section 14.39) based on the number of full quarters in the applicable limited Performance Period (*i.e.*, in the period from January 1, 2006 through the applicable performance measurement date); and

(v) the scheduled award determination period will occur in early 2009 as provided in Section 7.1, unless Grantee dies after Retirement but before the beginning of 2008, in which case the scheduled award determination period will occur in early 2007 (if the death occurred in 2006) or early 2008 (if the death occurred in 2007), as the case may be.

In the event that Grantee is Disabled at the time of Retirement and Section 4.4 is also applicable to Grantee, then Section 5.1(d) will govern rather than this Section 5.1(c).

(d) Disability. In the event that Grantee becomes Disabled prior to the regularly scheduled award date for non-exceptional circumstances in early 2009 but Grantee has met the conditions for a qualifying disability termination set forth in Section 4.4 and the Grant has not been terminated by the Committee prior to the Award Date pursuant to Section 4.4 for Detrimental Conduct and remains outstanding, PNC will present information to the Committee for purposes of this Section 5.1 on the same basis as that set forth in Section 5.1(a), together with such information as the Committee may request concerning the timing and circumstances of the disability.

The scheduled award determination period will occur in early 2009, unless Grantee dies after a qualifying disability termination but before the beginning of 2008, in which case the scheduled award determination period will occur in early 2007 (if the death occurred in 2006) or early 2008 (if the death occurred in 2007), as the case may be, and in any event, the maximum award that may be approved will be the maximum that could have been awarded had Grantee died while an employee of the Corporation.

(e) Termination in Anticipation of a Change in Control. In the event that Grantee ceases to be an employee of the Corporation prior to the regularly scheduled award date for non-exceptional circumstances in early 2009 but Grantee has met the conditions for a Qualifying Termination in Anticipation of a Change in Control set forth in Section 4.5 and the Grant remains outstanding, but a Change in Control has not yet occurred, then:

(1) If a CIC Triggering Event (as defined in Section 14.14) has occurred and has not yet failed (as CIC Failure is defined herein) such that a Change in Control transaction is pending at the regularly scheduled award date, the Grant will remain outstanding and Grantee will be eligible to receive an award pursuant to Section 5.2 on the same basis as that set forth in Section 5.1(c) for a qualifying Retiree and the Committee will have no discretion to reduce the size of such award; and

(2) If the CIC Triggering Event fails prior to the regularly scheduled award date (as CIC Failure is defined in Section 14.12), the Grant will remain outstanding and the Committee will have discretion to authorize an award, pursuant to Section 5.2, to Grantee up to a maximum permitted award calculated on the same basis as that set forth in Section 5.1(c) for a qualifying Retiree, but the Committee will also have discretion to reduce the award as set forth in Section 5.2(b).

If Grantee dies after a Qualifying Termination in Anticipation of a Change in Control but prior to the time the Committee makes an award determination pursuant to Section 5.2 or a Change-in-Control-determined Award Date, Grantee will be eligible for an award of the greater of the award Grantee could have received had he or she died while an employee of the Corporation or an award determined as set forth above in this Section 5.1(e).

If a Change in Control occurs prior to a Committee-determined Award Date, Grantee will be deemed to receive an award in accordance with Section 6.

5.2 Final Award Determinations by Committee.

(a) Subject to the last sentence in this paragraph, provided that the Grant is still outstanding, that Grantee is either still an employee of the Corporation or qualifies for an exception to the employment condition pursuant to Section 4.2, 4.3, 4.4 or 4.5, and that the Final Potential Payout Percentage is greater than zero, the Committee will have the authority to award to Grantee (“award”) as a Final Award such share-denominated amount as may be determined by the Committee. The Final Award may not exceed the applicable Calculated Maximum Potential Payout Amount, as determined in accordance with Section 5.1, and is subject to the exercise of negative discretion by the Committee pursuant to Section 5.2(b), if applicable. The Committee will not have authority to exercise negative discretion if a CIC Coverage Period has commenced and has not yet ended. If there has been a Change in Control, the Committee’s authority is subject to Section 6.

The date on which the Committee makes its determination as to whether or not it will authorize an award and, if so, the size of the Final Award, if any, it authorizes within the Calculated Maximum Potential Payout Amount determined pursuant to the Agreement is sometimes referred to in the Agreement as the Committee-determined Award Date.

Payment of the Final Award, if any, will be made in cash in accordance with Section 7. If Grantee dies after a Final Award is determined but before payment is made, payment of the Final Award will be made to Grantee's legal representative in accordance with Section 9.

(b) Except during a CIC Coverage Period or after the occurrence of a Change in Control, the Committee may exercise negative discretion with respect to the Grant and may determine, in light of such Corporation or individual performance or other factors as the Committee may deem appropriate, that notwithstanding the levels of financial returns from investing and proprietary trading activities achieved by the A&L Unit relative to benchmark, the Committee will not award Grantee the full Calculated Maximum Potential Payout Amount that the Committee is authorized to award pursuant to Section 5.2(a), or any of such amount.

It is anticipated that the Committee will take into account such factors as absolute A&L Unit financial performance, absolute proprietary trading results, adherence to risk parameters, and Grantee's contributions to the success of other PNC businesses when deciding whether and the extent to which to exercise its negative discretion.

If the Committee so determines to exercise its negative discretion pursuant to this Section 5.2(b), the Final Award, if any, will be reduced accordingly; provided, however, that the Committee may not exercise such negative discretion upon or after the occurrence of a Change in Control (or during the period after the occurrence of a CIC Triggering Event but before such triggering event results in a Change in Control or a CIC Failure of such event occurs).

(c) If a Change in Control occurs prior to the Committee-determined Award Date, the Final Award will be determined in accordance with Section 6 rather than being determined by the Committee under Section 5.2 and will not be subject to the Committee's negative discretion.

6. Change in Control Prior to a Committee-Determined Award Date

6.1 Final Award Calculation.

Notwithstanding anything in the Agreement to the contrary, upon the occurrence of a Change in Control at any time prior to a Committee-determined Award Date pursuant to Section 5.2, (i) the Performance Period, if not already ended, will be limited and will end and (ii) Grantee will be deemed to have been awarded a Final Award in an amount determined as set forth in this Section 6, payable to Grantee or Grantee's legal representative at the time and in the manner set forth in Section 7, provided that the Grant is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs and has not already terminated or been terminated in accordance with the terms of Section 4 of the Agreement.

If this Section 6 is applicable and a Final Award is deemed to be awarded pursuant to Section 6, the day the Change in Control occurs will be considered the Award Date for purposes of the Agreement. This date is sometimes referred to in the Agreement as the Change-in-Control-determined Award Date (as set forth in Section 14.4).

(a) Standard CIC Payout Calculation. Provided that Grantee is an employee of the Corporation and the Grant is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs such that Grantee remains eligible for an award, Grantee's Final Award will be determined as follows:

(i) the applicable performance measurement date will be the last day of the last full quarter completed prior to the day the Change in Control occurs, or, if the Change in Control occurs on a quarter-end date, the day the Change in Control occurs, but in no event later than December 31, 2008;

(ii) the applicable Performance Period will be the period commencing on January 1, 2006 and ending on the applicable performance measurement date, and will consist of the full and partial years in that period;

(iii) the applicable Final Potential Payout Percentage will be the "CIC Payout Percentage", which will be (A) or (B) below, as applicable, (but in no event greater than 200%):

(A) if the Change in Control occurs prior to December 31, 2008, such that the Performance Period is less than three full years, the CIC Payout Percentage will be the higher of (1) 100% and (2) a Limited-Period Final Potential Payout Percentage (calculated as set forth in Section 14.30) of the percentage that is the weighted average of the Annual Potential Payout Percentages for the full years, if any, and the Limited-Year Annual Potential Payout Percentage for the partial year, if any, in the applicable limited Performance Period; and

(B) if the Change in Control occurs on or after December 31, 2008, the CIC Payout Percentage will be the average of the Annual Potential Payout Percentages for the full years 2006, 2007 and 2008;

(iv) the applicable Final Award amount will be the number of share units equal to (x) the CIC Payout Percentage of the Target Share Units, then (y) prorated (as defined in Section 14.39) based on the number of full quarters in the applicable limited Performance Period (*i.e.*, in the period from January 1, 2006 through the applicable performance measurement date); and

(v) the scheduled award determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee dies after the Change in Control occurs, Grantee's Final Award determined pursuant to this Section 6.1(a) will be payable to Grantee's legal representative in accordance with Section 9.

(b) Death. In the event the Grantee died while an employee of the Corporation and qualified for consideration for an award pursuant to Section 4.2 but the Committee had not yet made an award determination (either to award a specified amount or not to authorize any award) with respect to Grantee at the time the Change in Control occurs such that Grantee remains eligible for an award, Grantee's Final Award (payable to Grantee's legal representative in accordance with Section 9) will be in the amount of the lesser of:

- (1) the Calculated Maximum Potential Payout Amount determined in the same manner as set forth in Section 5.1(b) but with no Committee discretion to reduce the amount of the award; and
- (2) the award that would have been payable pursuant to the calculations set forth in Section 6.1(a) had Grantee not died but had been an employee of the Corporation as of the end of day immediately preceding the day the Change in Control occurred.

The scheduled award determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee died while an employee of the Corporation and a Final Award determination was made by the Committee pursuant to Section 5.2 prior to the Change in Control, no further or different award determination will be made pursuant to this Section 6.1.

(c) Qualifying Retirement. In the event that Grantee Retired prior to the day the Change in Control occurs but Grantee has met the conditions for a qualifying retirement termination set forth in Section 4.3 and the Grant is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs such that Grantee remains eligible for an award, Grantee's Final Award will be in the amount of the lesser of:

- (1) the Calculated Maximum Potential Payout Amount determined in the same manner as set forth in Section 5.1(c) but with no Committee discretion to reduce the amount of the award; and
- (2) the award that would have been payable pursuant to the calculations set forth in Section 6.1(a) had Grantee not Retired but had been an employee of the Corporation as of the end of the day immediately preceding the day the Change in Control occurred.

The scheduled award determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee died while a qualified Retiree and a Final Award determination was made by the Committee pursuant to Section 5.2 prior to the Change in Control, no further

or different award determination will be made pursuant to this Section 6.1. If no such Final Award determination was made prior to the Change in Control, Grantee's Final Award determined pursuant to this Section 6.1(c) will be payable to Grantee's legal representative in accordance with Section 9.

(d) Disability. In the event that Grantee became Disabled and Grantee's employment terminated prior to the day the Change in Control occurs but Grantee has met the conditions for a qualifying disability termination set forth in Section 4.4 and the Grant is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs such that Grantee remains eligible for an award, Grantee's Final Award will be in the amount of the award that would have been payable pursuant to the calculations set forth in Section 6.1(a) had Grantee still been an employee of the Corporation as of the end of the day immediately preceding the day the Change in Control occurred. The scheduled award determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee died while qualified to receive an award and a Final Award determination was made by the Committee pursuant to Section 5.2 prior to the Change in Control, no further or different award determination will be made pursuant to this Section 6.1. If no such Final Award determination was made prior to the Change in Control, Grantee's Final Award (payable to Grantee's legal representative in accordance with Section 9) will be the lesser of (i) an award determined in accordance with Section 6.1(a) as if Grantee had been an employee of the Corporation as of the end of the day immediately preceding the day the change in control occurred, and (ii) an award determined in accordance with Section 6.1(b) as if Grantee had died while an employee of the Corporation.

(e) Qualifying Termination in Anticipation of a Change in Control. In the event that Grantee's termination of employment satisfies all of the conditions set forth in Section 4.5 and Section 14.40 for a qualifying termination in anticipation of a change in control such that the Grant is outstanding at the time the Change in Control occurs and Grantee remains eligible for an award, Grantee will receive a Final Award on the following basis, as applicable:

- (1) If the Change in Control occurs within three (3) months of Grantee's Termination Date, Grantee will receive a Final Award on the same basis as a continuing employee of the Corporation as set forth in Section 6.1(a); and
- (2) If the Change in Control occurs more than three (3) months after Grantee's Termination Date but the Grant is outstanding because Grantee's termination of employment qualifies under Section 4.5 and Section 14.40 by, among other conditions, having occurred after or within three months prior to a CIC Triggering Event, Grantee will receive a Final Award on the same basis as a qualifying Retiree, as set forth in Section 6.1(c).

If Grantee died while qualified to receive an award and a Final Award determination was made by the Committee pursuant to Section 5.2 prior to the Change in

Control, no further or different award determination will be made pursuant to this Section 6.1. If no such Final Award determination was made prior to the Change in Control, Grantee's Final Award (payable to Grantee's legal representative in accordance with Section 9) will be in the same amount as the Final Award that would have been paid to Grantee pursuant to this Section 6.1(e) had Grantee still been alive on the Change-in-Control-determined Award Date.

6.2 No Committee Discretion. The Committee may not exercise any negative discretion pursuant to Section 5.2(b) or otherwise exercise discretion pursuant to the Agreement in any way that would serve to reduce an award deemed to be made to Grantee pursuant to this Section 6.

6.3 CIC Severance Agreement Coordination. Unless otherwise provided by specific reference to this Agreement, in the event that Grantee is entitled to a severance payment from the Corporation pursuant to a change in control severance agreement, this Grant will not be considered an incentive share award or grant for purposes of that agreement.

7. Payment of Final Award; Termination of Grant as to Any Unawarded Share Units

7.1 Payment of Final Awards Determined by Committee Payment of any Final Award determined by the Committee pursuant to Section 5.2 will be made in cash in an amount equal to the number of share units denominated in the Final Award multiplied by the Fair Market Value (as defined in Section 14.21) of a share of PNC common stock on the Award Date or as otherwise provided in Section 8, if applicable, subject to the payment of applicable withholding taxes as set forth in Section 10.

Determination of eligibility for an award, calculation of the maximum permitted award amount, and a decision by the Committee on whether or not to authorize an award and, if so, the size of such Final Award (the "scheduled award determination process") and then payment of any such Final Award will all generally occur in the first quarter of 2009 or as soon thereafter as practicable after the final data necessary for the Committee to make its award determination is available. In general, it is expected that the Award Date will occur in 2009 and no later than the end of the second quarter of that year, and that payment of a Final Award, if any, will be made as soon as practicable after the Award Date, provided that in no event will payment occur later than March 15, 2010 other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

In the event of Grantee's death prior to the Award Date where Grantee has satisfied all of the conditions of Section 4.2, 4.3, 4.4 or 4.5 of the Agreement and otherwise meets all applicable criteria as set forth in the Agreement for consideration for an award, (a) the scheduled award determination process will occur at the same time and in the same manner that such process would have occurred had Grantee remained an employee of the Corporation, provided that if the death occurs prior to 2008, the

scheduled award determination process will occur in the calendar year immediately following Grantee's death, and (b) payment of a Final Award, if any, will be made during the calendar year immediately following the year in which Grantee died if the death occurs on or prior to December 31, 2008, or in 2009 if Grantee dies in 2009, provided that in no event will payment occur later than December 31st of the calendar year so specified as the year for payment other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

Otherwise, in the event that Grantee is no longer employed by the Corporation but has satisfied all of the conditions of Section 4.3, 4.4 or 4.5 of the Agreement and otherwise meets all applicable criteria as set forth in the Agreement for consideration for an award, (a) the scheduled award determination process will occur at the same time and in the same manner that such process would have occurred had Grantee remained an employee of the Corporation, generally in 2009 during the first quarter of that year, and (b) once the Committee has made its award determination, payment of a Final Award, if any, will be made as soon as practicable after the Award Date, provided that in no event will payment be made earlier than January 1, 2009 or later than December 31, 2009 other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

If there is a dispute regarding payment of the Final Award, PNC will settle the undisputed portion of the award, if any, within the time frame set forth above in this Section 7.1, and will settle any remaining portion as soon as practicable after such dispute is finally resolved.

7.2 Payment of Final Awards Determined by Section 6 If a Final Award is deemed to be made pursuant to Section 6 rather than determined by the Committee pursuant to Section 5.2, the Final Award is fully vested as of the date of the Change in Control and will be paid in cash in the same manner as specified in the first paragraph of Section 7.1.

Payment of the Final Award will be made by PNC as soon as practicable after the date the Change in Control occurs and the amount of the Final Award is determinable and determined in accordance with Section 6, but in no event later than the 15th day of the third month of the calendar year following the calendar year in which the Change in Control occurs, other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

If there is a dispute regarding payment of the Final Award, PNC will settle the undisputed portion of the award, if any, within the time frame set forth in this Section 7.2, and will settle any remaining portion as soon as practicable after such dispute is finally resolved.

7.3 Final Awards are Fully Vested. The Final Award will be fully vested at the Committee-determined Award Date or as of the date of the Change in Control, as applicable. PNC will deliver any cash payable pursuant to this Section 7 to, or at the proper direction of, Grantee or Grantee's legal representative, as determined in good faith by the Committee.

In the event that Grantee is deceased, payment will be delivered to the executor or administrator of Grantee's estate or to Grantee's other legal representative, as determined in good faith by the Committee.

7.4 Termination of Grant as to Any Unawarded Share Units. Once an award determination has been made by the Committee pursuant to Section 5.2 or a Final Award is deemed to have been made by virtue of the application of Section 6, the incentive award opportunity represented by this Grant will terminate as to any portion of the Performance Units not so awarded.

Termination of all or a portion of the Grant pursuant to this Section 7.4, or pursuant to Section 4, if applicable, will in no way affect Grantee's covenants or the other provisions of Sections 15 and 16.

8. Capital Adjustments.

8.1 Except as otherwise provided in Section 8.2, if applicable, in the event that a corporate transaction or transactions (including, without limitation, stock dividends, stock splits, spin-offs, split-offs, recapitalizations, mergers, consolidations or reorganizations of or by PNC (each, a "Corporate Transaction")) occurs prior to the time a Final Award, if any, is paid, the Committee will make those adjustments, if any, in the number and class of the Target Share Units that it deems appropriate 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 measuring the value per share unit of any share-denominated award authorized for payment to Grantee by reference to the per share value of the consideration payable to a PNC common shareholder in connection with such Corporate Transaction.

8.2 Upon the occurrence of a Change in Control (or during the period after the occurrence of a CIC Triggering Event and before such triggering event results in a Change in Control or a CIC Failure of such event occurs), (a) the number and class of the Target Share Units will automatically be adjusted to reflect the same changes as are made to outstanding shares of PNC common stock generally and (b) the value per share unit of any share-denominated award that is deemed to be awarded to Grantee in accordance with Section 6 will be measured by reference to the per share value of the consideration payable to a PNC common shareholder in connection with such Corporate Transaction or Transactions.

9. Prohibitions Against Sale, Assignment, etc.: Payment to Legal Representative

(a) The Grant may not be sold, assigned, transferred, exchanged, pledged, hypothecated or otherwise encumbered.

(b) If Grantee is deceased at the time any Final Award authorized by this Agreement is to be paid, 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 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; Payment Upon Inclusion Under 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 Final Award then payable to Grantee.

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 with the Final Award, no additional withholding may be made.

It is the intention of the parties that the Grant and the Agreement comply with the provisions of Section 409A to the extent, if any, that such provisions are applicable to the Agreement. In the event that, notwithstanding such intention, the arrangement fails to meet the requirements of Section 409A and the regulations promulgated thereunder, then PNC may at that time permit the acceleration of the time for payment to Grantee under the Agreement notwithstanding any of the other provisions of the Agreement, but any such accelerated payment may not exceed the amount required to be included in Grantee's income as a result of the failure to comply with the requirements of Section 409A and the regulations promulgated thereunder. For purposes of this provision, an amount will be deemed to have been included in Grantee's income if the amount is timely reported on Form W-2 or Form 1099-MISC, as appropriate.

11. Employment. Neither the Grant nor the calculation, determination and payment of any Final Award hereunder 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 (as defined in Section 14.45) 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 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.

14. Certain Definitions. Except where the context otherwise indicates, the following definitions apply for purposes of the Agreement.

14.1 "A&L Unit" means the Asset & Liability unit of PNC.

14.2 "Annual Potential Payout Percentage." The Annual Potential Payout Percentage for a given full covered year within the Performance Period (i.e., for 2006, 2007 or 2008) is the percentage determined in accordance with the Annual Potential Payout Schedule set forth in Schedule I of the Agreement on the basis of the level of financial returns from investing and proprietary trading activities achieved by the A&L Unit compared to applicable Benchmark Performance Index for that year, rounded to the nearest one-hundredth percent.

Where the Agreement requires the calculation of an Annual Potential Payout Percentage for a given period that is less than a full year (sometimes referred to as a "partial year" or a "limited year" or "limited period"), then the Annual Potential Payout Percentage for that covered period is sometimes referred to as a "Limited-Year Annual Potential Payout Percentage".

A "Limited-Year Annual Potential Payout Percentage" will be calculated in the same manner as the Annual Potential Payout Percentage for a full covered year except that it will be based on the level of financial returns from investing and proprietary trading activities performance achieved by the A&L Unit compared to applicable Benchmark Performance Index for the year-to-date period (using full quarters only) beginning on January 1 of the given partial year and ending on the performance measurement date specified by the Agreement.

14.3 "Annual Potential Payout Schedule" for a given full or partial covered year means the schedule established by the Committee and set forth in Schedule I of the

Agreement, which sets forth the method by which (1) the Annual Potential Payout Percentage will be calculated for a given full covered year on the basis of the level of financial returns from investing and proprietary trading activities achieved by the A&L Unit compared to applicable Benchmark Performance Index for that year and (2) the Limited-Year Annual Potential Payout Percentage will be calculated for a given partial covered year, if a partial or limited year calculation is required by the Agreement, on the basis of the level of financial returns from investing and proprietary trading activities achieved by the A&L Unit compared to applicable Benchmark Performance Index for the year-to-date period (using full quarters only) beginning on January 1 of the given partial year and ending on the performance measurement date specified by the Agreement.

14.4 “Award Date” means: (1) the date on which the Committee makes its determination as to whether or not it will authorize an award, and if so, as to the size of the Final Award, if any, it authorizes pursuant to Section 5.2 within the permitted Calculated Maximum Potential Payout Amount determined in accordance with the Agreement (sometimes referred to as the “Committee-determined Award Date”); or (2) if a Change in Control has occurred and Grantee is deemed to have been awarded a Final Award pursuant to Section 6, the Award Date will be the date the Change in Control occurs (sometimes referred to as the “Change-in-Control-determined Award Date”).

14.5 “Benchmark Performance Index”. The Benchmark Performance Index for each year in the Performance Period will be the same benchmark performance index that PNC uses internally to evaluate the investment performance of the A&L Unit as in effect as of March 30 of that year, so that, for example, 2006 performance will be compared to PNC’s internal performance benchmark index for the A&L Unit in effect on March 30, 2006, 2007 performance will be compared to the performance benchmark index for the A&L Unit in effect on March 30, 2007, *etc.*

Where the Agreement requires the measurement of performance for a given period that is less than a full year, then the applicable Benchmark Performance Index for that limited period will be the benchmark performance index that PNC uses internally to evaluate the investment performance of the A&L Unit as in effect as of March 30 of the calendar year in which the limited period occurs.

14.6 “Board” means the Board of Directors of PNC.

14.7 “Calculated Maximum Potential Payout Amount” means the maximum size of the award, denominated in share units, that the Committee may award to Grantee based on the degree to which the Performance Goals have been achieved by the A&L Unit and the Annual Potential Payout Schedule established by the Committee and on Grantee’s level of satisfaction, or deemed satisfaction, of the service requirements set forth in Section 4, including any limitations on the maximum potential payout amount that may apply in the circumstances (*e.g.*, in the case of a qualifying retirement).

14.8 “Cause”.

(a) “Cause” during a CIC Coverage Period. If a termination of Grantee’s employment with the Corporation occurs during a CIC Coverage Period, then, for purposes of the Agreement, “Cause” means:

(i) the willful and continued failure of Grantee to substantially perform Grantee’s duties with the Corporation (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to Grantee by the Board or the CEO which specifically identifies the manner in which the Board or the CEO believes that Grantee has not substantially performed Grantee’s duties; or

(ii) the willful engaging by Grantee in illegal conduct or gross misconduct that is materially and demonstrably injurious to PNC or any Subsidiary.

For purposes of the preceding clauses (i) and (ii), no act or failure to act, on the part of Grantee, will be considered willful unless it is done, or omitted to be done, by Grantee in bad faith and without reasonable belief that Grantee’s action or omission was in the best interests of the Corporation. Any act, or failure to act, based upon the instructions or prior approval of the Board, the CEO, or Grantee’s superior or based upon the advice of counsel for the Corporation, will be conclusively presumed to be done, or omitted to be done, by Grantee in good faith and in the best interests of the Corporation.

The cessation of employment of Grantee will be deemed to be a termination of Grantee’s employment with the Corporation for Cause for purposes of the Agreement only if and when there shall have been delivered to Grantee, as part of the notice of Grantee’s termination, a copy of a resolution duly adopted by the affirmative vote of not less than a majority of the entire membership of the Board, at a Board meeting called and held for the purpose of considering such termination, finding on the basis of clear and convincing evidence that, in the good faith opinion of the Board, Grantee is guilty of conduct described in clause (i) or clause (ii) above and, in either case, specifying the particulars thereof in detail. Such resolution shall be adopted only after (1) reasonable notice of such Board meeting is provided to Grantee, together with written notice that PNC believes that Grantee is guilty of conduct described in clause (i) or clause (ii) above and, in either case, specifying the particulars thereof in detail, and (2) Grantee is given an opportunity, together with counsel, to be heard before the Board.

(b) “Cause” other than during a CIC Coverage Period. If a termination of Grantee’s employment with the Corporation occurs other than during a CIC Coverage Period, then, for purposes of the Agreement, “Cause” means:

(i) the willful and continued failure of Grantee to substantially perform Grantee’s duties with the Corporation (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to Grantee by PNC that specifically identifies the manner in which it is believed that Grantee has not substantially performed Grantee’s duties;

(ii) a material breach by Grantee of (1) any code of conduct of PNC or a Subsidiary or (2) other written policy of PNC or a Subsidiary, in either case required by law or established to maintain compliance with applicable law;

(iii) any act of fraud, misappropriation, material dishonesty, or embezzlement by Grantee against PNC or a Subsidiary or any client or customer of PNC or a Subsidiary;

(iv) any conviction (including a plea of guilty or of *nolo contendere*) of Grantee for, or entry by Grantee into a pre-trial disposition with respect to, the commission of a felony; or

(v) entry of any order against Grantee, by any governmental body having regulatory authority with respect to the business of PNC or any Subsidiary, that relates to or arises out of Grantee's employment or other service relationship with the Corporation.

The cessation of employment of Grantee will be deemed to have been a termination of Grantee's employment with the Corporation for Cause for purposes of the Agreement only if and when the CEO or his or her designee (or, if Grantee is the CEO, the Board) determines that Grantee is guilty of conduct described in clause (i), (ii) or (iii) above or that an event described in clause (iv) or (v) above has occurred with respect to Grantee and, if so, determines that the termination of Grantee's employment with the Corporation will be deemed to have been for Cause.

14.9 "CEO" means the chief executive officer of PNC.

14.10 "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 will not by itself constitute a Change in Control.

14.11 "CIC 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 CIC Coverage Period commences on the date of a CIC Triggering Event, such CIC 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 CIC Coverage Period, another CIC Coverage Period will commence upon the earlier to occur of clause (a)(i) and clause (a)(ii) in the preceding sentence.

14.12 “CIC Failure” means the following:

(a) with respect to a CIC Triggering Event described in Section 14.14(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 14.14(b), the proxy contest fails to replace or remove a majority of the members of the Board.

14.13 “CIC Payout Percentage” has the meaning set forth in Section 6.1(a)(iii).

14.14 “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 14.10; 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.

14.15 “Committee” means the Personnel and Compensation Committee of the Board, or such person or persons as may be designated by that committee as its delegate.

14.16 “Competitive Activity” means, for purposes of the Agreement, any participation in, employment by, ownership of any equity interest exceeding one percent (1%) in, or promotion or organization of, any Person other than PNC or any Subsidiary (a) engaged in business activities similar to some or all of the business activities of PNC or any Subsidiary as of Grantee’s Termination Date or (b) engaged in business activities which Grantee knows PNC or any Subsidiary intends to enter within the first twelve (12) months after Grantee’s Termination Date or, if later and if applicable, after the date specified in clause (ii) of Section 14.18(a), in either case whether Grantee is acting as agent, consultant, independent contractor, employee, officer, director, investor, partner, shareholder, proprietor or in any other individual or representative capacity therein.

14.17 “Corporation” means PNC and its Subsidiaries.

14.18 “Detrimental Conduct” means:

(a) Grantee has engaged, without the prior written consent of PNC (with consent to be given at PNC’s sole discretion), in any Competitive Activity in the continental United States at any time during the period commencing on Grantee’s Termination Date and extending through (and including) the first (1st) anniversary of the later of

(i) Grantee’s Termination Date and, if different, (ii) the first date after Grantee’s Termination Date as of which Grantee ceases to be engaged by the Corporation in any capacity for which Grantee receives compensation from the Corporation, including but not limited to acting for compensation as a consultant, independent contractor, employee, officer, director or advisory director;

(b) any act of fraud, misappropriation, or embezzlement by Grantee against PNC or a Subsidiary or any client or customer of PNC or a Subsidiary; or

(d) any conviction (including a plea of guilty or *of nolo contendere*) of Grantee for, or any entry by Grantee into a pre-trial disposition with respect to, the commission of a felony that relates to or arises out of Grantee's employment or other service relationship with the Corporation.

Grantee will be deemed to have engaged in Detrimental Conduct for purposes of the Agreement only if and when the Committee, if Grantee is an "executive officer" of PNC as defined in SEC Regulation S-K, or the CEO, if Grantee is not a PNC executive officer, determines that Grantee has engaged in conduct described in clauses (a) or (b) above or that an event described in clause (c) above has occurred with respect to Grantee and, if so, determines that Grantee will be *deemed* to have engaged in Detrimental Conduct.

14.19 "Disabled" means, unless the Committee determines otherwise, Grantee's disability as determined to be total and permanent by the Corporation for purposes of the Agreement.

14.20 "Exchange Act" means the Securities Exchange Act of 1934 as amended, and the rules and regulations promulgated thereunder.

14.21 "Fair Market Value" as it relates to a share of PNC common stock means the average of the reported high and low trading prices of a share of PNC common stock on the New York Stock Exchange (or such successor reporting system as PNC may select) on the relevant 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.

14.22 "Final Award" means the amount, if any, (a) awarded to Grantee by the Committee in accordance with Section 5.2, or (b) deemed awarded to Grantee pursuant to Section 6. The Final Award will be denominated in share units and will be payable in cash in accordance with Section 7.

14.23 "Final Potential Payout Percentage." The Final Potential Payout Percentage will have the meaning set forth in (a), (b) or (c) below, whichever is applicable in the circumstances.

(a) Where the Performance Period is limited pursuant to Section 6 by reason of the occurrence of a Change in Control prior to December 31, 2008 or if a Change in Control occurs on or after December 31, 2008, then the Final Potential Payout Percentage will be the CIC Payout Percentage, calculated as set forth in Section 6.1(a)(iii)(A) or (B), as applicable.

(b) Where the Performance Period specified by the Agreement is the full three-year period commencing January 1, 2006 through and including December 31, 2008, then, except as otherwise provided in subparagraph (a) above where a Change in Control occurs on or after December 31, 2008, the Final Potential Payout Percentage will be the percentage that is the average (but in no event greater than 200%) of the Annual Potential Payout Percentages for the three full covered years in the Performance Period (*i.e.*, one-third (1/3rd) of the sum of the annual percentages for the full years 2006, 2007 and 2008). If all of the Annual Potential Payout Percentages are 0%, then the Final Potential Payout Percentage will be 0%.

(c) Where the applicable performance measurement date specified by the Agreement is a quarter-end date other than December 31, 2008, then, except as otherwise provided in subparagraph (a) above where the Performance Period is limited pursuant to Section 6 by reason of the occurrence of a Change in Control, the Final Potential Payout Percentage will be a Limited-Period Final Potential Payout Percentage and will be calculated as set forth in Section 14.30.

14.24 “GAAP” means accounting principles generally accepted in the United States of America.

14.25 “Good Reason” means:

(a) the assignment to Grantee of any duties inconsistent in any respect with Grantee’s position (including status, offices, titles and reporting requirements), authority, duties or responsibilities immediately prior to either the CIC Triggering Event or the Change in Control, or any other action by the Corporation which results in a diminution in any respect in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith that is remedied by the Corporation promptly after receipt of notice thereof given by Grantee;

(b) a reduction by the Corporation in Grantee’s annual base salary as in effect on the Grant Date, as the same may be increased from time to time;

(c) the Corporation’s requiring Grantee to be based at any office or location that is more than fifty (50) miles from Grantee’s office or location immediately prior to either the CIC Triggering Event or the Change in Control;

(d) the failure by the Corporation (i) to continue in effect any bonus, stock option or other cash or equity-based incentive plan or program in which Grantee participates immediately prior to either the CIC Triggering Event or the Change in Control that is material to Grantee’s total compensation, unless a substantially equivalent arrangement (embodied in an ongoing substitute or alternative plan or program) has been made with respect to such plan or program, or (ii) to continue Grantee’s participation in such plan or program (or in such substitute or alternative plan or program) on a basis at least as favorable, both in terms of the amount of benefits provided and the level of Grantee’s participation relative to other participants, as existed immediately prior to the CIC Triggering Event or the Change in Control; or

(e) the failure by the Corporation to continue to provide Grantee with benefits substantially similar to those received by Grantee under any of the Corporation's pension (including, but not limited to, tax-qualified plans), life insurance, health, accident, disability or other welfare plans or programs in which Grantee was participating, at costs substantially similar to those paid by Grantee, immediately prior to the CIC Triggering Event or the Change in Control.

14.26 "Grant" means the grant, pursuant to Section 2, to Grantee of an incentive award opportunity of share-denominated Performance Units with the number of Target Share Units specified in the Agreement, subject to the corporate performance conditions, employment conditions, and other terms and conditions of the Agreement and to the Plan.

14.27 "Grant Date" means the Grant Date set forth on page 1 of the Agreement, and is the date the Committee authorized the Grant.

14.28 "Grantee" means the person identified as Grantee on page 1 of the Agreement.

14.29 "Internal Revenue Code" means the Internal Revenue Code of 1986 as amended, and the rules and regulations promulgated thereunder.

14.30 "Limited-Period Final Potential Payout Percentage". Where the Agreement requires the calculation of a Limited-Period Final Potential Payout Percentage and the applicable performance measurement date specified by the Agreement is a quarter-end date other than December 31st of 2006 or 2007, and thus the applicable Performance Period consists of one or more full years and/or a partial year, then the Limited-Period Final Potential Payout Percentage will be the percentage that is the weighted average of the Annual Potential Payout Percentages for the full years, if any, and the Limited-Year Annual Potential Payout Percentage for the partial year in the applicable limited Performance Period calculated as follows:

(a) the sum of (i) four times the sum of the Annual Potential Payout Percentages for the full years in the period, if any, and (ii) the number of full completed quarters in the partial year of the applicable limited Performance Period, if any, times the Limited-Period Annual Potential Payout Percentage for that partial year, if any;

divided by

(b) the total number of quarters in the applicable limited Performance Period.

Where the Agreement requires the calculation of a Limited-Period Final Potential Payout Percentage and the applicable performance measurement date specified by the

Agreement is December 31st of 2006 or 2007 and thus the applicable Performance Period consists of one or more full years (and no partial years), then the Limited-Period Final Potential Payout Percentage will be the percentage that is the average (but in no event greater than 200%) of the Annual Potential Payout Percentages for the covered years in the Performance Period (e.g., one-half (1/2) of the sum of the two annual percentages if the applicable Performance Period is limited to the full years 2006 and 2007). If all of the Annual Potential Payout Percentages are 0%, then the Limited-Period Final Potential Payout Percentage will be 0%.

14.31 "Limited-Year Annual Potential Payout Percentage" has the meaning set forth in the last two paragraphs of the definition of Annual Potential Payout Percentage in Section 14.2.

14.32 "Performance Goal(s)." The corporate performance goals are the levels of financial returns from investing and proprietary trading activities achieved by the A&L Unit relative to the applicable Benchmark Performance Index, as defined in Section 14.5. This performance is measured annually for each year (or shorter partial-year period where required by the Agreement) in the Performance Period. Such performance with respect to any given year or partial-year period in the Performance Period is referred to as the Performance Goal for that year or partial-year period. Performance Goals, collectively, refers to the levels of such performance with respect to the entire Performance Period.

14.33 "Performance measurement date" has the meaning set forth in Section 5.1 and refers to the last day of the relevant performance measurement period.

14.34 "Performance Period" means the period during which each corporate performance criterion of the Performance Units will be measured against the performance standards established by the Committee and set forth in the Agreement. The Performance Period will be the period commencing January 1, 2006 through (and including) the applicable performance measurement date specified in the Agreement.

Subject to early termination or limitation where so indicated in the Agreement by specifying an earlier performance measurement date, the performance measurement date will be December 31, 2008 and the Performance Period will be the period commencing January 1, 2006 through (and including) December 31, 2008.

If the Performance Period is terminated early or limited pursuant to the terms of the Agreement, it is sometimes referred to as the "limited performance period". The three full years in the full Performance Period (2006, 2007 and 2008), or, if applicable, the full and partial years in the limited performance period, are sometimes referred to as "covered years".

14.35 "Performance Units" means the performance units granted to Grantee in this Grant in accordance with Article 8 of the Plan and denominated in shares of PNC common stock.

14.36 "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.

14.37 "Plan" means The PNC Financial Services Group, Inc. 1997 Long-Term Incentive Award Plan as amended from time to time.

14.38 "PNC" means The PNC Financial Services Group, Inc.

14.39 "Prorate" or "Prorated" means multiplying by a fraction (not to exceed 1) equal to the following:

If the Agreement specifies "prorating by years": (a) the number of full years in the applicable Performance Period, (b) divided by three, which is the number of years in the full 3-year period from January 1, 2006 through December 31, 2008.

If the Agreement specifies "prorating by quarters": (a) the number of full quarters in the applicable Performance Period, (b) divided by twelve, which is the number of quarters in the full 3-year period from January 1, 2006 through December 31, 2008.

14.40 "Qualifying Termination in Anticipation of a Change in Control." Grantee's termination of employment with the Corporation will be deemed to have been a "Qualifying Termination in Anticipation of a Change in Control" for purposes of the Agreement if Grantee's employment was terminated (other than by reason of Grantee's death) by the Corporation without Cause or by Grantee for Good Reason and the circumstances of such termination fall within one of the following:

- (1) such termination of employment by the Corporation without Cause or by Grantee for Good Reason occurred after the occurrence of a CIC Triggering Event but before such triggering event resulted in a Change in Control or a CIC Failure of such event occurred;
- (2) such termination of employment was (a) by the Corporation without Cause, and (b) was either (i) at the request of a third party that had taken steps reasonably calculated to effect a Change in Control or (ii) otherwise arose in anticipation of a Change in Control, and (c) a CIC Coverage Period commences (by reason of the occurrence of either a CIC Triggering Event or a Change in Control) within three (3) months of Grantee's Termination Date; or
- (3) such termination of employment was (a) by Grantee for Good Reason, and (b) the circumstance or event that constitutes Good Reason either (i) occurred at the request of a third party that has taken steps reasonably calculated to effect a Change in Control or (ii) otherwise arose in anticipation of a Change in Control, and (c) a CIC Coverage Period

commences (by reason of the occurrence of either a CIC Triggering Event or a Change in Control) within three (3) months of Grantee's Termination Date.

If Grantee is relying on clause (2) or clause (3) to meet the condition of this definition, Grantee will have the burden of proving that the requirements of such clause have been met and the standard of proof to be met by Grantee will be clear and convincing evidence.

For purposes of clause (2) and clause (3) of this Section 14.40 only, the definition of Change in Control in Section 14.10 will exclude the proviso in Section 14.10(a).

14.41 "Retiree". Grantee is sometimes referred to as a "Retiree" if Grantee Retires, as defined in Section 14.42.

14.42 "Retires" or "Retirement". Grantee "Retires" if his or her employment with the Corporation terminates (a) at any time on or after the first day of the first 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 determines otherwise, termination in connection with a divestiture of assets of or one or more Subsidiaries. If Grantee "Retires" as defined herein, the termination of Grantee's employment with the Corporation is sometimes referred to as "Retirement".

14.43 "SEC" means the United States Securities and Exchange Commission.

14.44 "Section 409A" means Section 409A of the Internal Revenue Code.

14.45 "Subsidiary" means a corporation, bank, partnership, business trust, limited liability company, or other form of business organization that is a consolidated subsidiary of PNC under GAAP.

14.46 "Target Share Units" means the number of share units specified on page 1 of the Agreement as Target Share Units.

14.47 "Termination Date" means Grantee's last date of employment with the Corporation. If Grantee is employed by a Subsidiary that ceases to be a Subsidiary of PNC and Grantee does not continue to be employed by PNC or a Subsidiary, then for purposes of the Agreement, Grantee's employment with the Corporation terminates effective at the time this occurs.

15. Grantee Covenants.

15.1 General. Grantee and PNC acknowledge and agree that Grantee has

received adequate consideration with respect to enforcement of the provisions of Sections 15 and 16 by virtue of receiving this Grant of an award opportunity (regardless of whether a Final Award is ultimately determined and delivered or of the size of such Final Award, if any); that such provisions are reasonable and properly required for the adequate protection of the business of the Corporation; and that enforcement of such provisions will not prevent Grantee from earning a living.

15.2 Non-Solicitation; No-Hire. Grantee agrees to comply with the provisions of subsections (a) and (b) of this Section 15.2 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 Subsidiary, solicit, call on, do business with, 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.

(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 Subsidiary, 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 the Corporation, nor shall Grantee assist any other Person in such activities.

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 CIC Coverage Period (as defined in Section 14.11), then commencing immediately after such Termination Date, the provisions of subsections (a) and (b) of this Section 15.2 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.

15.3 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.

15.4 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 Subsidiary 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 15.4 shall be performed by Grantee without further compensation and will continue beyond Grantee's Termination Date.

16. Enforcement Provisions. Grantee understands and agrees to the following provisions regarding enforcement of the Agreement.

16.1 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.

16.2 Equitable Remedies. A breach of the provisions of any of Sections 15.2, 15.3 or 15.4 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.

16.3 Tolling Period. If it becomes necessary or desirable for the Corporation to seek compliance with the provisions of Section 15.2 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.

16.4 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.

16.5 Severability. The restrictions and obligations imposed by Sections 15.2, 15.3 and 15.4 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.

16.6 Reform. In the event any of Sections 15.2, 15.3 and 15.4 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.

16.7 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 15.2, 15.3 and 15.4.

16.8 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.

16.9. Compliance with Internal Revenue Code Section 409A. It is the intention of the parties that the Grant and the Agreement comply with the provisions of Section 409A to the extent, if any, that such provisions are applicable to the Agreement, and the Agreement will be administered by PNC in a manner consistent with this intent.

If any payments or benefits hereunder may be deemed to constitute nonconforming deferred compensation subject to taxation under the provisions of Section 409A, Grantee agrees that PNC may, without the consent of Grantee, modify the Agreement to the extent and in the manner PNC deems necessary or advisable or take such other action or actions, including an amendment or action with retroactive effect, that PNC deems appropriate in order either to preclude any such payments or benefits from being deemed "deferred compensation" within the meaning of Section 409A or to provide such payments or benefits in a manner that complies with the provisions of Section 409A such that they will not be taxable thereunder.

17. Acceptance of Grant; PNC Right to Cancel; Effectiveness of Agreement.

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, the Agreement is effective.

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:

Chairman and Chief Executive Officer

ATTEST:

By:

Corporate Secretary

ACCEPTED AND AGREED TO by GRANTEE

Grantee

SCHEDULE I

* * *

ANNUAL POTENTIAL PAYOUT SCHEDULE

* * *

Final Award determination pursuant to Section 5 of the Agreement or Final Award calculation pursuant to Section 6 of the Agreement, as applicable, requires the calculation of the Final Potential Payout Percentage and the Calculated Maximum Potential Payout Amount, each as defined in the Agreement, for awards determined pursuant to Section 5, or, for awards determined pursuant to Section 6, the CIC Payout Percentage and calculated final award, as applicable. Those calculations, in turn, take into account the degree to which the corporate Performance Goals have been achieved by the A&L Unit, as measured annually and expressed as the Annual Potential Payout Percentages for each of the three years and/or shorter partial-year period where required by the Agreement (*e.g.*, in the case of certain qualifying terminations of employment or change in control) in the overall Performance Period.

This Schedule I will be applied in order to determine the Annual Potential Payout Percentage for each year or partial-year period in the Performance Period, including the Limited-Year Annual Potential Payout Percentage for a partial year where there is a limitation of the overall performance period required by the Agreement and such limited performance period includes a partial year.

This Schedule I assigns an Annual Potential Payout Percentage (ranging from 0% up through 200%) to levels of annual performance relative to benchmark as set forth in the following table, with interpolated percentages for performance between the indicated points on the table rounded to the nearest one-hundredth percent (*e.g.*, 0.00%, with 0.005% being rounded upward to 0.01%) so that the payout schedule operates on a sliding scale; provided, however, that in no event will an Annual Potential Payout Percentage be greater than 200% or less than 0%.

| Annual Performance Relative to Benchmark | Annual Potential Payout Percentage |
|---|---|
| 40 basis points or higher | 200% |
| 20 basis points | 150% |
| 0 basis points (at Benchmark) | 100% |
| -10 basis points | 40% |
| -15 basis points or below | 0% |

The annual performance referred to in the table above is the level of financial returns from investing and proprietary trading activities achieved by the A&L Unit for the given year as compared to the applicable Benchmark Performance Index as defined by the Agreement for that year. This annual performance is expressed as the number of basis points by which the specified A&L Unit performance exceeds or falls short of benchmark performance, with 0 basis points indicating performance at the benchmark level.

Where a Limited-Year Annual Potential Payout Percentage is required by the Agreement, the “annual performance” referred to in the table above is the level of financial returns from investing and proprietary trading activities achieved by the A&L Unit as compared to the Benchmark Performance Index applicable in accordance with the Agreement for the year-to-date period (using full quarters only) beginning on January 1 of the given partial year and ending on the performance measurement date specified by the Agreement.

Committee Negative Discretion. Once the annual potential payout percentage for A&L Unit performance achieved for the relevant year or partial-year period has been determined by reference to the table above, including interpolation where required, the Committee may (other than during a CIC Coverage Period) decide, in its discretion, to reduce that percentage but may not increase it.

2007 Performance Units Grant
Performance Period: January 1, 2007 - December 31, 2009 (3 Years)
Performance Criteria: Annual Levels of Financial Return from Investing Activities
Achieved by PNC's A&L Unit Relative to Benchmark Index
100% Vests on Final Award

THE PNC FINANCIAL SERVICES GROUP, INC.
2006 INCENTIVE AWARD PLAN

* * *
2007 PERFORMANCE UNITS AGREEMENT
* * *

GRANTEE:

GRANT DATE:

February 13, 2007

TARGET SHARE UNITS:

_____ Share Units

1. Definitions. Certain terms used in this 2007 Performance Units Agreement ("Agreement") are defined in Section 14 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., "Corporation" means PNC and its Consolidated Subsidiaries, and "Plan" means The PNC Financial Services Group, Inc. 2006 Incentive Award Plan.

2. Grant of 2007 Performance Units. Pursuant to the Plan and subject to the terms and conditions of this Agreement, PNC hereby grants to the grantee named above ("Grant" and "Grantee") a Share-denominated incentive award opportunity of Performance Units with the number of target Share Units set forth above ("Target Share Units").

The Grant is subject to the corporate performance conditions, employment conditions, and other terms and conditions of this Agreement and to the Plan, to final award determination, and to Grantee's acceptance of the Grant in accordance with Section 17. Payment of any Final Award (as defined in Section 14.23) authorized pursuant to the Agreement will be made in cash in an amount equal to the number of Share Units specified in the Final Award multiplied by the per share price of PNC common stock on the award date (sometimes referred to in the Agreement as payment in "cash Share-equivalents").

In general, the Grant is an opportunity for Grantee to receive, at the end of the applicable performance period, an award in cash Share-equivalents based on the degree to which specified corporate performance criteria for PNC's Asset & Liability Unit ("A&L Unit") have been achieved, as determined by the Committee (defined in Section 14.15) and subject to its negative discretion, or otherwise in accordance with the terms of the Agreement, provided that Grantee satisfies the employment conditions specified in the Agreement (or qualifies for a specified exception and is deemed to have satisfied those employment conditions) and the other conditions of the Agreement are met.

The potential maximum award payout that Grantee will be eligible to receive will be denominated in Share Units and will be expressed as a percentage of the Target Share Units. The number of Target Share Units for this Grant is set forth on page 1 of the Agreement. The potential maximum award payout percentage will be determined by the level of financial return from investing trading activities that the A&L Unit achieves relative to benchmark performance (in basis points) for each of the three years in the overall performance period and by the potential award payout calculation schedule established by the Committee, giving equal weight to each of the three covered years, subject to certain limitations or adjustments if there is an early termination or limitation of the performance measurement period (*e.g.*, if Grantee dies or has a qualifying retirement or if there is a Change in Control, as defined herein, during a performance measurement period).

Absent a Change in Control (as defined herein), the Committee will determine the Final Award, if any, that Grantee receives within this calculated maximum potential payout amount, generally in early 2010 (or early in 2008 or 2009 in the event of Grantee's death prior to that time). The Committee may adjust the Final Award downward, but not upward, from this calculated performance-based amount. This potential award payout amount could be as high as 200% of the Target Share Units for A&L Unit performance significantly above the applicable benchmark index as specified by the Agreement for each year of the three-year performance period and if Grantee remains an employee of the Corporation throughout the full three-year performance period, or it could be zero if the A&L Unit fails to achieve a level of performance above the threshold level specified in the Agreement for at least one of the covered years or if the Committee so exercises its negative discretion.

Any Final Award payout authorized pursuant to this Grant will be paid in cash Share-equivalents. The Grant must still be outstanding at the time a Final Award determination is made for Grantee to be eligible to receive an award, and any Final Award and payment thereof is subject to the terms and conditions set forth in the Agreement and to the Plan.

The Agreement also provides a formula for calculation of the Final Award in the event of a Change in Control of PNC and for the form and timing of payment of any such award.

3. Corporate Performance Conditions. The Grant is subject to the following corporate performance conditions.

3.1 Performance Criteria. The corporate performance standard ("Performance Criteria") established by the Committee for this Grant is the level of financial return from investing activities achieved by the A&L Unit relative to the applicable Benchmark Performance Index, as defined in Section 14.5, for that period. This performance is measured annually for each year (or shorter partial-year period where required by the Agreement) in the Performance Period.

3.2 Annual Benchmark Performance Index and Annual Potential Payout Calculation Schedule. The Committee has determined that the Benchmark Performance Index for each year (or shorter partial-year period where required by the Agreement) in the Performance Period will be the same benchmark performance index that PNC uses internally to evaluate the investment performance of the A&L Unit as in effect as of March 30 of that year, so that, for example, 2007 performance will be compared to PNC's internal performance benchmark index for the A&L Unit in effect on March 30, 2007, 2008 performance will be compared to PNC's internal performance benchmark index for the A&L Unit in effect on March 30, 2008, *etc.*

The Annual Potential Payout Calculation Schedule established by the Committee with respect to this Grant will apply to each year and/or shorter partial-year period where required by the Agreement in the Performance Period.

3.3 Calculation of Applicable Annual Potential Payout Percentages. After the end of each year of the Performance Period, PNC will: (1) determine the level of financial return from investing activities achieved by the A&L Unit for the applicable period and the comparison in basis points of such performance to the applicable Benchmark Performance Index; and (2) calculate the Annual Potential Payout Percentage, as defined in Section 14.2, achieved by the A&L Unit for that year. Such results will be presented to the Committee.

Where the Agreement requires the calculation of an Annual Potential Payout Percentage for a given period that is less than a full year (e.g., upon certain qualifying terminations or Change in Control), PNC will determine the level of financial return from investing activities achieved by the A&L Unit relative to benchmark for that limited period and the Limited-Year Annual Potential Payout Percentage for that limited period as so required by the Agreement.

4. Grantee Service Requirement and Limitation of Potential Award: Early Termination of Grant

The Grant is subject to the following employment conditions.

4.1 Eligibility for an Award: Employment Conditions and Early Termination of Grant. Grantee will not be eligible to receive a Final Award unless the Grant remains outstanding on the Committee-determined Award Date (as defined in Section 14.4) or as of the end of the day immediately preceding the day on which a Change in Control occurs, if earlier.

The Grant will automatically terminate on Grantee's Termination Date (as defined in Section 14.49) unless an exception is available as set forth in Section 4.2, Section 4.3, Section 4.4 or Section 4.5. Where one or more of the conditions to an exception are post-employment conditions, the Grant will terminate upon the failure of any of those conditions.

In the event that Grantee's employment is terminated by the Corporation for Cause (as defined in Section 14.8), the Grant will automatically terminate on Grantee's Termination Date whether or not the termination might otherwise have qualified for an exception as a retirement or a disability termination pursuant to Section 4.3 or Section 4.4.

In the limited circumstances where the Grant remains outstanding notwithstanding Grantee's termination of employment with the Corporation, Grantee will be eligible for consideration for an award, subject to limitation as set forth in the applicable section of the Agreement. Said award, if any, will be determined and payable at the same time that such an award would have been determined and payable had Grantee remained a Corporation employee, except that in the case of death, the determination and payment of any award may be accelerated if so indicated in accordance with the applicable section of the Agreement.

Any award that the Committee may determine to make after Grantee's death will be paid to Grantee's legal representative, as determined in good faith by the Committee, in accordance with Section 9.

Notwithstanding anything in Section 4 or Section 5 to the contrary, if a Change in Control (as defined in Section 14.10) occurs prior to the time the Committee makes a Final Award determination pursuant to Section 5.2 (that is, prior to the Committee-determined Award Date), an award will be determined in accordance with Section 6.

4.2 Death While an Employee. If Grantee dies while an employee of the Corporation and prior to the Committee-determined Award Date, the Grant will remain outstanding and Grantee will be eligible for consideration for a prorated award calculated in accordance with Section 5.1(b), with an applicable performance measurement date (as defined in Section 5.1) of the earlier of the last day of the year in which the death occurred and December 31, 2009, payable in accordance with Section 7.

Any such award will be subject to Committee determination pursuant to Section 5.2, and may be reduced or eliminated by the Committee in the exercise of its negative discretion unless such determination occurs during a CIC Coverage Period (as defined in Section 14.11).

In the event that a Change in Control occurs prior to the time the Committee makes an award determination with respect to Grantee (either to award a specified amount or not to authorize any award), an award will be deemed to be made pursuant to Section 6, calculated as specified in Section 6.1(b).

4.3 Qualifying Retirement. If Grantee Retires (as defined in Section 14.43) prior to the Committee-determined Award Date and the termination of employment is not also a termination by the Corporation for Cause, the Grant will remain outstanding post-employment; provided, however, that the Committee may terminate the Grant at any time prior to the Award Date, other than during a CIC Coverage Period, upon determination that Grantee has engaged in Detrimental Conduct (as defined in Section 14.19). If Grantee is Disabled (as defined in Section 14.20) at the time of Retirement and Section 4.4 is also applicable to Grantee, that subsection will govern rather than this Section 4.3.

Provided that the Grant has not been terminated by the Committee prior to the award date for Detrimental Conduct and is still outstanding at that time, Grantee will be eligible for consideration for a prorated award at the time that such an award would have been determined and payable had Grantee remained a Corporation employee, calculated in accordance with Section 5.1(c) with a performance measurement date of the last day of the last full quarter completed on or prior to Grantee's Retirement date, but in no event later than December 31, 2009, payable in accordance with Section 7.

Any such award will be subject to Committee determination pursuant to Section 5.2, and may be reduced by the Committee in the exercise of its negative discretion unless such determination occurs during a CIC Coverage Period.

If Grantee dies after a qualifying Retirement but before the time set forth above for consideration of an award and provided that the Grant has not been terminated by the Committee for Detrimental Conduct and is still outstanding at the time of Grantee's death, the Committee will consider an award for Grantee and make an award determination with respect to Grantee (either to award a specified amount or not to authorize any award). Such award, if any, will be paid during the year immediately following the year in which Grantee's death occurs, if the death occurs on or prior to December 31, 2009, or in 2010 if the death occurs in 2010 but prior to the Award Date.

In the event that a Change in Control occurs prior to a Committee-determined Award Date, an award will be deemed to be made pursuant to Section 6, calculated as specified in Section 6.1(c).

4.4 Qualifying Disability Termination. If Grantee's employment with the Corporation is terminated by reason of Disability (as defined in Section 14.20) prior to the Committee-determined Award Date and the termination of employment is not also a termination by the Corporation for Cause, the Grant will remain outstanding post-employment; provided, however, that the Committee may terminate the Grant at any time prior to the Award Date, other than during a CIC Coverage Period, upon determination that Grantee has engaged in Detrimental Conduct (as defined in Section 14.19).

Provided that the Grant has not been terminated by the Committee prior to the award date for Detrimental Conduct and is still outstanding at that time, Grantee will be eligible for consideration for a full award at the time that such an award would have been determined and payable had Grantee remained a Corporation employee, calculated in accordance with Section 5.1(d), payable in accordance with Section 7.

Any such award will be subject to Committee determination pursuant to Section 5.2, and may be reduced by the Committee in the exercise of its negative discretion unless such determination occurs during a CIC Coverage Period. Although Grantee will be eligible for consideration for a full award (Standard Payout Calculation) at the scheduled time, it is anticipated that the Committee will take into account the timing and circumstances of the disability when deciding whether and the extent to which to exercise its negative discretion.

If Grantee dies after a qualifying disability termination but before the time set forth above for consideration of an award and provided that the Grant has not been terminated by the Committee for Detrimental Conduct and is still outstanding at the time of Grantee's death, the Committee will consider an award for Grantee and make an award determination with respect to Grantee (either to award a specified amount or not to authorize any award). Such award, if any, will be paid during the year immediately following the year in which Grantee's death occurs, if the death occurs on or prior to December 31, 2009, or in 2010 if the death occurs in 2010 but prior to the Award Date; provided, however, that the maximum award that may be approved in these circumstances is the award that could have been authorized had Grantee died while an employee of the Corporation.

In the event that a Change in Control occurs prior to a Committee-determined Award Date, an award will be deemed to be made pursuant to Section 6, calculated as specified in Section 6.1(d).

4.5 Qualifying Termination in Anticipation of a Change in Control. If Grantee's termination of employment satisfies the conditions set forth in Section 14.41 such that it is a Qualifying Termination in Anticipation of a Change in Control, then the Grant will remain outstanding notwithstanding Grantee's termination of employment with the Corporation and the Grant will not be subject to termination by the Committee for Detrimental Conduct.

To the extent that the conditions set forth in Section 14.41 are conditions that must be satisfied during a stated post-employment period, the Grant will remain outstanding during that period until it is determined that such conditions either have or have not been satisfied. If the conditions are not satisfied, the Grant will terminate unless Grantee meets one of the other exceptions set forth in this Section 4.

If all of the conditions set forth in Section 14.41 are satisfied, Grantee will be eligible for consideration for an award pursuant to Section 5.2, calculated in accordance with Section 5.1(e), or will receive an award pursuant to Section 6, calculated as specified in Section 6.1(e), as applicable.

If Grantee dies after a Qualifying Termination in Anticipation of a Change in Control but prior to the time the Committee makes an award determination pursuant to Section 5.2 or a Change-in-Control-determined Award Date, Grantee will be eligible for Committee consideration of an award of the greater of the award Grantee could have received had he died while an employee of the Corporation or an award determined as set forth in Section 5.1(e). If a Change in Control occurs prior to a Committee-determined Award Date, Grantee will be deemed to receive an award in accordance with Section 6.

5. Certification of Performance Results; Calculation of Maximum Potential Payout Amount; and Final Award Determination

5.1 Certification of Level of Achievement of A&L Unit Performance with Respect to Performance Criteria; Calculation of Final Potential Payout Percentage and Calculated Maximum Potential Payout Amount. As soon as practicable after December 31, 2009, or after the earlier relevant date if the applicable performance measurement date and potential award date are earlier under the circumstances, PNC will present information to the Committee concerning the following: (1) the level of financial return from investing activities achieved by the A&L Unit for each of the applicable full and partial years for which performance is being measured under the circumstances, and the comparison, in basis points, of such performance to applicable Benchmark Performance Index for each such period; (2) the calculated Annual Potential Payout Percentages for such full and partial years on the basis of the performance achieved by the A&L Unit compared to applicable benchmark for such periods; and (3) the calculated Final Potential Payout Percentage.

Subsections (a), (b), (c), (d) and (e) below set forth additional criteria for the certifications and calculations to be made pursuant to this Section 5.1 under varying circumstances. The last day of the applicable performance measurement period is sometimes referred to as the “performance measurement date.” The time when the certification, calculation and Final Award determination process will take place is sometimes referred to as the “scheduled award determination period,” and the date when a Final Award, if any, is determined and made by the Committee is sometimes referred to as the “Committee-determined Award Date” (as set forth in Section 14.4).

Notwithstanding anything in this Section 5 to the contrary, if a Change in Control has occurred, Section 6 will apply.

(a) Non-Exceptional Circumstances – Standard Payout Calculation. Provided that Grantee remains an employee of the Corporation and the Grant remains outstanding such that Grantee remains eligible for consideration for an award, and that a Change in Control has not occurred, the Performance Period will run through December 31, 2009 and the process of certification of the level of achievement of A&L Unit performance

with respect to the Performance Criteria, the calculation of the Final Potential Payout Percentage and the Calculated Maximum Potential Payout Amount, and the determination of the Final Award, if any, will occur in early 2010.

Under the circumstances set forth in this subsection (a) above ("non-exceptional circumstances"), PNC will present information to the Committee for purposes of this Section 5.1 on the following basis:

- (i) the applicable performance measurement date will be December 31, 2009;
 - (ii) the applicable Performance Period will consist of the full years 2007, 2008 and 2009;
 - (iii) the applicable Final Potential Payout Percentage will be the percentage that is the average of the Annual Potential Payout Percentages for 2007, 2008 and 2009, but in no event greater than 200%;
 - (iv) the applicable Calculated Maximum Potential Payout Amount will be the number of Share Units equal to the Final Potential Payout Percentage of the Target Share Units; and
 - (v) the scheduled award determination period will occur in early 2010.
- (b) Death While an Employee. In the event that Grantee dies while an employee of the Corporation and prior to the regularly scheduled award date for non-exceptional circumstances in early 2010 and the Grant remains outstanding pursuant to Section 4.2, PNC will present information to the Committee for purposes of this Section 5.1 on the following basis:
- (i) the applicable performance measurement date will be the earlier of the last day of the year in which the death occurred and December 31, 2009;
 - (ii) the applicable Performance Period will be the period commencing on January 1, 2007 and ending on the applicable performance measurement date, and will consist of the one, two or three full years, as the case may be, in that period;
 - (iii) the applicable Final Potential Payout Percentage will be the percentage that is the average of the Annual Potential Payout Percentages for the full years in the applicable Performance Period, but in no event greater than 200%;
 - (iv) the applicable Calculated Maximum Potential Payout Amount will be the number of Share Units equal to (x) the applicable Final Potential Payout Percentage of the Target Share Units, then (y) prorated (as defined in Section 14.40) based on the number of full years in the applicable Performance Period, including the year of death if prior to 2010; and
 - (v) the scheduled award-determination period will occur during the year immediately following the year in which Grantee died (*i.e.*, early in 2008, 2009, or 2010, as the case may be) unless Grantee dies after December 31, 2009 but prior to the award date, in which case the scheduled award-determination period will occur in 2010.

(c) Retirement. In the event that Grantee Retires prior to the regularly scheduled award date for non-exceptional circumstances in early 2010 but Grantee has met the conditions for a qualifying retirement termination set forth in Section 4.3 and the Grant has not been terminated by the Committee prior to the award date pursuant to Section 4.3 for Detrimental Conduct and remains outstanding, PNC will present information to the Committee for purposes of this Section 5.1 on the following basis:

(i) the applicable performance measurement date will be the last day of the last full quarter completed prior to Grantee's Retirement date or, if the Retirement date is a quarter-end date, that quarter-end date, but in no event later than December 31, 2009;

(ii) the applicable limited Performance Period will be the period commencing on January 1, 2007 and ending on the applicable performance measurement date, and will consist of the full and partial years in that period;

(iii) the applicable Final Potential Payout Percentage will be a Limited-Period Final Potential Payout Percentage and will be the percentage that is the weighted average of the Annual Potential Payout Percentages for the full years, if any, and the Limited-Year Annual Potential Payout Percentage for the partial year, if any, in the applicable Performance Period, calculated as set forth in Section 14.31;

(iv) the applicable Calculated Maximum Potential Payout Amount will be the number of Share Units equal to (x) the applicable Limited-Period Final Potential Payout Percentage of the Target Share Units, then (y) prorated (as defined in Section 14.40) based on the number of full quarters in the applicable limited Performance Period (*i.e.*, in the period from January 1, 2007 through the applicable performance measurement date); and

(v) the scheduled award determination period will occur in early 2010 as provided in Section 7.1, unless Grantee dies after Retirement but before the beginning of 2009, in which case the scheduled award-determination period will occur in early 2008 (if the death occurred in 2007) or early 2009 (if the death occurred in 2008), as the case may be.

In the event that Grantee is Disabled at the time of Retirement and Section 4.4 is also applicable to Grantee, then Section 5.1(d) will govern rather than this Section 5.1(c).

(d) Disability. In the event that Grantee becomes Disabled prior to the regularly scheduled award date for non-exceptional circumstances in early 2010 but Grantee has met the conditions for a qualifying disability termination set forth in Section 4.4 and the Grant has not been terminated by the Committee prior to the award date pursuant to Section 4.4 for Detrimental Conduct and remains outstanding, PNC will present information to the Committee for purposes of this Section 5.1 on the same basis as that set forth in Section 5.1(a), together with such information as the Committee may request concerning the timing and circumstances of the disability.

The scheduled award-determination period will occur in early 2010, unless Grantee dies after a qualifying disability termination but before the beginning of 2009, in which case the scheduled award-determination period will occur in early 2008 (if the death occurred in 2007) or early 2009 (if the death occurred in 2008), as the case may be. If Grantee dies after a qualifying disability termination but prior to the award date, the maximum award that may be approved in these circumstances will be the maximum that could have been awarded had Grantee died while an employee of the Corporation.

(e) Termination in Anticipation of a Change in Control. In the event that Grantee ceases to be an employee of the Corporation prior to the regularly scheduled award date for non-exceptional circumstances in early 2010 but Grantee has met the conditions for a Qualifying Termination in Anticipation of a Change in Control set forth in Section 4.5 and the Grant remains outstanding, but a Change in Control has not yet occurred, then:

(1) If a CIC Triggering Event (as defined in Section 14.14) has occurred and has not yet failed (as CIC Failure is defined herein) such that a Change in Control transaction is pending at the regularly scheduled award date, the Grant will remain outstanding and Grantee will be eligible to receive an award pursuant to Section 5.2 on the same basis as that set forth in Section 5.1(c) for a qualifying Retiree and the Committee will have no discretion to reduce the size of such award; and

(2) If the CIC Triggering Event fails prior to the regularly scheduled award date (as CIC Failure is defined in Section 14.12), the Grant will remain outstanding and the Committee will have discretion to authorize an award, pursuant to Section 5.2, to Grantee up to a maximum permitted award calculated on the same basis as that set forth in Section 5.1(c) for a qualifying Retiree, but the Committee will also have discretion to reduce the award as set forth in Section 5.2(b).

If Grantee dies after a Qualifying Termination in Anticipation of a Change in Control but prior to the time the Committee makes an award determination pursuant to Section 5.2 or a Change-in-Control-determined Award Date, Grantee will be eligible for an award of the greater of the award Grantee could have received had he or she died while an employee of the Corporation or an award determined as set forth above in this Section 5.1(e).

If a Change in Control occurs prior to a Committee-determined Award Date, Grantee will be deemed to receive an award in accordance with Section 6.

5.2 Final Award Determination by Committee.

(a) Subject to the last sentence in this paragraph, provided that the Grant is still outstanding, that Grantee is either still an employee of the Corporation or qualifies for an exception to the employment condition pursuant to Section 4.2, 4.3, 4.4 or 4.5, and that the Final Potential Payout Percentage is greater than zero, the Committee will have the authority to award to Grantee (“award”) as a Final Award such amount, denominated as a specified number of Share Units, as may be determined by the Committee. The Final Award may not exceed the applicable Calculated Maximum Potential Payout Amount, as determined in accordance with Section 5.1, and is subject to the exercise of negative discretion by the Committee pursuant to Section 5.2(b), if applicable. The Committee will not have authority to exercise negative discretion if a CIC Coverage Period has commenced and has not yet ended. If there has been a Change in Control, the Committee’s authority is subject to Section 6.

The date on which the Committee makes its determination as to whether or not it will authorize an award and, if so, the size of the Final Award, if any, it authorizes within the Calculated Maximum Potential Payout Amount determined pursuant to the Agreement is sometimes referred to in the Agreement as the “Committee-determined Award Date” (as set forth in Section 14.4).

Payment of the Final Award, if any, will be made in cash in accordance with Section 7. If Grantee dies after a Final Award is determined but before payment is made, payment of the Final Award will be made to Grantee’s legal representative, as determined in good faith by the Committee, in accordance with Section 9.

(b) Except during a CIC Coverage Period or after the occurrence of a Change in Control, the Committee may exercise negative discretion with respect to the Grant and may determine, in light of such Corporation or individual performance or other factors as the Committee may deem appropriate, that notwithstanding the levels of financial return from investing activities achieved by the A&L Unit relative to benchmark, the Committee will not award Grantee the full Calculated Maximum Potential Payout Amount that the Committee is authorized to award pursuant to Section 5.2(a), or any of such amount.

It is anticipated that the Committee will take into account such factors as absolute A&L Unit financial performance, proprietary trading results, adherence to risk parameters, and Grantee’s contributions to the success of other PNC businesses when deciding whether and the extent to which to exercise its negative discretion.

If the Committee so determines to exercise its negative discretion pursuant to this Section 5.2(b), the Final Award, if any, will be reduced accordingly; provided, however, that the Committee may not exercise such negative discretion upon or after the occurrence of a Change in Control (or during the period after the occurrence of a CIC Triggering Event but before such triggering event either results in a Change in Control or a CIC Failure of such event occurs).

(c) If a Change in Control occurs prior to the Committee-determined Award Date, the Final Award will be determined in accordance with Section 6 rather than being determined by the Committee under Section 5.2 and will not be subject to the Committee's negative discretion.

6. Change in Control Prior to a Committee-Determined Award Date

6.1 Final Award Calculation.

Notwithstanding anything in the Agreement to the contrary, upon the occurrence of a Change in Control at any time prior to a Committee-determined Award Date pursuant to Section 5.2, (i) the Performance Period, if not already ended, will be limited and will end and (ii) Grantee will be deemed to have been awarded a Final Award in an amount determined as set forth in this Section 6, payable to Grantee or Grantee's legal representative at the time and in the manner set forth in Section 7, provided that the Grant is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs and has not already terminated or been terminated in accordance with the terms of Section 4.

If this Section 6 is applicable and a Final Award is deemed to be awarded pursuant to Section 6, the day the Change in Control occurs will be considered the Award Date for purposes of the Agreement. This date is sometimes referred to in the Agreement as the "Change-in-Control-determined Award Date" (as set forth in Section 14.4).

(a) Standard CIC Payout Calculation. Provided that Grantee is an employee of the Corporation and the Grant is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs such that Grantee remains eligible for an award, Grantee's Final Award will be determined as follows:

(i) the applicable performance measurement date will be the last day of the last full quarter completed prior to the day the Change in Control occurs, or, if the Change in Control occurs on a quarter-end date, the day the Change in Control occurs, but in no event later than December 31, 2009;

(ii) the applicable Performance Period will be the period commencing on January 1, 2007 and ending on the applicable performance measurement date, and will consist of the full and partial years in that period;

(iii) the applicable Final Potential Payout Percentage will be the 'CIC Payout Percentage', which will be (A) or (B) below, as applicable, (but in no event greater than 200%):

(A) if the Change in Control occurs prior to December 31, 2009, such that the Performance Period is less than three full years, the CIC Payout Percentage will be the higher of (1) 100% and (2) a Limited-Period Final Potential Payout Percentage (calculated as set forth in Section 14.31) of the percentage that is the

weighted average of the Annual Potential Payout Percentages for the full years, if any, and the Limited-Year Annual Potential Payout Percentage for the partial year, if any, in the applicable limited Performance Period; and

(B) if the Change in Control occurs on or after December 31, 2009, the CIC Payout Percentage will be the average of the Annual Potential Payout Percentages for the full years 2007, 2008 and 2009;

(iv) the applicable Final Award amount will be the number of Share Units equal to (x) the CIC Payout Percentage of the Target Share Units, then (y) prorated (as defined in Section 14.40) based on the number of full quarters in the applicable limited Performance Period (*i.e.*, in the period from January 1, 2007 through the quarter-end date that is the applicable performance measurement date); and

(v) the scheduled award-determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee dies after the Change in Control occurs, Grantee's Final Award determined pursuant to this Section 6.1(a) will be paid to Grantee's legal representative, as determined in good faith by the Committee, in accordance with Section 9.

(b) Death. In the event the Grantee died while an employee of the Corporation and qualified for consideration for an award pursuant to Section 4.2 but the Committee had not yet made an award determination (either to award a specified amount or not to authorize any award) with respect to Grantee at the time the Change in Control occurs such that Grantee remains eligible for an award, Grantee's Final Award (payable to Grantee's legal representative, as determined in good faith by the Committee, in accordance with Section 9) will be in the amount of the lesser of:

(1) the Calculated Maximum Potential Payout Amount determined in the same manner as set forth in Section 5.1(b) but with no Committee discretion to reduce the amount of the award; and

(2) the award that would have been payable pursuant to the calculations set forth in Section 6.1(a) had Grantee not died but had been an employee of the Corporation as of the end of day immediately preceding the day the Change in Control occurred.

The scheduled award-determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee died while an employee of the Corporation and a Final Award determination (either to award a specified amount or not to authorize any award) was made by the Committee pursuant to Section 5.2 prior to the Change in Control, no further or different award determination will be made pursuant to this Section 6.1.

(c) Qualifying Retirement. In the event that Grantee Retired prior to the day the Change in Control occurs but Grantee has met the conditions for a qualifying retirement termination set forth in Section 4.3 and the Grant has not been terminated by the Committee prior to the Change in Control pursuant to Section 4.3 for Detrimental Conduct and is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs such that Grantee remains eligible for an award, Grantee's Final Award will be in the amount of the lesser of:

- (1) the Calculated Maximum Potential Payout Amount determined in the same manner as set forth in Section 5.1(c) but with no Committee discretion to reduce the amount of the award; and
- (2) the award that would have been payable pursuant to the calculations set forth in Section 6.1(a) had Grantee not Retired but had been an employee of the Corporation as of the end of the day immediately preceding the day the Change in Control occurred.

The scheduled award-determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee died while a qualified Retiree and a Final Award determination (either to award a specified amount or not to authorize any award) was made by the Committee pursuant to Section 5.2 prior to the Change in Control, no further or different award determination will be made pursuant to this Section 6.1. If no such Final Award determination was made prior to the Change in Control, Grantee's Final Award determined pursuant to this Section 6.1(c) will be paid to Grantee's legal representative, as determined in good faith by the Committee, in accordance with Section 9.

(d) Disability. In the event that Grantee became Disabled and Grantee's employment with the Corporation terminated prior to the day the Change in Control occurs but Grantee has met the conditions for a qualifying disability termination set forth in Section 4.4 and the Grant has not been terminated by the Committee prior to the Change in Control pursuant to Section 4.4 for Detrimental Conduct and is outstanding as of the end of the day immediately preceding the day on which the Change in Control occurs such that Grantee remains eligible for an award, Grantee's Final Award will be in the amount of the award that would have been payable pursuant to the calculations set forth in Section 6.1(a) had Grantee still been an employee of the Corporation as of the end of the day immediately preceding the day the Change in Control occurred. The scheduled award-determination period will occur as soon as practicable after the occurrence of the Change in Control.

If Grantee died while qualified to receive an award and a Final Award determination (either to award a specified amount or not to authorize any award) was made by the Committee pursuant to Section 5.2 prior to the Change in Control, no further or different award determination will be made pursuant to this Section 6.1. If no such Final Award determination was made prior to the Change in Control, Grantee's Final Award (payable to Grantee's legal representative, as determined in good faith by the

Committee, in accordance with Section 9) will be the lesser of (i) an award determined in accordance with Section 6.1(a) as if Grantee had been an employee of the Corporation as of the end of the day immediately preceding the day the Change in Control occurred, and (ii) an award determined in accordance with Section 6.1(b) as if Grantee had died while an employee of the Corporation.

(e) Qualifying Termination in Anticipation of a Change in Control. In the event that Grantee's termination of employment satisfies all of the conditions set forth in Section 4.5 and Section 14.41 for a qualifying termination in anticipation of a change in control such that the Grant is outstanding at the time the Change in Control occurs and Grantee remains eligible for an award, Grantee will receive a Final Award on the following basis, as applicable:

- (1) If the Change in Control occurs within three (3) months of Grantee's Termination Date, Grantee will receive a Final Award on the same basis as a continuing employee of the Corporation as set forth in Section 6.1(a); and
- (2) If the Change in Control occurs more than three (3) months after Grantee's Termination Date but the Grant is outstanding because Grantee's termination of employment qualifies under Section 4.5 and Section 14.41 by, among other conditions, having occurred after or within three months prior to a CIC Triggering Event, Grantee will receive a Final Award on the same basis as a qualifying Retiree as set forth in Section 6.1(c).

If Grantee died while qualified to receive an award and a Final Award determination (either to award a specified amount or not to authorize any award) was made by the Committee pursuant to Section 5.2 prior to the Change in Control, no further or different award determination will be made pursuant to this Section 6.1. If no such Final Award determination was made prior to the Change in Control, Grantee's Final Award (payable to Grantee's legal representative, as determined in good faith by the Committee, in accordance with Section 9) will be in the same amount as the Final Award that would have been paid to Grantee pursuant to this Section 6.1(c) had Grantee still been alive on the Change-in-Control-determined Award Date.

6.2 No Committee Discretion. The Committee may not exercise any negative discretion pursuant to Section 5.2(b) or otherwise exercise discretion pursuant to the Agreement in any way that would serve to reduce an award deemed to be made to Grantee pursuant to this Section 6.

6.3 CIC Severance Agreement Coordination. Unless otherwise provided by specific reference to this Agreement, in the event that Grantee is entitled to a severance payment from the Corporation pursuant to a change in control severance agreement, this Grant will not be considered an incentive share award or grant for purposes of that agreement.

7. Payment of Final Award; Termination of Grant as to Any Unawarded Performance Units

7.1 Payment of Final Award Determined by Committee Payment of any Final Award determined by the Committee pursuant to Section 5.2 will be made in cash in an amount equal to the number of Share Units specified in the Final Award multiplied by the Fair Market Value (as defined in Section 14.22) of a share of PNC common stock on the Award Date or as otherwise provided in Section 8, if applicable, subject to the payment of applicable withholding taxes as set forth in Section 10.

Determination of eligibility for an award, calculation of the maximum permitted award amount, and a decision by the Committee on whether or not to authorize an award and, if so, the size of such Final Award (the “scheduled award-determination process”) and then payment of any such Final Award will all generally occur in the first quarter of 2010 or as soon thereafter as practicable after the final data necessary for the Committee to make its award determination is available. In general, it is expected that the Award Date will occur in 2010 and no later than the end of the second quarter of that year, and that payment of a Final Award, if any, will be made as soon as practicable after the Award Date, provided that in no event will payment occur later than March 15, 2011 other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

In the event of Grantee’s death prior to the Award Date where Grantee has satisfied all of the conditions of Section 4.2, 4.3, 4.4 or 4.5 of the Agreement and otherwise meets all applicable criteria as set forth in the Agreement for consideration for an award, (a) the scheduled award-determination process will occur at the same time and in the same manner that such process would have occurred had Grantee remained an employee of the Corporation, provided that if the death occurs prior to 2009, the scheduled award-determination process will occur in the calendar year immediately following Grantee’s death, and (b) payment of a Final Award, if any, will be made during the calendar year immediately following the year in which Grantee died if the death occurs on or prior to December 31, 2009, or in 2010 if Grantee dies in 2010, provided, that, in no event will payment occur later than December 31st of the calendar year so specified as the year for payment other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

Otherwise, in the event that Grantee is no longer employed by the Corporation but has satisfied all of the conditions of Section 4.3, 4.4 or 4.5 of the Agreement and otherwise meets all applicable criteria as set forth in the Agreement for consideration for an award, (a) the scheduled award-determination process will occur at the same time and in the same manner that such process would have occurred had Grantee remained an employee of the Corporation, generally in 2010 during the first quarter of that year, and (b) once the Committee has made its award determination, payment of a Final Award, if any, will be made as soon as practicable after the Award Date, provided that in no event

will payment be made earlier than January 1, 2010 or later than December 31, 2010 other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

If there is a dispute regarding payment of the Final Award, PNC will settle the undisputed portion of the award, if any, within the time frame set forth above in this Section 7.1, and will settle any remaining portion as soon as practicable after such dispute is finally resolved.

7.2 Payment of Final Award Determined by Section 6 If a Final Award is deemed to be made pursuant to Section 6 rather than determined by the Committee pursuant to Section 5.2, the Final Award is fully vested as of the date of the Change in Control and will be paid in cash in the same manner as specified in the first paragraph of Section 7.1.

Payment of the Final Award will be made by PNC as soon as practicable after the date the Change in Control occurs and the amount of the Final Award is determinable and determined in accordance with Section 6, but in no event later than the 15th day of the third month of the calendar year following the calendar year in which the Change in Control occurs, other than in unusual circumstances where a further delay thereafter would be permitted under Section 409A of the Internal Revenue Code, and if such a delay is permissible, as soon as practicable within such limits.

If there is a dispute regarding payment of the Final Award, PNC will settle the undisputed portion of the award, if any, within the time frame set forth in this Section 7.2, and will settle any remaining portion as soon as practicable after such dispute is finally resolved.

7.3 Final Award Fully Vested. The Final Award, if any, will be fully vested at the Committee-determined Award Date or as of the date of the Change in Control, as applicable. PNC will deliver any cash payable pursuant to this Section 7 to, or at the proper direction of, Grantee or Grantee's legal representative, as determined in good faith by the Committee.

In the event that Grantee is deceased, payment will be delivered to the executor or administrator of Grantee's estate or to Grantee's other legal representative, as determined in good faith by the Committee.

7.4 Termination of Grant as to Any Unawarded Performance Units Once an award determination has been made by the Committee pursuant to Section 5.2 or a Final Award is deemed to have been made by virtue of the application of Section 6, the Share-denominated incentive award opportunity represented by this Grant of Performance Units will terminate as to any portion of the Performance Units not so awarded.

Termination of all or a portion of the Grant pursuant to this Section 7.4, or pursuant to Section 4, if applicable, will in no way affect Grantee's covenants or the other provisions of Sections 15 and 16.

8. Capital Adjustments.

8.1 Except as otherwise provided in Section 8.2, if applicable, in the event that a corporate transaction or transactions (including, without limitation, stock dividends, stock splits, spin-offs, split-offs, recapitalizations, mergers, consolidations or reorganizations of or by PNC (each, a "Corporate Transaction")) occurs prior to the time a Final Award, if any, is paid, the Committee shall make those adjustments, if any, in the number, class or kind of the Target Share Units 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 measuring the value per Share Unit of any share-denominated award authorized for payment to Grantee by reference to the per share value of the consideration payable to a PNC common shareholder in connection with such Corporate Transaction.

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.

8.2 Upon the occurrence of a Change in Control (or during the period after the occurrence of a CIC Triggering Event and before such triggering event results in a Change in Control or a CIC Failure of such event occurs), (a) the number, class and kind of the Target Share Units will automatically be adjusted to reflect the same changes as are made to outstanding shares of PNC common stock generally and (b) the value per Share Unit of any share-denominated award that is deemed to be awarded to Grantee in accordance with Section 6 will be measured by reference to the per share value of the consideration payable to a PNC common shareholder in connection with such Corporate Transaction or Transactions.

9. Prohibitions Against Sale, Assignment, etc.; Payment to Legal Representative

(a) The Grant of Performance Units made hereunder may not be sold, assigned, transferred, exchanged, pledged, hypothecated or otherwise encumbered.

(b) If Grantee is deceased at the time any Final Award authorized by this Agreement is to be paid, 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 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; Payment Upon Inclusion Under 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 Final Award then payable to Grantee.

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 with the Final Award, no additional withholding may be made.

It is the intention of the parties that the Grant and the Agreement comply with the provisions of Section 409A to the extent, if any, that such provisions are applicable to the Agreement. In the event that, notwithstanding such intention, the arrangement fails to meet the requirements of Section 409A and the regulations promulgated thereunder, then PNC may at that time permit the acceleration of the time for payment to Grantee under the Agreement notwithstanding any of the other provisions of the Agreement, but any such accelerated payment may not exceed the amount required to be included in Grantee's income as a result of the failure to comply with the requirements of Section 409A and the regulations promulgated thereunder. For purposes of this provision, an amount will be deemed to have been included in Grantee's income if the amount is timely reported on Form W-2 or Form 1099-MISC, as appropriate.

11. Employment. Neither the Grant of the Performance Units nor the calculation, determination and payment of any Final Award hereunder 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.

14. Certain Definitions. Except where the context otherwise indicates, the following definitions apply for purposes of the Agreement.

14.1 “A&L Unit” means the Asset & Liability unit of PNC.

14.2 “Annual Potential Payout Percentage.” The Annual Potential Payout Percentage for a given full covered year within the Performance Period (i.e., for 2007, 2008 or 2009) is the percentage determined in accordance with the Annual Potential Payout Calculation Schedule on the basis of the level of financial return from investing activities achieved by the A&L Unit compared to applicable Benchmark Performance Index for that year, rounded to the nearest one-hundredth percent.

Where the Agreement requires the calculation of an Annual Potential Payout Percentage for a given period that is less than a full year (sometimes referred to as a “partial year” or a “limited year” or “limited period”), then the Annual Potential Payout Percentage for that covered period is sometimes referred to as a “Limited-Year Annual Potential Payout Percentage”.

A “Limited-Year Annual Potential Payout Percentage” will be calculated in the same manner as the Annual Potential Payout Percentage for a full covered year except that it will be based on the level of financial return from investing activities achieved by the A&L Unit compared to applicable Benchmark Performance Index for the year-to-date period (using full quarters only) beginning on January 1 of the given partial year and ending on the performance measurement date specified by the Agreement.

14.3 “Annual Potential Payout Calculation Schedule” or “Schedule” means the schedule established by the Committee with respect to this Grant setting forth the method by which (1) the Annual Potential Payout Percentage will be calculated for a given full covered year on the basis of the level of financial return from investing activities achieved by the A&L Unit compared to applicable Benchmark Performance Index for that year and (2) the Limited-Year Annual Potential Payout Percentage will be calculated for a given partial covered year, if a partial or limited year calculation is required by the Agreement, on the basis of the level of financial return from investing activities achieved by the A&L Unit compared to applicable Benchmark Performance Index for the year-to-date period (using full quarters only) beginning on January 1 of the given partial year and ending on the performance measurement date specified by the Agreement.

14.4 “Award Date” means: (1) the date on which the Committee makes its determination as to whether or not it will authorize an award, and if so, as to the size of the Final Award, if any, it authorizes pursuant to Section 5.2 within the permitted Calculated Maximum Potential Payout Amount determined in accordance with the Agreement (sometimes referred to as the “Committee-determined Award Date”); or (2) if a Change in Control has occurred and Grantee is deemed to have been awarded a Final Award pursuant to Section 6, the Award Date will be the date the Change in Control occurs (sometimes referred to as the “Change-in-Control-determined Award Date”).

14.5 “Benchmark Performance Index”. The Benchmark Performance Index for each year in the Performance Period will be the same benchmark performance index that PNC uses internally to evaluate the investment performance of the A&L Unit as in effect as of March 30 of that year, so that, for example, 2007 performance will be compared to PNC’s internal performance benchmark index for the A&L Unit in effect on March 30, 2007, 2008 performance will be compared to PNC’s internal performance benchmark index for the A&L Unit in effect on March 30, 2008, *etc.*

Where the Agreement requires the measurement of performance for a given period that is less than a full year, then the applicable Benchmark Performance Index for that limited period will be the benchmark performance index that PNC uses internally to evaluate the investment performance of the A&L Unit as in effect as of March 30 of the calendar year in which the limited period occurs.

14.6 “Board” means the Board of Directors of PNC.

14.7 “Calculated Maximum Potential Payout Amount” means the maximum size of the award, denominated as a specified number of Share Units, that the Committee may award to Grantee based on the degree to which the specified Performance Criteria have been achieved by the A&L Unit and the Annual Potential Payout Calculation Schedule established by the Committee and on Grantee’s level of satisfaction, or deemed satisfaction, of the service requirements set forth in Section 4, including any limitations on the maximum potential payout amount that may apply in the circumstances (*e.g.*, in the case of a qualifying retirement).

14.8 “Cause”.

(a) “Cause” during a CIC Coverage Period. If a termination of Grantee’s employment with the Corporation occurs during a CIC Coverage Period, then, for purposes of the Agreement, “Cause” means:

(i) the willful and continued failure of Grantee to substantially perform Grantee’s duties with the Corporation (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to Grantee by the Board or the CEO which specifically identifies the manner in which the Board or the CEO believes that Grantee has not substantially performed Grantee’s duties; or

(ii) the willful engaging by Grantee in illegal conduct or gross misconduct that is materially and demonstrably injurious to PNC or any of its subsidiaries.

For purposes of the preceding clauses (i) and (ii), no act or failure to act, on the part of Grantee, shall be considered willful unless it is done, or omitted to be done, by

Grantee in bad faith and without reasonable belief that Grantee's action or omission was in the best interests of the Corporation. Any act, or failure to act, based upon the instructions or prior approval of the Board, the CEO, or Grantee's superior or based upon the advice of counsel for the Corporation, shall be conclusively presumed to be done, or omitted to be done, by Grantee in good faith and in the best interests of the Corporation.

The cessation of employment of Grantee will be deemed to be a termination of Grantee's employment with the Corporation for Cause for purposes of the Agreement only if and when there shall have been delivered to Grantee, as part of the notice of Grantee's termination, a copy of a resolution duly adopted by the affirmative vote of not less than a majority of the entire membership of the Board, at a Board meeting called and held for the purpose of considering such termination, finding on the basis of clear and convincing evidence that, in the good faith opinion of the Board, Grantee is guilty of conduct described in clause (i) or clause (ii) above and, in either case, specifying the particulars thereof in detail. Such resolution shall be adopted only after (1) reasonable notice of such Board meeting is provided to Grantee, together with written notice that PNC believes that Grantee is guilty of conduct described in clause (i) or clause (ii) above and, in either case, specifying the particulars thereof in detail, and (2) Grantee is given an opportunity, together with counsel, to be heard before the Board.

(b) "Cause" other than during a CIC Coverage Period. If a termination of Grantee's employment with the Corporation occurs other than during a CIC Coverage Period, then, for purposes of the Agreement, "Cause" means:

(i) the willful and continued failure of Grantee to substantially perform Grantee's duties with the Corporation (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to Grantee by PNC that specifically identifies the manner in which it is believed that Grantee has not substantially performed Grantee's duties;

(ii) a material breach by Grantee of (1) any code of conduct of PNC or any code of conduct of a subsidiary of PNC that is applicable to Grantee or (2) other written policy of PNC or other written policy of a subsidiary of PNC that is applicable to Grantee, in either case required by law or established to maintain compliance with applicable law;

(iii) any act of fraud, misappropriation, material dishonesty, or embezzlement by Grantee against PNC or any of its subsidiaries or any client or customer of PNC or any of its subsidiaries;

(iv) any conviction (including a plea of guilty or of *nolo contendere*) of Grantee for, or entry by Grantee into a pre-trial disposition with respect to, the commission of a felony; or

(v) entry of any order against Grantee, by any governmental body having regulatory authority with respect to the business of PNC or any of its subsidiaries, that relates to or arises out of Grantee's employment or other service relationship with the Corporation.

The cessation of employment of Grantee will be deemed to have been a termination of Grantee's employment with the Corporation for Cause for purposes of the Agreement only if and when the CEO or his or her designee (or, if Grantee is the CEO, the Board) determines that Grantee is guilty of conduct described in clause (i), (ii) or (iii) above or that an event described in clause (iv) or (v) above has occurred with respect to Grantee and, if so, determines that the termination of Grantee's employment with the Corporation will be deemed to have been for Cause.

14.9 "CEO" means the chief executive officer of PNC.

14.10 "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 shall not by itself constitute a Change in Control.

14.11 "CIC 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 CIC Coverage Period commences on the date of a CIC Triggering Event, such CIC 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 CIC Coverage Period, another CIC Coverage Period will commence upon the earlier to occur of clause (a)(i) and clause (a)(ii) in the preceding sentence.

14.12 "CIC Failure" means the following:

(a) with respect to a CIC Triggering Event described in Section 14.14(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 14.14(b), the proxy contest fails to replace or remove a majority of the members of the Board.

14.13 "CIC Payout Percentage" has the meaning set forth in Section 6.1(a)(iii).

14.14 "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 14.10; 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.

14.15 “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.

14.16 “Competitive Activity” means any participation in, employment by, ownership of any equity interest exceeding one percent (1%) in, or promotion or organization of, any Person other than PNC or any of its subsidiaries (a) engaged in business activities similar to some or all of the business activities of PNC or any subsidiary as of Grantee’s Termination Date or (b) engaged in business activities which Grantee knows PNC or any subsidiary intends to enter within the first twelve (12) months after Grantee’s Termination Date or, if later and if applicable, after the date specified in clause (ii) of Section 14.19(a), in either case whether Grantee is acting as agent, consultant, independent contractor, employee, officer, director, investor, partner, shareholder, proprietor or in any other individual or representative capacity therein.

14.17 “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.

14.18 “Corporation” means PNC and its Consolidated Subsidiaries.

14.19 “Detrimental Conduct” means:

(a) Grantee has engaged, without the prior written consent of PNC (with consent to be given at PNC’s sole discretion), in any Competitive Activity in the continental United States at any time during the period commencing on Grantee’s Termination Date and extending through (and including) the first (1st) anniversary of the later of (i) Grantee’s Termination Date and, if different, (ii) the first date after Grantee’s Termination Date as of which Grantee ceases to be engaged by the Corporation in any capacity for which Grantee receives compensation from the Corporation, including but not limited to acting for compensation as a consultant, independent contractor, employee, officer, director or advisory director;

(b) any act of fraud, misappropriation, or embezzlement by Grantee against PNC or one of its subsidiaries or any client or customer of PNC or one of its subsidiaries; or

(d) any conviction (including a plea of guilty or *of nolo contendere*) of Grantee for, or any entry by Grantee into a pre-trial disposition with respect to, the commission of a felony that relates to or arises out of Grantee’s employment or other service relationship with the Corporation.

Grantee will be deemed to have engaged in Detrimental Conduct for purposes of the Agreement only if and when the Committee (if Grantee was an “executive

officer” of PNC as defined in SEC Regulation S-K when he ceased to be an employee of the Corporation) or the CEO (if Grantee was not such an executive officer) determines that Grantee has engaged in conduct described in clause (a) or clause (b) above or that an event described in clause (c) above has occurred with respect to Grantee and, if so, determines that Grantee will be *deemed* to have engaged in Detrimental Conduct.

14.20 “Disabled” means, unless the Committee or its delegate determines otherwise, Grantee’s disability as determined to be total and permanent by the Corporation for purposes of the Agreement.

14.21 “Exchange Act” means the Securities Exchange Act of 1934 as amended, and the rules and regulations promulgated thereunder.

14.22 “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.

14.23 “Final Award” means the amount, if any, (a) awarded to Grantee by the Committee in accordance with Section 5.2, or (b) deemed to be awarded to Grantee pursuant to Section 6. The Final Award will be denominated as a specified number of Share Units and will be payable in cash in accordance with Section 7.

14.24 “Final Potential Payout Percentage.” The Final Potential Payout Percentage will have the meaning set forth in (a), (b) or (c) below, whichever is applicable in the circumstances.

(a) Where the Performance Period is limited pursuant to Section 6 by reason of the occurrence of a Change in Control prior to December 31, 2009 or if a Change in Control occurs on or after December 31, 2009, then the Final Potential Payout Percentage will be the CIC Payout Percentage, calculated as set forth in Section 6.1(a)(iii)(A) or (B), as applicable.

(b) Where the Performance Period specified by the Agreement is the full three-year period commencing January 1, 2007 through and including December 31, 2009, then, except as otherwise provided in subparagraph (a) above where a Change in Control occurs on or after December 31, 2009, the Final Potential Payout Percentage will be the percentage that is the average (but in no event greater than 200%) of the Annual Potential Payout Percentages for the three full covered years in the Performance Period (*i.e.*, one-third (1/3rd) of the sum of the annual percentages for the full years 2007, 2008 and 2009). If all of the Annual Potential Payout Percentages are 0%, then the Final Potential Payout Percentage will be 0%.

(c) Where the applicable performance measurement date specified by the Agreement is a quarter-end date other than December 31, 2009, then, except as otherwise provided in subparagraph (a) above where the Performance Period is limited pursuant to Section 6 by reason of the occurrence of a Change in Control, the Final Potential Payout Percentage will be a Limited-Period Final Potential Payout Percentage and will be calculated as set forth in Section 14.31.

14.25 “GAAP” or “generally accepted accounting principles” means accounting principles generally accepted in the United States of America.

14.26 “Good Reason” means:

(a) the assignment to Grantee of any duties inconsistent in any respect with Grantee’s position (including status, offices, titles and reporting requirements), authority, duties or responsibilities immediately prior to either the CIC Triggering Event or the Change in Control, or any other action by the Corporation which results in a diminution in any respect in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith that is remedied by the Corporation promptly after receipt of notice thereof given by Grantee;

(b) a reduction by the Corporation in Grantee’s annual base salary as in effect on the Grant Date, as the same may be increased from time to time;

(c) the Corporation’s requiring Grantee to be based at any office or location that is more than fifty (50) miles from Grantee’s office or location immediately prior to either the CIC Triggering Event or the Change in Control;

(d) the failure by the Corporation (i) to continue in effect any bonus, stock option or other cash or equity-based incentive plan or program in which Grantee participates immediately prior to either the CIC Triggering Event or the Change in Control that is material to Grantee’s total compensation, unless a substantially equivalent arrangement (embodied in an ongoing substitute or alternative plan or program) has been made with respect to such plan or program, or (ii) to continue Grantee’s participation in such plan or program (or in such substitute or alternative plan or program) on a basis at least as favorable, both in terms of the amount of benefits provided and the level of Grantee’s participation relative to other participants, as existed immediately prior to the CIC Triggering Event or the Change in Control; or

(e) the failure by the Corporation to continue to provide Grantee with benefits substantially similar to those received by Grantee under any of the Corporation’s pension (including, but not limited to, tax-qualified plans), life insurance, health, accident, disability or other welfare plans or programs in which Grantee was participating, at costs substantially similar to those paid by Grantee, immediately prior to the CIC Triggering Event or the Change in Control.

14.27 "Grant" means the grant, pursuant to Section 2, to Grantee of a Share-denominated incentive award opportunity of Performance Units with the number of Target Share Units specified in the Agreement, subject to the corporate performance conditions, employment conditions, and other terms and conditions of the Agreement and to the Plan.

14.28 "Grant Date" means the Grant Date set forth on page 1 of the Agreement, and is the date as of which the Committee authorized the Grant of the Performance Units in accordance with the Plan.

14.29 "Grantee" means the person to whom the Grant is made, and is identified as Grantee on page 1 of the Agreement.

14.30 "Internal Revenue Code" means the Internal Revenue Code of 1986 as amended, and the rules and regulations promulgated thereunder.

14.31 "Limited-Period Final Potential Payout Percentage". Where the Agreement requires the calculation of a Limited-Period Final Potential Payout Percentage and the applicable performance measurement date specified by the Agreement is a quarter-end date other than December 31st of 2007 or 2008, and thus the applicable Performance Period consists of one or more full years and/or a partial year, then the Limited-Period Final Potential Payout Percentage will be the percentage that is the weighted average of the Annual Potential Payout Percentages for the full years, if any, and the Limited-Year Annual Potential Payout Percentage for the partial year in the applicable limited Performance Period calculated as follows:

(a) the sum of (i) four times the sum of the Annual Potential Payout Percentages for the full years in the period, if any, and (ii) the number of full completed quarters in the partial year of the applicable limited Performance Period, if any, times the Limited-Period Annual Potential Payout Percentage for that partial year, if any;

divided by

(b) the total number of quarters in the applicable limited Performance Period.

Where the Agreement requires the calculation of a Limited-Period Final Potential Payout Percentage and the applicable performance measurement date specified by the Agreement is December 31st of 2007 or 2008 and thus the applicable Performance Period consists of one or more full years (and no partial years), then the Limited-Period Final Potential Payout Percentage will be the percentage that is the average (but in no event greater than 200%) of the Annual Potential Payout Percentages for the covered years in the Performance Period (*e.g.*, one-half (1/2) of the sum of the two annual percentages if the applicable Performance Period is limited to the full years 2007 and 2008). If all of the Annual Potential Payout Percentages are 0%, then the Limited-Period Final Potential Payout Percentage will be 0%.

14.32 "Limited-Year Annual Potential Payout Percentage" has the meaning set forth in the last two paragraphs of the definition of Annual Potential Payout Percentage in Section 14.2.

14.33 "Performance Criteria" means the corporate performance standard established by the Committee as the performance criteria for this Grant as set forth in Section 3.1. This performance is measured annually for each year (or shorter partial-year period where required by the Agreement) in the Performance Period.

Such performance standard with respect to any given year or partial-year period in the Performance Period is referred to as the Performance Criteria for that year or partial-year period. Performance Criteria, collectively, refers to the levels of such performance with respect to the entire Performance Period.

14.34 "Performance measurement date" has the meaning set forth in Section 5.1 and refers to the last day of the relevant performance measurement period.

14.35 "Performance Period" means the period during which corporate performance will be measured against the performance standard established by the Committee in accordance with the Agreement. The Performance Period will be the period commencing January 1, 2007 through (and including) the applicable performance measurement date specified in the Agreement.

Subject to early termination or limitation where so indicated in the Agreement by specifying an earlier performance measurement date, the performance measurement date will be December 31, 2009 and the Performance Period will be the period commencing January 1, 2007 through (and including) December 31, 2009.

If the Performance Period is terminated early or limited pursuant to the terms of the Agreement, it is sometimes referred to as the "limited performance period". The three full years in the full Performance Period (2007, 2008 and 2009), or, if applicable, the full and partial years in the limited performance period, are sometimes referred to as "covered years".

14.36 "Performance Units" means the Share-denominated incentive award opportunity performance units granted to Grantee in this Grant in accordance with Article 10.3 of the Plan.

14.37 "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.

14.38 "Plan" means The PNC Financial Services Group, Inc. 2006 Incentive Award Plan as amended from time to time.

14.39 “PNC” means The PNC Financial Services Group, Inc.

14.40 “Prorate” or “Prorated” means multiplying by a fraction (not to exceed 1) equal to the following:

If the Agreement specifies “prorating by years”: (a) the number of full years in the applicable Performance Period, (b) divided by three, which is the number of years in the full 3-year period from January 1, 2007 through December 31, 2009.

If the Agreement specifies “prorating by quarters”: (a) the number of full quarters in the applicable Performance Period, (b) divided by twelve, which is the number of quarters in the full 3-year period from January 1, 2007 through December 31, 2009.

14.41 “Qualifying Termination in Anticipation of a Change in Control” Grantee’s termination of employment with the Corporation will be deemed to have been a “Qualifying Termination in Anticipation of a Change in Control” for purposes of the Agreement if Grantee’s employment was terminated (other than by reason of Grantee’s death) by the Corporation without Cause or by Grantee for Good Reason and the circumstances of such termination fall within one of the following:

- (1) such termination of employment by the Corporation without Cause or by Grantee for Good Reason occurred after the occurrence of a CIC Triggering Event but before such triggering event resulted in a Change in Control or a CIC Failure of such event occurred;
- (2) such termination of employment was (a) by the Corporation without Cause, and (b) was either (i) at the request of a third party that had taken steps reasonably calculated to effect a Change in Control or (ii) otherwise arose in anticipation of a Change in Control, and (c) a CIC Coverage Period commences (by reason of the occurrence of either a CIC Triggering Event or a Change in Control) within three (3) months of Grantee’s Termination Date; or
- (3) such termination of employment was (a) by Grantee for Good Reason, and (b) the circumstance or event that constitutes Good Reason either (i) occurred at the request of a third party that has taken steps reasonably calculated to effect a Change in Control or (ii) otherwise arose in anticipation of a Change in Control, and (c) a CIC Coverage Period commences (by reason of the occurrence of either a CIC Triggering Event or a Change in Control) within three (3) months of Grantee’s Termination Date.

If Grantee is relying on clause (2) or clause (3) to meet the condition of this definition, Grantee will have the burden of proving that the requirements of such clause have been met and the standard of proof to be met by Grantee will be clear and convincing evidence.

For purposes of clause (2) and clause (3) of this Section 14.41 only, the definition of Change in Control in Section 14.10 will exclude the proviso in Section 14.10(a).

14.42 “Retiree”. Grantee is sometimes referred to as a “Retiree” if Grantee Retires, as defined in Section 14.43.

14.43 “Retires” or “Retirement”. Grantee “Retires” if his employment with the Corporation terminates (a) at any time on or after the first (1st) day of the first (1st) 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. If Grantee “Retires” as defined herein, the termination of Grantee’s employment with the Corporation is sometimes referred to as “Retirement”.

14.44 “Schedule” means the Annual Potential Payout Calculation Schedule established by the Committee with respect to this Grant, as described in Section 14.3.

14.45 “SEC” means the United States Securities and Exchange Commission.

14.46 “Section 409A” means Section 409A of the Internal Revenue Code.

14.47 “Share” means a share of PNC common stock.

14.48 “Target Share Units” means the number of Share Units specified on page 1 of the Agreement as Target Share Units, subject to capital adjustments pursuant to Section 8, if any.

14.49 “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.

15. Grantee Covenants.

15.1 General. Grantee and PNC acknowledge and agree that Grantee has received adequate consideration with respect to enforcement of the provisions of Sections 15 and 16 by virtue of receiving this Grant of an award opportunity of Performance Units (regardless of whether a Final Award is ultimately determined and delivered or of the size of such Final Award, if any); 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.

15.2 Non-Solicitation; No-Hire. Grantee agrees to comply with the provisions of subsections (a) and (b) of this Section 15.2 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, call on, do business with, 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.

(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.

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 CIC Coverage Period (as defined in Section 14.11), then commencing immediately after such Termination Date, the provisions of subsections (a) and (b) of this Section 15.2 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.

15.3 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.

15.4 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 15.4 shall be performed by Grantee without further compensation and will continue beyond Grantee's Termination Date.

16. Enforcement Provisions. Grantee understands and agrees to the following provisions regarding enforcement of the Agreement.

16.1 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.

16.2 Equitable Remedies. A breach of the provisions of any of Sections 15.2, 15.3 or 15.4 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.

16.3 Tolling Period. If it becomes necessary or desirable for the Corporation to seek compliance with the provisions of Section 15.2 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.

16.4 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.

16.5 Severability. The restrictions and obligations imposed by Sections 15.2, 15.3 and 15.4 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.

16.6 Reform. In the event any of Sections 15.2, 15.3 and 15.4 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.

16.7 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 15.2, 15.3 and 15.4.

16.8 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.

16.9. Compliance with Internal Revenue Code Section 409A. It is the intention of the parties that the Grant and the Agreement comply with the provisions of Section 409A to the extent, if any, that such provisions are applicable to the Agreement, and the Agreement will be administered by PNC in a manner consistent with this intent.

If any payments or benefits hereunder may be deemed to constitute nonconforming deferred compensation subject to taxation under the provisions of Section 409A, Grantee agrees that PNC may, without the consent of Grantee, modify the Agreement to the extent and in the manner PNC deems necessary or advisable or take such other action or actions, including an amendment or action with retroactive effect, that PNC deems appropriate in order either to preclude any such payments or benefits from being deemed "deferred compensation" within the meaning of Section 409A or to provide such payments or benefits in a manner that complies with the provisions of Section 409A such that they will not be taxable thereunder.

17. Acceptance of Grant; PNC Right to Cancel; Effectiveness of Agreement.

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, the Agreement is effective.

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:

Chairman and Chief Executive Officer

ATTEST:

By:

Corporate Secretary

ACCEPTED AND AGREED TO by GRANTEE

Grantee

ANNUAL POTENTIAL PAYOUT CALCULATION SCHEDULE
FOR
2007 PERFORMANCE UNITS

* * *

Final Award determination pursuant to Section 5 of the 2007 Performance Units Agreement (the “Agreement”) requires the calculation of the Final Potential Payout Percentage and the Calculated Maximum Potential Payout Amount, each as defined in the Agreement. Final Award calculation pursuant to Section 6 of the Agreement, if applicable, requires the calculation of the CIC Payout Percentage and the calculated final award.

Those calculations, in turn, take into account the level of performance achieved by the A&L Unit with respect to the Performance Criteria, as measured annually and expressed as the Annual Potential Payout Percentages for each of the three years and/or shorter partial-year period where required by the Agreement (*e.g.*, in the case of certain qualifying terminations of employment or change in control) in the overall Performance Period.

This Schedule will be applied in order to determine the full Annual Potential Payout Percentage for each full year in the Performance Period and, where applicable, the Limited-Year Annual Potential Payout Percentage for any partial year period where there is a limitation of the overall performance period required by the Agreement and such limited performance period includes a partial year.

This Schedule assigns an Annual Potential Payout Percentage (ranging from 0% up through 200%) to levels of annual performance relative to the benchmark index as set forth in the following table, with interpolated percentages for performance between the indicated points on the table rounded to the nearest one-hundredth percent (*e.g.*, 0.00%, with 0.005% being rounded upward to 0.01%) so that the payout calculation schedule operates on a sliding scale; provided, however, that in no event will an Annual Potential Payout Percentage be greater than 200% or less than 0%.

| Annual Performance Relative to Benchmark Index | Annual Potential Payout Percentage |
|---|---|
| 40 basis points or higher | 200% |
| 20 basis points | 150% |
| 0 basis points (at benchmark) | 100% |
| -10 basis points | 40% |
| -15 basis points or below | 0% |

The annual performance referred to in the table above is the level of financial return from investing activities achieved by the A&L Unit for the given year as compared to the applicable Benchmark Performance Index as defined by the Agreement for that year. This annual performance is expressed as the number of basis points by which the specified A&L Unit performance exceeds or falls short of benchmark index performance, with 0 basis points indicating performance at the benchmark index level.

Where a Limited-Year Annual Potential Payout Percentage is required by the Agreement, the “annual performance” referred to in the table above is the level of financial return from investing activities achieved by the A&L Unit as compared to the Benchmark Performance Index applicable in accordance with the Agreement for the year-to-date period (using full quarters only) beginning on January 1 of the given partial year and ending on the performance measurement date specified by the Agreement.

Committee Negative Discretion. Once the annual potential payout percentage for A&L Unit performance achieved for the relevant year or partial-year period has been determined by reference to the table above, including interpolation where required, the Committee may decide, in its discretion, to reduce that percentage (as long as such decision is not made during a CIC Coverage Period, as defined in the Agreement) but may not increase it.

The PNC Financial Services Group, Inc. and Subsidiaries
Computation of Ratio of Earnings
to Fixed Charges

| <i>Dollars in millions</i> | Six Months Ended June 30, 2007 | Year Ended December 31 | | | | |
|--|-----------------------------------|------------------------|----------------|----------------|----------------|----------------|
| | | 2006 | 2005 | 2004 | 2003 | 2002 |
| Earnings | | | | | | |
| Pretax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees | \$ 1,153 | \$3,913 | \$1,962 | \$1,745 | \$1,600 | \$1,858 |
| Add: | | | | | | |
| Distributed income of equity investees | 58 | 20 | | | | |
| Fixed charges excluding interest on deposits | 541 | 841 | 662 | 357 | 346 | 432 |
| Less: | | | | | | |
| Minority interest in pretax income of subsidiaries that have not incurred fixed charges | 43 | 33 | 20 | 10 | 32 | 37 |
| Interest capitalized | 1 | | | | | |
| Earnings excluding interest on deposits | 1,708 | 4,741 | 2,604 | 2,092 | 1,914 | 2,253 |
| Interest on deposits | 1,000 | 1,590 | 981 | 484 | 457 | 659 |
| Total earnings | <u>\$ 2,708</u> | <u>\$6,331</u> | <u>\$3,585</u> | <u>\$2,576</u> | <u>\$2,371</u> | <u>\$2,912</u> |
| Fixed charges | | | | | | |
| Interest on borrowed funds | \$ 508 | \$ 777 | \$ 599 | \$ 298 | \$ 258 | \$ 315 |
| Interest component of rentals | 32 | 64 | 63 | 58 | 59 | 58 |
| Amortization of notes and debentures | | | | 1 | 1 | 1 |
| Interest capitalized | 1 | | | | | |
| Distributions on mandatorily redeemable capital securities of subsidiary trusts | | | | | 28 | 58 |
| Fixed charges excluding interest on deposits | 541 | 841 | 662 | 357 | 346 | 432 |
| Interest on deposits | 1,000 | 1,590 | 981 | 484 | 457 | 659 |
| Total fixed charges | <u>\$ 1,541</u> | <u>\$2,431</u> | <u>\$1,643</u> | <u>\$ 841</u> | <u>\$ 803</u> | <u>\$1,091</u> |
| Ratio of earnings to fixed charges | | | | | | |
| Excluding interest on deposits | 3.16x | 5.64x | 3.93x | 5.86x | 5.53x | 5.22x |
| Including interest on deposits | 1.76 | 2.60 | 2.18 | 3.06 | 2.95 | 2.67 |

The PNC Financial Services Group, Inc. and Subsidiaries
Computation of Ratio of Earnings
to Fixed Charges and Preferred Stock Dividends

| <i>Dollars in millions</i> | Six Months Ended June 30, 2007 | Year Ended December 31 | | | | |
|--|-----------------------------------|------------------------|----------------|----------------|----------------|----------------|
| | | 2006 | 2005 | 2004 | 2003 | 2002 |
| Earnings | | | | | | |
| Pretax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees | \$ 1,153 | \$3,913 | \$1,962 | \$1,745 | \$1,600 | \$1,858 |
| Add: | | | | | | |
| Distributed income of equity investees | 58 | 20 | | | | |
| Fixed charges and preferred stock dividends excluding interest on deposits | 541 | 842 | 663 | 358 | 347 | 433 |
| Less: | | | | | | |
| Minority interest in pretax income of subsidiaries that have not incurred fixed charges | 43 | 33 | 20 | 10 | 32 | 37 |
| Interest capitalized | 1 | | | | | |
| Preferred stock dividend requirements | | 1 | 1 | 1 | 1 | 1 |
| Earnings excluding interest on deposits | 1,708 | 4,741 | 2,604 | 2,092 | 1,914 | 2,253 |
| Interest on deposits | 1,000 | 1,590 | 981 | 484 | 457 | 659 |
| Total earnings | <u>\$ 2,708</u> | <u>\$6,331</u> | <u>\$3,585</u> | <u>\$2,576</u> | <u>\$2,371</u> | <u>\$2,912</u> |
| Fixed charges and preferred stock dividends | | | | | | |
| Interest on borrowed funds | \$ 508 | \$ 777 | \$ 599 | \$ 298 | \$ 258 | \$ 315 |
| Interest component of rentals | 32 | 64 | 63 | 58 | 59 | 58 |
| Amortization of notes and debentures | | | | 1 | 1 | 1 |
| Interest capitalized | 1 | | | | | |
| Distributions on mandatorily redeemable capital securities of subsidiary trusts | | | | | 28 | 58 |
| Preferred stock dividend requirements | | 1 | 1 | 1 | 1 | 1 |
| Fixed charges and preferred stock dividends excluding interest on deposits | 541 | 842 | 663 | 358 | 347 | 433 |
| Interest on deposits | 1,000 | 1,590 | 981 | 484 | 457 | 659 |
| Total fixed charges and preferred stock dividends | <u>\$ 1,541</u> | <u>\$2,432</u> | <u>\$1,644</u> | <u>\$ 842</u> | <u>\$ 804</u> | <u>\$1,092</u> |
| Ratio of earnings to fixed charges and preferred stock dividends | | | | | | |
| Excluding interest on deposits | 3.16x | 5.63x | 3.93x | 5.84x | 5.52x | 5.20x |
| Including interest on deposits | 1.76 | 2.60 | 2.18 | 3.06 | 2.95 | 2.67 |

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James E. Rohr, certify that:

I have reviewed this report on Form 10-Q for the quarter ended June 30, 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: August 8, 2007

/s/ James E. Rohr

James E. Rohr

Chairman and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Richard J. Johnson, certify that:

I have reviewed this report on Form 10-Q for the quarter ended June 30, 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: August 8, 2007

/s/ Richard J. Johnson

Richard J. Johnson
Chief Financial Officer

**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 June 30, 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
August 8, 2007

**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 June 30, 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
August 8, 2007

REGISTRATION RIGHTS AGREEMENT

dated as of December 20, 2006

between

PNC Funding Corp, as Issuer,

The PNC Financial Services Group, Inc., as Guarantor

and

MORGAN STANLEY & CO. INCORPORATED,

as the Initial Purchaser

REGISTRATION RIGHTS AGREEMENT dated as of December 20, 2006 between PNC Funding Corp, a Pennsylvania corporation (the “**Company**”), The PNC Financial Services Group, Inc., a Pennsylvania corporation (the “**Guarantor**”) and Morgan Stanley & Co. Incorporated, as the initial purchaser (the “**Initial Purchaser**”) to the Purchase Agreement dated December 14, 2006 (the “**Purchase Agreement**”) with the Company and the Guarantor.

In order to induce the Initial Purchaser to enter into the Purchase Agreement, the Company and the Guarantor have agreed to provide the registration rights set forth in this Agreement. The execution of this Agreement is a condition to the closing under the Purchase Agreement. The terms “herein,” “hereof,” “hereto,” “hereinafter” and similar terms, as used in this Agreement, shall in each case refer to this Agreement as a whole and not to any particular section, paragraph, sentence or other subdivision of this Agreement.

The Company and the Guarantor agree with the Initial Purchaser, (i) for its benefit as Initial Purchaser and (ii) for the benefit of the beneficial owners (including the Initial Purchaser) from time to time of the Notes (as defined herein) and the beneficial owners from time to time of the Covered Securities (as defined herein) issued upon exchange of the Notes (each of the foregoing a “**Holder**” and together the “**Holders**”), as follows:

Section 1. *Definitions.* Capitalized terms used herein without definition shall have their respective meanings set forth in the Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

- (a) “**Affiliate**” means with respect to any specified person, an “affiliate,” as defined in Rule 144, of such person.
- (b) “**Business Day**” means any day, except a Saturday, Sunday or legal holiday on which banking institutions in The City of New York are authorized or obligated by law or executive order to close.
- (c) “**Claim**” has the meaning set forth in Section 9(o) hereof.
- (d) “**Common Stock**” means the shares of common stock, \$5.00 par value per share, of the Guarantor, deliverable upon exchange of the Notes.
- (e) “**Covered Security**” has the meaning set forth in Section 1(ff) hereof.
- (f) “**Effectiveness Deadline Date**” has the meaning set forth in Section 2(a) hereof.

(g) “**Effectiveness Period**” means a period that begins as of the date the Initial Shelf Registration Statement becomes effective under the Securities Act and terminates (subject to extension pursuant to Section 3(h) hereof) when there are no Registrable Securities outstanding.

(h) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

(i) “**Exchange Date**” has the meaning set forth in the Indenture.

(j) “**Exchange Price**” has the meaning set forth in the Indenture.

(k) “**Filing Deadline Date**” has the meaning set forth in Section 2(a) hereof.

(l) “**Form S-3**” means Form S-3 under the Securities Act.

(m) “**Holder**” has the meaning set forth in the third paragraph of this Agreement.

(n) “**Indenture**” means the Indenture dated as of December 20, 2006 between the Company, the Guarantor and The Bank of New York, as trustee, pursuant to which the Securities are being issued.

(o) “**Initial Purchaser**” means Morgan Stanley & Co. Incorporated.

(p) “**Initial Shelf Registration Statement**” has the meaning set forth in Section 2(a) hereof.

(q) “**Interest Payment Date**” means each March 20, June 20, September 20 and December 20 of each year, commencing on March 20, 2007.

(r) “**Issue Date**” means the first date of original issuance of the Notes.

(s) “**Liquidated Damages Accrual Period**” has the meaning set forth in Section 2(e) hereof.

(t) “**Liquidated Damages Amount**” has the meaning set forth in Section 2(e) hereof.

(u) “**Managing Underwriters**” has the meaning set forth in Section 8(a) hereof.

(v) “**Material Event**” has the meaning set forth in Section 3(h) hereof.

(w) “**NASD Rules**” has the meaning set forth in Section 3(t) hereof.

(x) “**Notes**” means the Floating Rate Exchangeable Senior Notes due 2036 of the Company to be purchased pursuant to the Purchase Agreement.

(y) “**Notice and Questionnaire**” means a written questionnaire containing substantially the information called for by the Selling Securityholder Notice and Questionnaire attached as Annex A to the offering memorandum, dated December 15, 2006, relating to the offering of the Notes.

(z) “**Notice Holder**” means, on a given date, any Holder that has delivered a Notice and Questionnaire to the Company on or prior to such date, provided not all of such Holder’s Registrable Securities that have been registered for resale pursuant to a Notice and Questionnaire have been sold in accordance with a Shelf Registration Statement.

(aa) “**Prospectus**” means each prospectus relating to any Shelf Registration Statement, including all supplements and amendments to such prospectus, in each case in the form furnished pursuant to this Agreement by the Company to Holders or filed by the Company with the SEC pursuant to Rule 424 or as part of such Shelf Registration Statement, as the case may be, and in each case including all materials, if any, incorporated by reference or deemed to be incorporated by reference in such prospectus.

(bb) “**Purchase Agreement**” has the meaning set forth in the preamble hereof.

(cc) “**Record Date**” means (i) March 1, with respect to an Interest Payment Date that occurs on March 20, (ii) June 1, with respect to an Interest Payment Date that occurs on June 20, (iii) September 1, with respect to an Interest Payment Date that occurs on September 20 and (iv) December 1, with respect to an Interest Payment Date that occurs on December 20.

(dd) “**Record Holder**” means, with respect to an Interest Payment Date relating to the Notes for which any Liquidated Damages Amount has accrued, a Holder of the Notes that was the holder of record of such Notes at the close of business on the Record Date relating to such Interest Payment Date.

(ee) “**Redemption Date**” has the meaning set forth in the Indenture.

(ff) “**Registrable Securities**” means the Common Stock deliverable by the Guarantor upon exchange for the Notes pursuant to the terms of the Indenture, and any securities into or for which such Common Stock has been converted or exchanged, and any security issued with respect thereto upon any stock dividend, split or similar event (each of the foregoing, a “**Covered Security**”) until, in the case of any such security, the earliest of: (i) the sale pursuant to the Shelf Registration Statement of all of the Notes and any shares of the Common Stock

issuable upon exchange of the Notes; (ii) the expiration of the Holding Period applicable to the Notes and the shares of Common Stock issuable upon exchange of the Notes held by non-affiliates of the Company under Rule 144(k) under the Securities Act, or any successor provision; and (iii) the date on which all of the Notes and any shares of Common Stock issued upon exchange of the Notes cease to be outstanding or have been resold pursuant to Rule 144 under the Securities Act.

(gg) “**Registration Default**” has the meaning set forth in Section 2(e) hereof.

(hh) “**Registration Default Period**” has the meaning set forth in Section 2(e) hereof.

(ii) “**Registration Expenses**” has the meaning set forth in Section 5 hereof.

(jj) “**Registration Statement**” means each registration statement, under the Securities Act, of the Company and the Guarantor that covers any of the Registrable Securities pursuant to this Agreement, including amendments and supplements to such registration statement and including all post-effective amendments to, all exhibits of, and all materials incorporated by reference or deemed to be incorporated by reference in, such registration statement, amendment or supplement.

(kk) “**Repurchase Date**” has the meaning set forth in the Indenture.

(ll) “**Rule 144**” means Rule 144 under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC.

(mm) “**Rule 144A**” means Rule 144A under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC.

(nn) “**Rule 415**” means Rule 415 under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC.

(oo) “**Rule 424**” means Rule 424 under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC.

(pp) “**Rule 430B**” means Rule 430B under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC.

(qq) “**Rule 456**” means Rule 456 under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC.

(rr) “**Rule 457**” means Rule 457 under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC.

(ss) “**SEC**” means the Securities and Exchange Commission.

(tt) “**Securities Act**” means the Securities Act of 1933, as amended, and the rules and regulations promulgated by the SEC thereunder.

(uu) “**Shelf Registration Statement**” means the Initial Shelf Registration Statement and any Subsequent Shelf Registration Statement.

(vv) “**Subsequent Shelf Registration Statement**” has the meaning set forth in Section 2(b) hereof.

(ww) “**Suspension Notice**” has the meaning set forth in Section 3(h) hereof.

(xx) “**Suspension Period**” has the meaning set forth in Section 3(h) hereof.

(yy) “**Trading Day**” has the meaning set forth in the Indenture.

(zz) “**Trustee**” means The Bank of New York, the Trustee under the Indenture.

Section 2 . *Shelf Registration.*

(a) The Company and the Guarantor shall prepare and file or cause to be prepared and filed with the SEC, as soon as practicable but in any event by the date (the **Filing Deadline Date**) one-hundred and twenty (120) days after the Issue Date, a registration statement (the “**Initial Shelf Registration Statement**”) for an offering to be made on a delayed or continuous basis pursuant to Rule 415 of the Securities Act registering the resale from time to time by Holders of the Registrable Securities (or, if registration of Registrable Securities not held by Notice Holders is not permitted by the rules and regulations of the SEC, then registering the resale from time to time by Notice Holders of their Registrable

Securities). The Initial Shelf Registration Statement shall be on Form S-3 or another appropriate form permitting registration of the Registrable Securities for resale by the Holders in accordance with the methods of distribution elected by the Holders and set forth in the Initial Shelf Registration Statement. The Company and the Guarantor shall use their best efforts to cause an Initial Shelf Registration Statement to be declared effective under the Securities Act as promptly as is practicable but in any event by the date (the “**Effectiveness Deadline Date**”) that is two-hundred and forty (240) days after the Issue Date, and to keep an Initial Shelf Registration Statement continuously effective under the Securities Act until the expiration of the Effectiveness Period. Each Holder is required to complete and deliver the Notice and Questionnaire either within twenty (20) days of receipt of the Company’s notice to them of the filing of the Initial Shelf Registration Statement in order to be named as selling securityholders in the related Prospectus at the time of effectiveness or within twenty (20) days of receipt of the Company’s notice to them of the use by the Company of a previously filed shelf registration statement in order to be named as a selling securityholder in the initial prospectus supplement made available to the selling securityholders, as the case may be.

(b) If, for any reason, at any time during the Effectiveness Period any Initial Shelf Registration Statement ceases to be effective under the Securities Act, or ceases to be usable for the purposes contemplated hereunder, the Company and the Guarantor shall use their commercially reasonable efforts to promptly cause such Initial Shelf Registration Statement to become effective or usable under the Securities Act (including obtaining the prompt withdrawal of any order suspending the effectiveness of such Shelf Registration Statement), and in any event shall, within thirty (30) days of such cessation of effectiveness or usability, (i) amend such Initial Shelf Registration Statement in a manner reasonably expected to obtain the withdrawal of any order suspending the effectiveness of such Shelf Registration Statement or (ii) file an additional Registration Statement (a “**Subsequent Shelf Registration Statement**”) for an offering to be made on a delayed or continuous basis pursuant to Rule 415 registering the resale from time to time by Holders thereof of all securities that are Registrable Securities as of the time of such filing (or, if registration of Registrable Securities not held by Notice Holders is not permitted by the rules and regulations of the SEC, then registering the resale from time to time by Notice Holders of their securities that are Registrable Securities as of the time of such filing). The Company and Guarantor shall use their commercially reasonable efforts to cause such Subsequent Shelf Registration Statement to become effective under the Securities Act as promptly as practicable after such filing, but in no event later than the Effectiveness Deadline Date. The Company and the Guarantor shall use their commercially reasonable efforts to keep such Subsequent Shelf Registration Statement (or another Subsequent Shelf Registration statement) continuously effective under the Securities Act from the

date the Subsequent Shelf Registration Statement is declared effective until the earlier of: (i) the sale pursuant to the Shelf Registration Statement of all of the Notes and any shares of Common Stock issuable upon exchange of the Notes; (ii) the expiration of the holding period applicable to the Notes and the shares of Common Stock issuable upon exchange of the Notes held by non-affiliates of the Company under Rule 144(k) under the Securities Act, or any successor provision; and (iii) the date on which all of the Notes and any shares of Common Stock issued upon exchange of the notes cease to be outstanding or have been resold pursuant to Rule 144 under the Securities Act. Each such Subsequent Shelf Registration Statement, if any, shall provide for the registration of such Registrable Securities for resale by such Holders in accordance with any reasonable method of distribution elected by the Holders.

(c) The Company and the Guarantor shall supplement and amend any Shelf Registration Statement if required by the rules, regulations or instructions applicable to the registration form used by the Company and the Guarantor for such Shelf Registration Statement, if required by the Securities Act or, if necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, as reasonably requested by the representatives of the Trustee on behalf of the Holders of the Registrable Securities covered by such Shelf Registration Statement.

(d) Each Holder of Registrable Securities agrees that, if such Holder wishes to sell Registrable Securities pursuant to a Shelf Registration Statement and related Prospectus, it will do so only in accordance with this section 2(d) and Section 3(h). Each Holder wishing to sell Registrable Securities pursuant to a Shelf Registration Statement and related Prospectus shall deliver a Notice and Questionnaire to the Company within twenty (20) days of receipt of the Company's notice to them of the filing of the Shelf Registration Statement or within twenty (20) days of receipt of the Company's notice to them of the use by the Company of a previously filed Shelf Registration Statement. The Company and the Guarantor will, as promptly as practicable after the date a Notice and Questionnaire is delivered, and in any event upon the later of (x) fifteen (15) Business Days after such date or (y) five (5) Business Days after the expiration of any Suspension Period in effect when the Notice and Questionnaire is delivered or put into effect within fifteen (15) Business Days of such delivery date:

(i) if required by applicable law, file with the SEC a post-effective amendment to the Shelf Registration Statement or prepare and, if required by applicable law, file a supplement to the related Prospectus or a supplement or amendment to any document incorporated therein by reference or file a new Shelf Registration Statement or any other required document so that the Holder delivering such Notice and Questionnaire is named as a selling securityholder in a Shelf Registration Statement and the

related Prospectus in such a manner as to permit such Holder to deliver such Prospectus to purchasers of the Registrable Securities in accordance with applicable law and, if the Company and the Guarantor shall file a post-effective amendment to a Shelf Registration Statement or shall file a new Shelf Registration Statement, the Company and the Guarantor shall use their best efforts to cause such post-effective amendment or new Shelf Registration Statement to be declared effective under the Securities Act as promptly as is practicable, but in any event no later than the Effectiveness Deadline Date; *provided, however*, that the Company and the Guarantor will not be required to file more than one such post-effective amendment, supplement or Shelf Registration Statement in any ninety (90) day period;

(ii) provide such Holder copies of any documents filed pursuant to Section 2(d)(i); and

(iii) notify such Holder as promptly as practicable after the effectiveness under the Securities Act of any new Shelf Registration Statement or post-effective amendment filed pursuant to Section 2(d)(i);

provided, however, that if such Notice and Questionnaire is delivered during a Suspension Period, the Company shall so inform the Holder delivering such Notice and Questionnaire and shall take the actions set forth in clauses (i), (ii) and (iii) above upon expiration of the Suspension Period in accordance with Section 3(h). Notwithstanding anything contained herein to the contrary, the Company shall be under no obligation to name any Holder that is not a Notice Holder as a selling securityholder in any Shelf Registration Statement or related Prospectus.

(e) The parties hereto agree that the Holders of Registrable Securities will suffer damages, and that it would not be feasible to ascertain the extent of such damages with precision, if:

(i) a Shelf Registration Statement has not been filed on or prior to the Filing Deadline Date;

(ii) a Shelf Registration Statement has not been declared effective under the Securities Act on or prior to the Effectiveness Deadline Date;

(iii) the Company has failed to perform its obligations set forth in Section 2(d)(i) within the time period required therein;

(iv) the aggregate duration of Suspension Periods in any period exceeds the number of days permitted in respect of such period pursuant to Section 3(h) hereof; or

(v) the number of Suspension Periods in any period exceeds the number permitted in respect of such period pursuant to Section 3(h) hereof.

Each event described in any of the foregoing clauses (i) through (vi) is individually referred to herein as a “**Registration Default**.” For purposes of this Agreement, each Registration Default set forth above shall begin and end on the dates set forth in the table set forth below:

| Type of Registration Default by Clause | Beginning Date | Ending Date |
|---|---|--|
| (i) | Filing Deadline Date | the date a Shelf Registration Statement is filed |
| (ii) | Effectiveness Deadline Date | the date a Shelf Registration Statement becomes effective under the Securities Act |
| (iii) | the date by which the Company is required to perform its obligations under Section 2(d)(i) | the date the Company performs its obligations set forth in Section 2(d)(i) |
| (iv) | the date on which the aggregate duration of Suspension Periods in any period exceeds the number of days permitted by Section 3(h) | termination of the Suspension Period that caused the limit on the aggregate duration of Suspension Periods to be exceeded |
| (v) | the date of commencement of a Suspension Period that causes the number of Suspension Periods to exceed the number permitted by Section 3(h) | termination of the Suspension Period that caused the number of Suspension Periods to exceed the number permitted by Section 3(h) |

Commencing on (and including) any date that a Registration Default has begun and ending on (but excluding) the next date on which there are no Registration Defaults that have occurred and are continuing (a “**Registration Default Period**”), the Company shall pay to Record Holders of Registrable Securities in respect of each day in the Registration Default Period liquidated damages in respect of each \$1,000 principal amount of notes outstanding, at a rate per annum equal to 0.25% of such principal amount (the “**Liquidated Damages Amount**”), as the case may be; *provided, however*, that in the case of a

Registration Default Period that is in effect solely as a result of a Registration Default of the type described in clause (iii) of the preceding paragraph, such Liquidated Damages Amount shall be paid only to the Holders (as set forth in the succeeding paragraph) that have delivered Notices and Questionnaires that caused the Company to incur the obligations set forth in Section 2(d) the non-performance of which is the basis of such Registration Default. No Liquidated Damages Amount will be payable in respect of Common Stock issued upon exchange of the Notes. Notwithstanding the foregoing, no Liquidated Damages Amount shall accrue as to any Registrable Security from and after the earlier of (x) the date such security is no longer a Registrable Security and (y) expiration of the Effectiveness Period. The rate of accrual of the Liquidated Damages Amount with respect to any period shall not exceed the rate provided for in this paragraph notwithstanding the occurrence of multiple concurrent Registration Defaults.

The Liquidated Damages Amount shall accrue from the first day of the applicable Registration Default Period (the **“Liquidated Damages Accrual Period”**), and shall be payable on each Interest Payment Date during the Registration Default Period (and on the Interest Payment Date next succeeding the end of the Registration Default Period if the Registration Default Period does not end on a Interest Payment Date) to the Record Holders of the Registrable Securities entitled thereto; *provided, however*, that any Liquidated Damages Amount accrued with respect to any Notes or portion thereof redeemed by the Company on a Redemption Date, purchased by the Company on a Repurchase Date or exchanged for Common Stock on an exchange date prior to the Interest Payment Date, shall, in any such event, be paid instead to the Holder who submitted such Note or portion thereof for redemption, purchase or exchange on the applicable Redemption Date, Repurchase Date or Exchange Date, as the case may be, on such date (or promptly following the exchange date, in the case of exchange), and on or prior to the corresponding Interest Payment Date; and *provided further*, that, in the case of a Registration Default of the type described in clause (iii) of the first paragraph of this Section 2(e) such Liquidated Damages Amount shall be paid only to the Holders entitled thereto by check mailed to the address set forth in the Notice and Questionnaire delivered by such Holder. The Trustee shall be entitled, on behalf of registered holders of Notes or Common Stock, to seek any available remedy for the enforcement of this Agreement, including for the payment of such Liquidated Damages Amount. Notwithstanding the foregoing, the parties agree that the sole damages payable for a violation of the terms of this Agreement with respect to which Liquidated Damages is expressly provided shall be such liquidated damages. Nothing shall preclude any Holder from pursuing or obtaining specific performance or other equitable relief with respect to this Agreement.

All of the Company’s obligations set forth in this Section 2(e) that are outstanding with respect to any Registrable Security at the time such security

ceases to be a Registrable Security shall survive until such time as all such obligations with respect to such security have been satisfied in full (notwithstanding termination of this Agreement pursuant to Section 9(n)).

The parties hereto agree that the Liquidated Damages provided for in this Section 2(e) constitute a reasonable estimate of the damages that may be incurred by Holders of Registrable Securities by reason of the failure of a Shelf Registration Statement to be filed or declared effective or available for effecting resales of Registrable Securities in accordance with the provisions hereof.

Section 3 . *Registration Procedures.* In connection with the registration obligations of the Company under Section 2 hereof, the Company shall:

(a) Before filing any Shelf Registration Statement or Prospectus or any amendments or supplements thereto with the SEC, furnish to the Initial Purchaser, copies of all such documents proposed to be filed at least three (3) Business Days prior to the filing of such Shelf Registration Statement or amendment thereto or Prospectus or supplement thereto.

(b) Subject to Section 3(h) prepare and file with the SEC such amendments and post-effective amendments to each Shelf Registration Statement as may be necessary to keep such Shelf Registration Statement continuously effective during the Effectiveness Period; cause the related Prospectus to be supplemented by any required prospectus supplement, and as so supplemented to be filed pursuant to Rule 424 (or any similar provisions then in force) under the Securities Act; and use its best efforts to comply with the provisions of the Securities Act applicable to it with respect to the disposition of all securities covered by such Shelf Registration Statement during the Effectiveness Period in accordance with the intended methods of disposition by the sellers thereof set forth in such Shelf Registration Statement as so amended or such Prospectus as so supplemented.

(c) As promptly as practicable give notice to the Notice Holders and the Initial Purchaser, (i) when any Prospectus, prospectus supplement, Shelf Registration Statement or post-effective amendment to a Shelf Registration Statement has been filed with the SEC and, with respect to a Shelf Registration Statement or any post-effective amendment, when the same has been declared effective, (ii) of any request, following the effectiveness of the Initial Shelf Registration Statement under the Securities Act, by the SEC or any other federal or state governmental authority for amendments or supplements to any Shelf Registration Statement or related Prospectus or for additional information, (iii) of the issuance by the SEC or any other federal or state governmental authority of any stop order suspending the effectiveness of any Shelf Registration Statement or the initiation or threatening of any proceedings for that purpose, (iv) of the

receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose, (v) of the occurrence of, but not the nature of or details concerning, a Material Event and (vi) of the determination by the Company that a post-effective amendment to a Shelf Registration Statement will be filed with the SEC, which notice may, at the discretion of the Company (or as required pursuant to Section 3(h) state that it constitutes a Suspension Notice, in which event the provisions of Section 3(h) shall apply.

(d) Use its best efforts to obtain the withdrawal of any order suspending the effectiveness of a Shelf Registration Statement or the lifting of any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction in which they have been qualified for sale, in either case at the earliest possible moment, and provide immediate notice to each Notice Holder and the Initial Purchaser of the withdrawal of any such order.

(e) As promptly as practicable furnish to each Notice Holder and the Initial Purchaser, upon request and without charge, at least one confirmed copy of each Shelf Registration Statement and any amendment thereto, including exhibits and all documents incorporated or deemed to be incorporated therein by reference.

(f) During the Effectiveness Period, deliver to each Notice Holder and the Initial Purchaser, in connection with any sale of Registrable Securities pursuant to a Shelf Registration Statement, without charge, as many copies of the Prospectus relating to such Registrable Securities (including each preliminary prospectus) and any amendment or supplement thereto as such Notice Holder may reasonably request; and the Company hereby consents (except during such periods that a Suspension Notice is outstanding and has not been revoked) to the use of such Prospectus or each amendment or supplement thereto by each Notice Holder in connection with any offering and sale of the Registrable Securities covered by such Prospectus or any amendment or supplement thereto in the manner set forth therein.

(g) Prior to any public offering of the Registrable Securities pursuant to a Shelf Registration Statement, use its best efforts to register or qualify or cooperate with the Notice Holders and their counsel in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as any Notice Holder reasonably requests in writing (which request may be included in the Notice and Questionnaire); prior to any public offering of the Registrable Securities pursuant to a Shelf Registration Statement, use its best efforts to keep each such

registration or qualification (or exemption therefrom) effective during the Effectiveness Period in connection with such Notice Holder's offer and sale of Registrable Securities pursuant to such registration or qualification (or exemption therefrom) and do any and all other acts or things reasonably necessary or advisable to enable the disposition in such jurisdictions of such Registrable Securities in the manner set forth in the Shelf Registration Statement and the related Prospectus; *provided, however*, that the Company will not be required to (i) qualify as a foreign corporation or as a dealer in securities in any jurisdiction where it would not otherwise be required to qualify but for this Agreement or (ii) take any action that would subject it to general service of process in suits or to taxation in any such jurisdiction where it is not then so subject.

(h) Upon (A) the issuance by the SEC of a stop order suspending the effectiveness of a Shelf Registration Statement or the initiation of proceedings with respect to a Shelf Registration Statement under Section 8(d) or 8(e) of the Securities Act, (B) the occurrence of any event or the existence of any fact (a "**Material Event**") as a result of which a Shelf Registration Statement shall contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or any Prospectus shall contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or (C) the occurrence or existence of any pending corporate development that, in the reasonable discretion of the Company, makes it appropriate to suspend the availability of a Shelf Registration Statement and the related Prospectus:

(i) in the case of clause (B) above, as promptly as practicable prepare and file, if necessary pursuant to applicable law, a post-effective amendment to such Shelf Registration Statement or a supplement to the related Prospectus or any document incorporated therein by reference or file any other required document that would be incorporated by reference into such Shelf Registration Statement and Prospectus so that such Shelf Registration Statement does not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and such Prospectus does not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, as thereafter delivered to the purchasers of the Registrable Securities being sold thereunder, and, in the case of a post-effective amendment to a Shelf Registration Statement, use its best efforts to cause it to be declared effective as promptly as is practicable, and

(ii) give notice to the Notice Holders and their counsel, if any, that the availability of a Shelf Registration Statement is suspended (a **Suspension Notice**”).

The Company will use its best efforts to ensure that the use of the Prospectus may be resumed (x) in the case of clause (A) above, as promptly as is practicable, (y) in the case of clause (B) above, as soon as, in the sole judgment of the Company, public disclosure of such Material Event would not be prejudicial to or contrary to the interests of the Company or, if necessary to avoid unreasonable burden or expense, as soon as practicable thereafter and (z) in the case of clause (C) above, as soon as in the reasonable discretion of the Company, such suspension is no longer appropriate. The Company shall be entitled to exercise its right under this Section 3(h) to suspend the availability of a Shelf Registration Statement or any Prospectus for any bona fide reason, including pending corporate developments and public filings with the SEC and similar events, without incurring or accruing any obligation to pay Liquidated Damages pursuant to Section 2(e), any such period during which the availability of the Shelf Registration Statement and any Prospectus is suspended (the **“Suspension Period”**), for a period not to exceed forty-five (45) days in any three-month period and not to exceed an aggregate of ninety (90) days in any twelve-month period.

(i) If requested in writing in connection with a disposition of Registrable Securities pursuant to a Shelf Registration Statement, make reasonably available for inspection during normal business hours by a representative for the Notice Holders of such Registrable Securities, any broker-dealers, attorneys and accountants retained by such Notice Holders, and any attorneys or other agents retained by a broker-dealer engaged by such Notice Holders, all relevant financial and other records and pertinent corporate documents and properties of the Company, the Guarantor and its subsidiaries, and cause the appropriate officers, directors and employees of the Company, the Guarantor and its subsidiaries to make reasonably available for inspection during normal business hours on reasonable notice all relevant information reasonably requested by such representative for the Notice Holders, or any such broker-dealers, attorneys or accountants in connection with such disposition, in each case as is customary for similar “due diligence” examinations; *provided, however*, that such persons shall first agree in writing with the Company and the Guarantor that any non-public information shall be used solely for the purposes of satisfying “due diligence” obligations under the Securities Act and exercising rights under this Agreement and shall be kept confidential by such persons, unless (i) disclosure of such information is required by court or administrative order or is necessary to respond to inquiries of regulatory authorities, (ii) in the opinion of counsel, disclosure of such information is required by law (including any disclosure requirements pursuant to federal securities laws in connection with the filing of any Shelf Registration Statement or the use of any prospectus referred to

in this Agreement), (iii) such information becomes generally available to the public other than as a result of a disclosure or failure to safeguard by any such person or (iv) such information becomes available to any such person from a source other than the Company and the Guarantor and such source is not bound by a confidentiality agreement, and *provided further* that the foregoing inspection and information gathering shall, to the greatest extent possible, be coordinated on behalf of all the Notice Holders and the other parties entitled thereto by counsel. Any person legally compelled to disclose any such confidential information made available for inspection shall provide the Company and the Guarantor with prompt prior written notice of such requirement so that the Company and the Guarantor may seek a protective order or other appropriate remedy.

(j) Comply with all applicable rules and regulations of the SEC and make generally available to its securityholders earning statements (which need not be audited) satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder (or any similar rule promulgated under the Securities Act) for a 12-month period commencing on the first day of the first fiscal quarter of the Company and the Guarantor commencing after the effective date of a Shelf Registration Statement, which statements shall be made available no later than forty-five (45) days after the end of the 12-month period or ninety (90) days if the 12-month period coincides with the fiscal year of the Company and the Guarantor.

(k) Cooperate with each Notice Holder to facilitate the timely preparation and delivery of certificates representing the Common Stock sold or to be sold pursuant to a Shelf Registration Statement.

(l) Provide a CUSIP number for all Registrable Securities covered by each Shelf Registration Statement not later than the effective date of such Shelf Registration Statement and provide the Trustee and the transfer agent for the Common Stock with printed certificates for the Registrable Securities that are in a form eligible for deposit with The Depository Trust Company.

(m) Cooperate and assist in any filings required to be made with the National Association of Securities Dealers, Inc.

(n) Upon the filing of the Shelf Registration Statement, and upon the effectiveness under the Securities Act of the Shelf Registration Statement, announce the same, in each case by release through a reputable national newswire service.

(o) Take all actions and enter into such customary agreements (including, if requested, an underwriting agreement in customary form) as are necessary, or reasonably requested by the Holders of a majority of the Registrable Securities being sold (defined at any particular time as a majority of the

Registrable Securities for which a Notice and Questionnaire has been furnished), in order to expedite or facilitate disposition of such Registrable Securities; and in such connection, if an underwriting agreement or similar agreement is entered into and whether or not the registration is an underwritten registration:

(i) the Company shall make such representations and warranties to the Holders of such Registrable Securities and the underwriters, if any, in form, substance and scope as would be customarily made by the Company to underwriters in similar offerings of securities;

(ii) the Company shall obtain opinions of counsel of the Company and updates thereof (which counsel and opinions (in form, scope and substance) shall be reasonably satisfactory to the Managing Underwriters, if any, and to the counsel to the Holders of the Registrable Securities being sold) addressed to each selling Holder and the underwriters, if any, covering the matters that would be customarily covered in opinions requested in sales of securities or underwritten offerings;

(iii) the Company shall obtain "comfort letters" and updates thereof from the Company's independent certified public accountants (and, if necessary, any other independent certified public accountants of any subsidiary of the Company or of any business acquired by the Company for which financial statements are, or are required to be, included in any Shelf Registration Statement) addressed to the underwriters, if any, and the selling Holders of Registrable Securities (to the extent consistent with Statement on Auditing Standards No. 72 of the American Institute of Certified Public Accounts), such letters to be in customary form and covering matters of the type that would customarily be covered in "comfort letters" to underwriters in connection with similar underwritten offerings;

(iv) the Company shall, if an underwriting agreement is entered into, cause any such underwriting agreement to contain customary indemnification provisions and procedures; and

(v) the Company shall deliver such documents and certificates as may be reasonably requested and as are customarily delivered in similar offerings to the holders of a majority of the Registrable Securities being sold and to the Managing Underwriters, if any;

the above to be done in connection with any underwriting or similar agreement as and to the extent required thereunder.

(p) Cause the Covered Security to be listed on The New York Stock Exchange.

(q) In the event that any broker-dealer registered under the Exchange Act shall underwrite any Registrable Securities or participate as a member of an underwriting syndicate or selling group or “participate in a public offering” (within the meaning of the Conduct Rules (the “**NASD Rules**”) of the National Association of Securities Dealers, Inc.) thereof, whether as a Holder of such Registrable Securities or as an underwriter, a placement or sales agent or a broker or dealer in respect thereof, or otherwise the Company will assist such broker-dealer in complying with the requirements of such NASD Rules, including, without limitation, by: (i) if such NASD Rules, including NASD Rule 2720, shall so require, engaging a “qualifying independent underwriter” (as defined in NASD Rule 2720) to participate in the preparation of the Shelf Registration Statement relating to such Registrable Securities, to exercise usual standards of due diligence in respect thereof and, if any portion of the offering contemplated by such Shelf Registration Statement is an underwritten offering or is made through a placement or sales agent, to recommend the yield or price, as the case may be, of such Registrable Securities; (ii) indemnifying any such qualified independent underwriter to the extent of the indemnification of underwriters provided in Section 6 hereof; and (iii) providing such information to such broker-dealers as may be required in order for such broker-dealer to comply with the requirements of the NASD Rules.

Section 4 . *Holder's Obligations.*

(a) Each Holder agrees, by acquisition of the Registrable Securities, that no Holder shall be entitled to sell any of such Registrable Securities pursuant to a Shelf Registration Statement or to receive a Prospectus relating thereto, unless such Holder has furnished the Company with a Notice and Questionnaire as required pursuant to Section 2(d) hereof (including the information required to be included in such Notice and Questionnaire) and the information set forth in the next sentence. Each Notice Holder agrees promptly to furnish to the Company all information required to be disclosed in order to make the information previously furnished to the Company by such Notice Holder not misleading and any other information regarding such Notice Holder and the distribution of such Registrable Securities as the Company may from time to time reasonably request. Any sale of any Registrable Securities by any Holder shall constitute a representation and warranty by such Holder that the information relating to such Holder and its plan of distribution is as set forth in the Prospectus delivered by such Holder in connection with such disposition, that such Prospectus does not as of the time of such sale contain any untrue statement of a material fact relating to or provided by such Holder or its plan of distribution and that such Prospectus does not as of the time of such sale omit to state any material fact relating to or provided by such

Holder or its plan of distribution necessary to make the statements in such Prospectus, in the light of the circumstances under which they were made, not misleading.

(b) Upon receipt of any Suspension Notice, each Notice Holder agrees not to sell any Registrable Securities pursuant to any Shelf Registration Statement until such Notice Holder's receipt of copies of the supplemented or amended Prospectus provided for in Section 3(h)(i), or until it is advised in writing by the Company that the Prospectus may be used.

Section 5 . *Registration Expenses.* The Company shall bear all fees and expenses incurred in connection with the performance by the Company of its obligations under Sections 2 and 3 of this Agreement whether or not any Shelf Registration Statement is declared effective. Such fees and expenses shall include, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses (x) with respect to filings required to be made with the National Association of Securities Dealers, Inc.) and (y) of compliance with federal and state securities or Blue Sky laws (including, without limitation, reasonable fees and disbursements of the Company's counsel in connection with Blue Sky qualifications of the Registrable Securities under the laws of such jurisdictions as Notice Holders of a majority of the Registrable Securities being sold pursuant to a Shelf Registration Statement may designate), (ii) all printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities in a form eligible for deposit with The Depository Trust Company), (iii) all duplication and mailing expenses relating to copies of any Shelf Registration Statement or Prospectus delivered to any Holders hereunder, (iv) all fees and disbursements of counsel for the Company in connection with any Shelf Registration Statement, (v) all fees and disbursements of the Trustee and its counsel and of the registrar and transfer agent for the Common Stock, and (vi) Securities Act liability insurance obtained by the Company in its sole discretion. In addition, the Company shall pay the internal expenses of the Company (including, without limitation, all salaries and expenses of officers and employees performing legal or accounting duties), the expense of any annual audit, the fees and expenses incurred in connection with the listing by the Company of the Registrable Securities on any securities exchange on which similar securities of the Company are then listed and the fees and expenses of any person, including special experts, retained by the Company. If the Company shall, pursuant to Rule 456(b), defer payment of any registration fees due under the Securities Act with respect to any Registration Statement, the Company agrees that it shall pay the fees applicable to such Registration Statement within the time required by Rule 456(b)(1)(i) (without reliance on the proviso to Rule 456(b)(1)(i)) and in compliance with Rule 456(b) and Rule 457(r).

Section 6 . *Indemnification and Contribution.*

(a) The Company and the Guarantor agree to indemnify and hold harmless each Notice Holder, each person, if any, who controls any Notice Holder within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, and the respective officers, directors, partners, employees, representatives and agents of any Notice Holder (each, an “**Indemnified Party**”) from and against any and all losses, damages, expenses, liabilities, claims or actions in respect thereof (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) which such Indemnified Party may incur or become subject to under the Securities Act, the Exchange Act or otherwise, insofar as such loss, damage, expense, liability, claim or action arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in any Shelf Registration Statement or Prospectus, including any document incorporated by reference therein, or in any amendment or supplement thereto or in any preliminary prospectus or arises out of or is based upon any omission or alleged omission or state a material fact required to be stated in any Shelf Registration Statement or in any amendment or supplement thereto or necessary to make the statements therein not misleading, or arises out of or is based upon any omission or alleged omission to state a material fact necessary in order to make the statements made in the Prospectus or in any amendment or supplement thereto or in any preliminary prospectus, in the light of the circumstances under which such statements were made, not misleading, and, the Company and the Guarantor shall reimburse, as incurred, the Indemnified Parties for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, damage, expense, liability, claim or action in respect thereof; *provided, however*, that the Company and the Guarantor shall not be required to provide any indemnification pursuant to this Section 6(a) in any such case insofar as any such loss, damage, expense, liability, claim or action arises out of or is based upon (i) any untrue statement or omission or alleged untrue statement or omission of a material fact contained in, or omitted from, and in conformity with information furnished in writing by or on behalf of a Notice Holder to the Company expressly for use in, any Shelf Registration Statement or any Prospectus or (ii) a disposition, pursuant to a Shelf Registration Statement, of Registrable Securities by an Indemnified Party during a Suspension Period, provided such Indemnified Party received, prior to such disposition, a Suspension Notice with respect to such Suspension Period; *provided, however*, that this indemnity agreement will be in addition to any liability which the Company and the Guarantor may otherwise have to such Indemnified Party.

(b) Each Holder, severally and not jointly, agrees to indemnify and hold harmless the Company, the Guarantor and their respective directors, their officers who sign any Shelf Registration Statement and each person, if any, who controls

the Company and the Guarantor (within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act) or any other Holder, to the same extent as the foregoing indemnity from the Company and the Guarantor to such Holder, but only with reference to information relating to such Holder furnished to the Company in writing by such Holder expressly for use in such Shelf Registration Statement or Prospectus or amendment or supplement thereto. In no event shall the liability of any Holder hereunder be greater in amount than the dollar amount of the proceeds received by such Holder upon the sale of the Registrable Securities pursuant to the Shelf Registration Statement giving rise to such indemnification obligation.

(c) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to Section 6(a) or 6(b) hereof, such person (the “**Indemnified Party**”) shall promptly notify the person against whom such indemnity may be sought (the “**Indemnifying Party**”) in writing and the Indemnifying Party, upon request of the Indemnified Party, shall retain counsel reasonably satisfactory to the Indemnified Party to represent the indemnified party and any others the Indemnifying Party may designate in such proceeding and shall pay the reasonable fees and disbursements of such counsel related to such proceeding. In any such proceeding, any Indemnified Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless (i) the Indemnifying Party and the Indemnified Party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the Indemnifying Party and the Indemnified Party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that the Indemnifying Party shall not, in respect of the legal expenses of any Indemnified Party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for all such indemnified parties and that all such fees and expenses shall be reimbursed as they are incurred. Such firm shall be designated in writing by, in the case of parties indemnified pursuant to Section 6(a), the Holders of a majority (with Holders of Notes deemed to be the Holders, for purposes of determining such majority, of the number of shares of Common Stock into which such Notes are or would be convertible as of the date on which such designation is made) of the Registrable Securities covered by the Shelf Registration Statement held by Holders that are Indemnified Parties pursuant to Section 6(a) and, in the case of parties indemnified pursuant to Section 6(b), the Company. The Indemnifying Party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the Indemnifying Party agrees to indemnify the Indemnified Party from and against any loss or liability by reason of such settlement or judgment.

Notwithstanding the foregoing sentence, if at any time an Indemnified Party shall have requested an Indemnifying Party to reimburse the Indemnified Party for fees and expenses of counsel as contemplated by the second and third sentences of this paragraph, the indemnifying party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by such Indemnifying Party of the aforesaid request and (ii) such Indemnifying Party shall not have reimbursed the Indemnified Party in accordance with such request prior to the date of such settlement. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such proceeding.

(d) To the extent that the indemnification provided for in Section 6(a) or 6(b) is unavailable to an Indemnified Party or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each Indemnifying Party under such paragraph, in lieu of indemnifying such Indemnified Party thereunder, shall contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Indemnifying Party or Parties on the one hand and the Indemnified Party or Parties on the other hand or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Indemnifying Party or parties on the one hand and of the Indemnified Party or Parties on the other hand in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Guarantor shall be deemed to be equal to the total net proceeds from the initial placement pursuant to the Purchase Agreement (before deducting expenses) of the Registrable Securities to which such losses, claims, damages or liabilities relate. The relative benefits received by any Holder shall be deemed to be equal to the value of receiving registration rights under this Agreement for the Registrable Securities. The relative fault of the Holders on the one hand and the Company and the Guarantor on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Holders, by the Company or by the Guarantor, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Holders' respective obligations to contribute pursuant to this Section 6(d) are several in proportion to the respective

number of Registrable Securities they have sold pursuant to a Shelf Registration Statement, and not joint.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 6(d) were determined by *pro rata* allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an Indemnified Party as a result of the losses, claims, damages or liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding this Section 6(d), no Indemnifying Party that is a selling Holder shall be required to contribute any amount in excess of the amount by which the total price at which the Registrable Securities sold by it and distributed to the public were offered to the public exceeds the amount of any damages that such Indemnifying Party has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(e) The remedies provided for in this Section 6 are not exclusive and shall not limit any rights or remedies which may otherwise be available to an indemnified party at law or in equity, hereunder, under the Purchase Agreement or otherwise.

(f) The indemnity and contribution provisions contained in this Section 6 shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any Holder, any person controlling any Holder or any affiliate of any Holder or by or on behalf of the Company, its officers or directors or any person controlling the Company or the Guarantor, its officers or directors or any person controlling the Guarantor and (iii) the sale of any Registrable Securities by any Holder.

Section 7 . *Information Requirements.*

(a) The Company and the Guarantor covenant that, if at any time before the end of the Effectiveness Period, the Company or the Guarantor are not subject to the reporting requirements of the Exchange Act, they will cooperate with any Holder and take such further reasonable action as any Holder may reasonably request in writing (including, without limitation, making such reasonable representations as any such Holder may reasonably request), all to the extent required from time to time to enable such Holder to sell Registrable

Securities without registration under the Securities Act within the limitation of the exemptions provided by Rule 144 and Rule 144A and Regulation S under the Securities Act and customarily taken in connection with sales pursuant to such exemptions. Upon the written request of any Holder, the Company or the Guarantor shall deliver to such Holder a written statement as to whether they have complied with such filing requirements, unless such a statement has been included in the Company's or the Guarantor's most recent report filed pursuant to Section 13 or Section 15(d) of Exchange Act. Notwithstanding the foregoing, nothing in this Section 7 shall be deemed to require the Company and the Guarantor to register any of their securities (other than the Common Stock) under the Exchange Act.

(b) The Company and the Guarantor shall file the reports required to be filed by them under the Exchange Act and shall comply with all other requirements set forth in the instructions to Form S-3 in order to allow the Company and the Guarantor to be eligible to file registration statements on Form S-3. The Company and the Guarantor shall use their commercially reasonable efforts to remain eligible, pursuant to Rule 430B(b), to omit, from the prospectus that is filed as part of a Registration Statement, the identities of selling securityholders and amounts of securities to be registered on their behalf.

Section 8 . *Underwritten Registrations.*

(a) If any of the Registrable Securities covered by the Shelf Registration Statement are to be offered and sold in an underwritten offering, the investment banker or investment bankers and manager or managers that will administer the offering (the "**Managing Underwriters**") shall be selected by the holders of a majority of such Registrable Securities to be included in such offering.

(b) No person may participate in any underwritten registration hereunder unless such person (i) agrees to sell such person's Registrable Securities on the basis reasonably provided in any underwriting arrangements approved by the persons entitled hereunder to approve such arrangements and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements.

(c) Notwithstanding anything herein to the contrary, in no event shall Registrable Securities be offered and sold pursuant hereto through a Shelf Registration Statement pursuant to an underwritten offering without the prior written agreement of the Company and the Guarantor.

Section 9 . *Miscellaneous.*

(a) *Remedies.* The Company and the Guarantor acknowledge and agree that any failure by the Company or the Guarantor to comply with their obligations under this Agreement may result in material irreparable injury to the Initial Purchaser and the Holders for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of any such failure, any Initial Purchaser or Holder may obtain such relief as may be required to specifically enforce the Company's and the Guarantor's obligations under this Agreement. The Company and the Guarantor further agree to waive the defense in any action for specific performance that a remedy at law would be adequate. Notwithstanding the foregoing two sentences, this Section 9(a) shall not apply to the subject matter referred to in and contemplated by Section 2(e).

(b) *No Conflicting Agreements.* The Company and the Guarantor are not, as of the date hereof, a party to, nor shall they, on or after the date of this Agreement, enter into, any agreement with respect to the Company's or the Guarantor's securities that conflicts with the rights granted to the Holders in this Agreement. The Company and the Guarantor represent and warrant that the rights granted to the Holders hereunder do not in any way conflict with the rights granted to the holders of the Company's or the Guarantor's securities under any other agreements. The Company and the Guarantor will not take any action with respect to the Registrable Securities which would adversely affect the ability of any of the Holders to include such Registrable Securities in a registration undertaken pursuant to this Agreement. The Company and the Guarantor represent and covenant that they have not granted, and shall not grant, to any of their securityholders (other than the Holders in such capacity) the right to include any of the Company's or the Guarantor's securities in any Shelf Registration Statement filed pursuant to this Agreement.

(c) *Amendments and Waivers.* The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the Company has obtained the written consent of Holders of a majority of the then outstanding Registrable Securities; *provided, however*, that, no consent is necessary from any of the Holders in the event that this Agreement is amended, modified or supplemented for the purpose of curing any ambiguity, defect or inconsistency that does not adversely affect the rights of any Holder. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders of Registrable Securities whose securities are being sold pursuant to a Shelf Registration Statement and that does not directly or indirectly affect the rights of other Holders may be given by Holders of at least a majority of the

Registrable Securities being sold by such Holders pursuant to such Shelf Registration Statement; *provided, however*, that the provisions of this sentence may not be amended, modified or supplemented except in accordance with the provisions of the immediately preceding sentence. Notwithstanding the foregoing sentence, this Agreement may be amended by written agreement signed by the Company, the Guarantor and the Initial Purchaser, without the consent of the Holders of Registrable Securities, to cure any ambiguity or to correct or supplement any provision contained herein that may be defective or inconsistent with any other provision contained herein, or to make such other provisions in regard to matters or questions arising under this Agreement that shall not adversely affect the interests of the Holders of Registrable Securities. Each Holder of Registrable Securities outstanding at the time of any such amendment, modification, supplement, waiver or consent or thereafter shall be bound by any such amendment, modification, supplement, waiver or consent effected pursuant to this Section 9(c), whether or not any notice, writing or marking indicating such amendment, modification, supplement, waiver or consent appears on the Registrable Securities or is delivered to such Holder.

(d) *Notices.* All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, by telecopier, by courier or by first-class mail, return receipt requested, and shall be deemed given (i) when made, if made by hand delivery, (ii) upon confirmation, if made by telecopier, (iii) one (1) Business Day after being deposited with such courier, if made by overnight courier or (iv) on the date indicated on the notice of receipt, if made by first-class mail, to the parties as follows:

(i) if to a Holder, at the most current address given by such Holder to the Company or the Guarantor in a Notice and Questionnaire or any amendment thereto;

(ii) if to the Company or the Guarantor, to:

One PNC Plaza, 249 Fifth Avenue
Pittsburgh, Pennsylvania 15222-2707
Attention: Investor Relations
Telecopy No.: (800) 843-2206

(iii) if to the Initial Purchaser, to:

Morgan Stanley & Co. Incorporated
1585 Broadway, 38th Floor
New York, New York 10036
Attention: Equity Capital Markets
Telecopy No.: (212) 761-0538

or to such other address as such person may have furnished to the other persons identified in this Section 9(d) in writing in accordance herewith.

(e) *Majority of Registrable Securities.* For purposes of determining what constitutes holders of a majority of Registrable Securities, as referred to in this Agreement, a majority shall constitute a majority in aggregate principal amount of Registrable Securities, treating each relevant holder of shares of Common Stock as a holder of the aggregate principal amount of Notes in respect of which such Common Stock was issued.

(f) *Approval of Holders.* Whenever the consent or approval of Holders of a specified percentage of Registrable Securities is required hereunder, Registrable Securities held by the Company or its affiliates (as such term is defined in Rule 405 under the Securities Act) (other than the Initial Purchaser or subsequent Holders of Registrable Securities, if the Initial Purchaser or such subsequent Holders are deemed to be such affiliates solely by reason of their holdings of such Registrable Securities) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

(g) *Third Party Beneficiaries.* The Holders shall be third party beneficiaries to the agreements made hereunder between the Company and the Guarantor, on the one hand, and the Initial Purchaser, on the other hand, and shall have the right to enforce such agreements directly to the extent they may deem such enforcement necessary or advisable to protect their rights or the rights of Holders hereunder. The Trustee shall be entitled to the rights granted to it pursuant to this Agreement.

(h) *Successors and Assigns.* Any person who purchases any Registrable Securities from the Initial Purchaser shall be deemed, for purposes of this Agreement, to be an assignee of the Initial Purchaser. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties and shall inure to the benefit of and be binding upon each Holder of any Registrable Securities, *provided, however*, that nothing herein shall be deemed to permit any assignment, transfer or other disposition of Registrable Securities in violation of the terms of the Indenture. If any transferee of any Holder shall acquire Registrable Securities, in any manner, whether by operation of law or otherwise, such Registrable Securities shall be held subject to all of the terms of this Agreement, and by taking and holding such Registrable Securities, such person shall be conclusively deemed to have agreed to be bound by and to perform all of the terms and provisions of this Agreement and such person shall be entitled to receive the benefits hereof.

(i) *Counterparts.* This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be original and all of which taken together shall constitute one and the same agreement.

(j) *Headings.* The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(k) *Governing Law.* THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

(l) *Severability.* If any term, provision, covenant or restriction of this Agreement is held to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, and the parties hereto shall use their best efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction, it being intended that all of the rights and privileges of the parties shall be enforceable to the fullest extent permitted by law.

(m) *Entire Agreement.* This Agreement is intended by the parties as a final expression of their agreement and is intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein and the registration rights granted by the Company with respect to the Registrable Securities. Except as provided in the Purchase Agreement, there are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein, with respect to the registration rights granted by the Company with respect to the Registrable Securities. This Agreement supersedes all prior agreements and undertakings among the parties with respect to such registration rights. No party hereto shall have any rights, duties or obligations other than those specifically set forth in this Agreement. In no event will such methods of distribution take the form of an underwritten offering of the Registrable Securities without the prior agreement of the Company.

(n) *Termination.* This Agreement and the obligations of the parties hereunder shall terminate upon the end of the Effectiveness Period, except for any liabilities or obligations under Section 4, 5 or 6 hereof and the obligations to make payments of and provide for additional interest or liquidated damages under Section 2(e) hereof to the extent such damages accrue prior to the end of the Effectiveness Period, each of which shall remain in effect in accordance with its terms.

(o) *Submission to Jurisdiction.* Except as set forth below, no claim, counterclaim or dispute of any kind or nature whatsoever arising out of or in any way relating to this Agreement (“**Claim**”) may be commenced, prosecuted or continued in any court other than the courts of the State of New York located in the City and County of New York or in the United States District Court for the Southern District of New York, which courts shall have jurisdiction over the adjudication of such matters, and the Company and the Guarantor hereby consent to the jurisdiction of such courts and personal service with respect thereto. THE COMPANY AND THE GUARANTOR HEREBY WAIVE ALL RIGHTS TO TRIAL BY JURY IN ANY PROCEEDING (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) IN ANY WAY ARISING OUT OF OR RELATING TO THIS AGREEMENT. The Company and the Guarantor agree that a final judgment in any such Proceeding brought in any such court shall be conclusive and binding upon the Company or the Guarantor and may be enforced in any other courts in the jurisdiction of which the Company or the Guarantor are or may be subject, by suit upon such judgment.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

Very truly yours,

PNC Funding Corp,

By: _____
Name:
Title:

The PNC Financial Services Group, Inc.

By: _____
Name:
Title:

Confirmed and accepted as of the date first above written, for itself:

MORGAN STANLEY & CO. INCORPORATED

By: _____
Name:
Title:

FORM OF SECURITY**[FORM OF FACE OF NOTE]**

[Transfer Restricted Securities Legend – Include only
on Transfer Restricted Securities]

THIS SECURITY AND ANY COMMON STOCK ISSUABLE IN EXCHANGE FOR THIS SECURITY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY NOT BE SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THIS SECURITY AND ANY COMMON STOCK ISSUABLE IN EXCHANGE FOR THIS SECURITY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A)(1) TO A PERSON WHO THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER (IF AVAILABLE), (3) SUBJECT TO THE REQUIREMENTS OF THE INDENTURE, TO AN INSTITUTIONAL INVESTOR THAT IS AN ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS.

THIS SECURITY, ANY SHARES OF COMMON STOCK ISSUABLE IN EXCHANGE FOR IT AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON REALES AND OTHER TRANSFERS OF THIS SECURITY AND ANY SUCH SHARES TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFER OF RESTRICTED SECURITIES GENERALLY THE HOLDER OF THIS SECURITY AND SUCH SHARES SHALL BE DEEMED BY THE ACCEPTANCE OF THIS NOTE AND ANY SUCH SHARES TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN. TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS TO THE DEPOSITARY TRUST COMPANY, TO NOMINEES OF THE DEPOSITARY TRUST COMPANY OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

THIS SECURITY HAS BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT ("OID") FOR PURPOSES OF SECTIONS 1271 ET SEQ. OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED. THE ISSUE DATE OF THIS SECURITY IS DECEMBER 20, 2006. FOR INFORMATION REGARDING THE ISSUE PRICE, THE YIELD TO MATURITY AND THE AMOUNT OF OID PER \$1,000 OF PRINCIPAL AMOUNT, PLEASE CONTACT THE COMPANY AT PNC FUNDING, ONE PNC PLAZA, 249 FIFTH AVENUE, PITTSBURGH, PENNSYLVANIA 15222-2707 TO THE ATTENTION OF THE SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER OF THE GUARANTOR.

PNC FUNDING CORP

**Floating Rate Exchangeable Senior Note due December 20, 2036
Guaranteed by The PNC Financial Services Group, Inc.**

No.: R -

CUSIP NUMBER: 693476 AX 1
ISIN NUMBER: US693476AX16

Principal Amount: \$

PNC Funding Corp., a Pennsylvania corporation, promises to pay to [Cede & Co.]* or registered assigns, [the principal amount of \$] [the principal amount as set forth on Schedule I hereto]*, on December 20, 2036, subject to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place. This Security is exchangeable as specified on the other side of this Security.

Interest Payment Dates: March 20, June 20, September 20 and December 20, commencing March 20, 2007.

Record Dates: March 1, June 1, September 1 and December 1 (whether or not a Business Day), commencing March 1, 2007.

PNC Funding Corp.,

by _____
Name:
Title:

by _____
Name:
Title:

* Include only on Global Security

For value received the Guarantor (which term includes any successor Person under the Indenture) unconditionally guarantees, to the extent set forth in the Indenture and subject to provisions in the Indenture dated as of December 20, 2006 (the “Indenture”) among PNC Funding, PNC Funding Services Group, Inc. (the “Guarantor”) and The Bank of New York, as trustee (the “Trustee”), (a) the due and punctual payment of the principal of, and the interest (including Liquidated Damages, if any) on the Securities, net of any taxes required to be withheld (as defined in the Indenture), whether at maturity, by acceleration, redemption or otherwise, and the due and punctual payment of interest on overdue principal, premium, if any and interest and Liquidated Damages, if any, on the Securities, if lawful (subject in all cases to any applicable grace period provided in the Indenture), and the due and punctual performance of all other obligations of the Company to the Holders or the Trustee all in accordance with the terms of the Indenture and the Securities and (b) in the case of any extension of time of payment or renewal of any Securities or any of such other obligations, the same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise. The obligations of the Guarantor to the Holders of Securities and to the Trustee pursuant to the Guarantee and the Indenture are expressly set forth in Article II of the Indenture and reference is hereby made to the Indenture for the precise terms of the Guarantee. Each Holder of Securities, by the same, (a) agrees to and shall be bound by such provisions and (b) appoints the Trustee attorney-in-fact of such Holder for such purpose.

IN WITNESS HEREOF, the Guarantor has caused the Guarantee to be signed by its duly authorized officers.

THE PNC FINANCIAL SERVICES GROUP, INC., as Guarantor,

by _____
Name:
Title:

by _____
Name:
Title:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Securities referred to in the within-mentioned Indenture.

THE BANK OF NEW YORK,
as Trustee,

by _____
Authorized Officer

Dated:

[FORM OF REVERSE SIDE OF NOTE]

PNC Funding Corp.

Floating Rate Exchangeable Senior Note due December 20, 2036

(1) Interest. The Company will pay interest on any overdue principal amount at the interest rate borne by the Securities at the time such interest on the overdue principal amount accrues, compounded quarterly.

This Security will bear interest at an annual rate equal to 3-month LIBOR, reset quarterly, minus 0.40%, and will initially bear interest at a rate of 4.96% provided that such rate shall never be less than 0% per annum. Interest will be payable quarterly in arrears on March 20, June 20, September 20 and December 20 of each year (each, an “Interest Payment Date”), subject to Section 2.05 of the Indenture, commencing March 20, 2007. The Company will pay interest on any overdue principal amount at the interest rate borne by the Floating Rate Exchangeable Senior Notes due December 29, 2036 (the “Securities”) at the time such interest on the overdue principal amount accrues, compounded quarterly, and it shall pay interest on overdue installments of interest (without regard to any applicable grace period), at the same interest rate, compounded quarterly. Interest (including Liquidated Damages, if any) on the Securities will be computed using the actual number of days elapsed between the LIBOR Rate Reset Dates divided by 360.

The Holders of the Securities shall be entitled to the benefits of the Registration Rights Agreement, including the right to receive Liquidated Damages in the event of Registration Defaults (as defined in the Registration Rights Agreement under Section 2(e) thereof), such Liquidated Damages to be payable at the same times and to the same Persons as regular interest is payable with respect to the Securities, it being understood that any reference in this Security to “interest” shall be deemed to include “Liquidated Damages” if then owing in accordance with the terms of the Registration Rights Agreement.

(2) Method of Payment. Subject to the terms and conditions of the Indenture, the Company will pay interest (including Liquidated Damages, if any) on this Security to the Person who is the registered Holder of this Security at the close of business on March 1, June 1, September 1 and December 1, whether or not a Business Day (each, a “Record Date”), as the case may be, immediately preceding the related Interest Payment Date provided that interest payable upon repurchase or redemption of this Security or at the Stated Maturity of principal (including any such date that is an Interest Payment Date) shall be paid to the Person to whom principal, the redemption price or repurchase price is payable). Subject to the terms and conditions of the Indenture, the Company will make all payments in respect of the Redemption Price, Repurchase Price, Change in Control Repurchase Price and the principal amount at Stated Maturity (including interest payable on the date such amounts are due), as the case may be, to the Holder who surrenders a Security to a Paying Agent to collect such payments in respect of the Security. The Company will pay cash amounts in money of

the United States that at the time of payment is legal tender for payment of public and private debts. Notwithstanding the foregoing, if a Holder is holding Securities in definitive form, the Company shall pay interest (including Liquidated Damages, if any), other than interest payable at the Stated Maturity of principal or on a Redemption Date, Repurchase Date or Change in Control Repurchase Date, by check mailed to such Holder. If a Holder is holding at least \$1,000,000 principal amount of Securities in definitive form, the Company may pay such interest by wire transfer provided that such Holder has notified the Trustee in writing at the Trustee's Corporate Trust Office, on or before the Record Date before the applicable Interest Payment Date, other than an Interest Payment Date at the Stated Maturity of principal or on a Redemption Date, Repurchase Date or Change in Control Repurchase Date, that such Holder chooses to have interest on such Holder's Securities payable on such Interest Payment Date and all subsequent Interest Payment Dates paid by wire transfer of immediately available funds to an account at a bank (that has facilities to receive wire transfers) in The City of New York, or in another city designated by such Holder and agreed to by the Company and the Trustee. Such payment method will apply until such Holder provides the Trustee written notice to the contrary. The Company shall pay the principal of and interest (including Liquidated Damages, if any) on any Security in definitive form that is due at the Stated Maturity of principal, the Redemption Date or Repurchase Date or Change in Control Repurchase Date in immediately available funds against presentation of such Security in definitive form at the Corporate Trust Office of the Trustee in The City of New York or at any other office or agency of the Trustee in The City of New York that the Trustee may designate to such Holder in writing; provided if any such payment is to be made by wire transfer, the Trustee must have received appropriate wire transfer instructions in writing from any Holder being so paid at least two Business Days prior to the relevant date.

(3) Paying Agent, Exchange Agent and Registrar. Initially, The Bank of New York as trustee under the Indenture (the "Trustee") will act as Paying Agent, Exchange Agent and Security Registrar. The Company may appoint and change any Paying Agent, Exchange Agent or Security Registrar without notice, other than notice to the Trustee; provided that the Company will maintain at least one Paying Agent having an office or agency in the State of New York, City of New York, Borough of Manhattan, which shall initially be an office or agency of the Trustee. The Company or any of its Subsidiaries or any of their Affiliates may act as Paying Agent, Exchange Agent or Security Registrar.

(4) Indenture. The Company issued the Securities under an Indenture dated as of December 20, 2006 (the "Indenture") among the Company, the Gurantor and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as in effect from time to time (the "TIA"). Capitalized terms used herein and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all such terms, and Holders are referred to the Indenture and the TIA for a statement of those terms.

The Securities are direct, unsubordinated, unsecured debt obligations of the Company. The Indenture does not limit other indebtedness of the Company, secured or unsecured.

(5) Redemption at the Option of the Company. No sinking fund is provided for the Securities. Beginning on December 26, 2007 and during the periods thereafter to maturity, the Securities are redeemable as a whole at any time, or in part from time to time, in any integral multiple of \$1,000, at the option of the Company for cash at a Redemption Price equal to 100% of the principal amount, together with accrued but unpaid interest (including Liquidated Damages, if any) thereon, up to but not including the Redemption Date.

Notice of redemption pursuant to paragraph 5 of this Security will be mailed at least 30 days but not more than 60 days before the Redemption Date to each Holder of Securities to be redeemed at the Holder's address appearing in the Security Register. If money sufficient to pay the Redemption Price of all Securities (or portions thereof) to be redeemed on the Redemption Date is deposited with the Paying Agent prior to 10:00 a.m., New York City time, on the Redemption Date, on and after such Redemption Date, interest (including Liquidated Damages, if any) shall cease to accrue on such Securities or portions thereof. Securities in denominations larger than \$1,000 of principal amount may be redeemed in part but only in integral multiples of \$1,000 of principal amount.

(6) Repurchase By the Company at the Option of the Holder on Specified Dates; Repurchase at the Option of the Holder Upon a Change in Control. Subject to the terms and conditions of the Indenture, the Company shall become obligated to repurchase, at the option of the Holder, on December 20, 2007, 2008, 2011, 2016, 2021, 2026 and 2031 (each, a "Repurchase Date"), all or a portion of the Securities held by such Holder, in any integral multiple of \$1,000, for cash at a price per Security equal to 100% of the aggregate principal amount of the Security (the "Repurchase Price"), together with accrued but unpaid interest (including Liquidated Damages, if any) thereon, up to but not including the Repurchase Date upon delivery of a Repurchase Notice containing the information set forth in the Indenture, together with the Securities subject thereto and upon delivery of the Securities to the Paying Agent by the Holder as set forth in the Indenture.

The Company shall provide notice of the Repurchase Date no more than two weeks after December 20, 2006 and again on a date not less than 30 days prior to each Repurchase Date.

At the option of the Holder and subject to the terms and conditions of the Indenture, the Company shall become obligated to repurchase the Securities held by such Holder after the occurrence of a Change in Control of the Company for a Change in Control Repurchase Price equal to 100% of the principal amount thereof plus accrued but unpaid interest (including Liquidated Damages, if any) thereon, up to but not including the Change in Control Repurchase Date which Change in Control Repurchase Price shall be paid in cash. Holders have the right to withdraw any Repurchase Notice or Change in

Control Repurchase Notice, as the case may be, by delivering to the Paying Agent a written notice of withdrawal in accordance with the provisions of the Indenture.

If cash sufficient to pay the Repurchase Price or Change in Control Repurchase Price, as the case may be, and accrued but unpaid interest (including Liquidated Damages, if any) on all Securities or portions thereof to be repurchased as of the Repurchase Date or the Change in Control Repurchase Date, as the case may be, is held by the Paying Agent by 10:00 a.m., New York City time, on the Business Day immediately following the Repurchase Date or on or prior to the Change in Control Repurchase Date, interest (including Liquidated Damages, if any) shall cease to accrue on such Securities (or portions thereof) as of such Repurchase Date or Change in Control Repurchase Date, and the Holder thereof shall have no other rights as such, other than the right to receive the Repurchase Price or Change in Control Repurchase Price, as the case may be, and interest (including Liquidated Damages, if any) upon surrender of such Security.

(7) Exchange. A Holder of an Security may exchange any portion of the principal amount of any Security define that is an integral multiple of \$1,000 for cash and fully paid and non-assessable shares (calculated as to each exchange to the nearest 1/10000th of a share) of Common Stock in accordance with the provisions of Article V of the Indenture (including the Company's right to settle a percentage of each Daily Share Amount in cash, as described below); provided that if such Security is called for redemption, the exchange right will terminate at the close of business on the second Business Day immediately preceding the Redemption Date of such Security (unless the Company shall default in making the redemption payment when due, in which case the exchange right shall terminate at the close of business on the date such Default is cured and such Security is redeemed). Such exchange right shall commence on the initial issuance date of the Securities and expire at the close of business on the date of maturity, subject, in the case of exchange of any Global Security, to any Applicable Procedures. The Exchange Price shall, as of the date of the Indenture, initially be \$128.5545 per share of Common Stock. The Exchange Rate shall be the number of shares of date of the Indenture referred to above equal to \$1,000 divided by the applicable Exchange Price. The Exchange Price and Exchange Rate will be adjusted under the circumstances specified in the Indenture. Upon exchange, no adjustment for interest (including Liquidated Damages, if any) or dividends will be made. No fractional shares will be issued upon exchange; in lieu thereof, an amount will be paid in cash based upon the Common Stock Price on the last day of the applicable Observation Period. The Company has the right to settle a percentage of each Daily Share Amount in cash in lieu of delivering Company Stock, as described below. Delivery of the shares of Common Stock and cash (including cash in lieu of fractional shares) shall be deemed to satisfy the Company's obligation to pay the principal amount of a exchanged Security and accrued but unpaid interest (including Liquidated Damages, if any) thereon. Any accrued interest (including Liquidated Damages, if any) payable on a exchanged Security will be deemed paid in full, rather than canceled, extinguished or forfeited.

In addition, following certain corporate transactions that occur on or prior to December 20, 2007 and that constitute a Change in Control (other than relating to the

composition of the Guarantor's Board of Directors as described in clause (iv) of the definition of Change in Control in Section 1.01) and for which 10% or more of the fair market value of the consideration for the Common Stock (as determined by the Company's Board of Directors) in the corporate transaction consists of (i) cash, (ii) other property or (iii) securities that are not traded or scheduled to be traded immediately following such transaction on a U.S. national securities exchange or the Nasdaq National Market System, a Holder who elects to exchange its Securities in connection with such corporate transaction will be entitled to receive Additional Shares of Common Stock upon exchange in certain circumstances (it being understood that a Holder of Securities electing to exchange its Securities pursuant to Section 5.01(b) of the Indenture referred to above shall provide the Exchange Agent with a notice as contemplated by Section 5.02 of the Indenture).

As provided in the Indenture, to exchange an Security, a Holder must (a) complete and manually sign the exchange notice set forth below and deliver such notice to the Exchange Agent, (b) surrender the Security to the Exchange Agent, (c) furnish appropriate endorsements and transfer documents if required by the Registrar or the Exchange Agent, (d) pay any transfer or other tax, if required and (e) if the Security is held in book-entry form, complete and deliver to the Depositary appropriate instructions pursuant to the Applicable Procedures. If a Holder surrenders an Security for exchange between the close of business on the Record Date and the opening of business on the related Interest Payment Date; provided that such Interest Payment Date is an Interest Payment Date the interest due on which is payable to the Holder as of the preceding Record Date, the Security must be accompanied by payment of an amount equal to the interest (including Liquidated Damages, if any) payable on such Interest Payment Date on the principal amount of the Security or portion thereof then exchanged; provided that no such payment shall be required if such Security has been called for redemption on a Redemption Date within the period between the close of business on such Record Date and the opening of business on such Interest Payment Date, or if such Security is surrendered for exchange on the Interest Payment Date or is being redeemed on such Interest Payment Date or if such Interest Payment Date is the Stated Maturity of the principal of the Securities. A Holder may exchange a portion of an Security equal to \$1,000 or any integral multiple thereof.

An Security in respect of which a Holder has delivered a Repurchase Notice or a Change of Control Repurchase Notice exercising the option of such Holder to require the Company to repurchase such Security as provided in Section 3.02 or Section 3.03, respectively, of the Indenture may be exchanged only if such notice of exercise is withdrawn in accordance with the terms of the Indenture.

By the close of business on the Business Day prior to the first Trading Day of the Observation Period, the Company may specify a percentage of each Daily Share Amount that will be settled in cash (the "Cash Percentage") and will notify the Holder of such Cash Percentage through written notice to the Trustee (the "Cash Percentage Notice"). If the Company elects to specify a Cash Percentage, (x) the amount of cash that the Company will deliver in lieu of all or an applicable portion of the Daily Share Amount in respect of each Trading Day in the Observation Period will equal the product

of: (i) the Cash Percentage, (ii) the Daily Share Amount for such Trading Day (assuming for this purpose the Company has not specified a Cash Percentage) and (iii) the daily Common Stock price for such Trading Day, and (y) the number of shares of Common Stock deliverable in respect of each Trading Day in the Observation Period (in lieu of the full Daily Share Amount for such Trading Day) will be a percentage of the Daily Share Amount (assuming the Company has not specified a Cash Percentage) equal to 100% minus the Cash Percentage.

If the Company does not specify a Cash Percentage by the close of business on the Trading Day prior to the first scheduled Trading Day of the Observation Period, the Company shall settle 100% of the Daily Share Amount for each Trading Day in the Observation Period with shares of Common Stock; provided, however, that the Company shall pay cash in lieu of fractional shares otherwise issuable upon exchange of such Note. The Company may, at its option, revoke any Cash Percentage Notice through written notice to the Trustee which must be given by the close of business on the Business Day prior to the first Scheduled Trading Day of the Observation Period.

(8) Denominations; Transfer; Exchange. The Securities are in fully registered form, without coupons, in denominations of \$1,000 of principal amount and integral multiples of \$1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. The Security Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Security Registrar need not transfer or exchange any Securities selected for redemption (except, in the case of an Security to be redeemed in part, the portion of the Security not to be redeemed), or any Securities in respect of which a Repurchase Notice or a Change in Control Repurchase Notice has been given and not withdrawn (except, in the case of an Security to be repurchased in part, the portion of the Security not to be repurchased), or any Securities for a period of 15 days before the mailing of a Notice of Redemption of Securities to be redeemed.

(9) Persons Deemed Owners. The registered Holder of this Security may be treated as the owner of this Security for all purposes.

(10) Amendment; Waiver. Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Securities may be amended with the written consent of the Holders of at least a majority in aggregate principal amount of the Securities at the time outstanding and (ii) certain Defaults may be waived with the written consent of the Holders of a majority in aggregate principal amount of the Securities at the time outstanding. Subject to certain exceptions set forth in the Indenture, without the consent of any Holder, the Company and the Trustee may amend the Indenture or the Securities, among other things, (i) to cure any ambiguity, omission, defect or inconsistency, or make any other change that does not adversely affect the rights of any Holder of Securities in any material respect, (ii) to evidence and provide for the acceptance of appointment under the Indenture by a successor Trustee, or (iii) to comply with the provisions of the TIA or any requirement of the Commission in connection with the qualification of the Indenture under the TIA, in each case as set forth in the Indenture.

(11) Defaults and Remedies. As set forth in the Indenture, if an Event of Default occurs and is continuing, the Trustee may, and at the written request of the Holders of not less than 25% in principal amount of Securities then Outstanding shall, declare the principal of and accrued but unpaid interest (including Liquidated Damages, if any) of all the Securities to be due and payable in the manner, at the time and with the effect provided in the Indenture. Holders of Securities may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee is not obligated to enforce the Indenture or the Securities unless it has received security or indemnity reasonably satisfactory to it. The Indenture permits, subject to certain limitations therein provided, Holders of a majority in aggregate principal amount of the Securities at the time outstanding to direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders of Securities notice of any continuing Default or Event of Default (except a default in payment of principal or interest when due, for any reason) if it determines in good faith that withholding notice is in the interests of Holders.

(12) Trustee Dealings with the Company. Subject to certain limitations imposed by the TIA, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with and collect obligations owed to it by the Company or its Affiliates and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee.

(13) No Recourse Against Others. A director, officer, employee or shareholder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting an Security, each Holder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

(14) Ranking. The Securities shall be the direct, unsubordinated, unsecured obligations of the Company and shall rank *pari passu* among themselves and with all of the Company's existing and future direct, unsubordinated, unsecured indebtedness from time to time outstanding.

(15) Authentication. This Security shall not be valid until an authorized signatory of the Trustee manually signs the Trustee's Certificate of Authentication on the other side of this Security.

(16) Abbreviations. Customary abbreviations may be used in the name of a Holder or an assignee, such as TEN COM ("Tenants In Common"), TEN ENT ("Tenants By The Entireties"), JT TEN ("Joint Tenants With Right Of Survivorship And Not As Tenants In Common"), CUST ("Custodian") and U/G/M/A ("Uniform Gift To Minors Act").

(17) Governing Law. THIS SECURITY AND THE INDENTURE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE

(18) CUSIP Numbers. Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Company has caused CUSIP numbers to be printed on the Securities as a convenience to the Holders of the Securities. No representation is made as to the accuracy of such numbers as printed on the Securities and reliance may be placed only on the other identification numbers printed hereon.

(19) Conflicts with Indenture. In the event of any conflict, inconsistency or ambiguity between any provision set forth in this Security and any provision of the Indenture, the Indenture shall control.

(20) Guarantee. The Guarantor has unconditionally guaranteed, to the extent set forth in the Indenture and subject to provisions in the Indenture (a) the due and punctual payment of the principal of, and the interest (including Liquidated Damages, if any) on the Securities, net of any taxes required to be withheld (as defined in the Indenture), whether at maturity, by acceleration, redemption or otherwise, and the due and punctual payment of interest on overdue principal, premium, if any and interest and Liquidated Damages, if any, on the Securities, if lawful (subject in all cases to any applicable grace period provided in the Indenture), and the due and punctual performance of all other obligations of the Company to the Holders or the Trustee all in accordance with the terms of the Indenture and the Securities and (b) in the case of any extension of time of payment or renewal of any Securities or any of such other obligations, the same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise. The obligations of the Guarantor to the Holders of Securities and to the Trustee pursuant to the Guarantee and the Indenture are expressly set forth in Article II of the Indenture and reference is hereby made to the Indenture for the precise terms of the Guarantee. Each Holder of Securities, by the same, (a) agrees to and shall be bound by such provisions and (b) appoints the Trustee attorney-in-fact of such Holder for such purpose.

ASSIGNMENT FORM

To assign this Security, fill in the form below:

I or we assign and transfer this Security to _____

(Insert assignee's soc. sec. or tax ID no.) _____

(Print or type assignee's name, address and zip code) _____

and irrevocably appoint _____ agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

Date: _____

Your Signature: _____

(Sign exactly as your name appears on the other side of this Security)

Signature Guaranteed

Participant in a Recognized Signature

GuaranteeMedallion Program

By: _____

Authorized Signatory

EXCHANGE NOTICE

To exchange this Security for Cash and Common Stock of the Company, check the box ☐

To exchange only part of this Security, state the principal amount to be exchanged (which must be \$1,000 or an integral multiple of \$1,000):

If you want the stock certificate made out in another person's name fill in the form below:

(Insert the other person's soc. sec. or tax ID no.)

(Print or type other person's name, address and zip code)

Date: _____

Your Signature: _____

(Sign exactly as your name appears on the other side of this Security)

Signature Guaranteed

Participant in a Recognized Signature

GuaranteeMedallion Program

By: _____

Authorized Signatory

FORM OF REPURCHASE NOTICE

To: PNC Funding Corp

The undersigned registered holder of this Security requests and instructs the Company to repurchase this Security, or the portion hereof (which is \$1,000 principal amount or a multiple thereof) designated below, on the date specified below, in accordance with the terms and conditions referred to in this Security and the Indenture referred to in this Security and directs that the check in payment for this Security or the portion thereof and any Securities representing the portion of principal amount hereof not to be so repurchased, be issued and delivered to the registered holder hereof unless a different name has been indicated below. If any portion of this Security not repurchased is to be issued in the name of a Person other than the undersigned, the undersigned shall pay all transfer taxes payable with respect thereto.

Dated:

Signature(s)

Fill in for registration of Securities not repurchased if to be issued other than to and in the name of registered holder:

(Name)

(Street Address)

(City, state and zip code)

Please print name and address

principal amount to be repurchased (if less than all): \$__000

date of requested repurchase: _____, 20__

(specify either 2007, 2008, 2011, 2016, 2021, 2026 or 2031)

**FORM OF OPTION TO ELECT REPURCHASE
UPON A CHANGE IN CONTROL**

To: PNC Funding Corp

The undersigned registered holder of this Security hereby acknowledges receipt of a notice from PNC Funding Corp as to the occurrence of a Change in Control with respect to The PNC Financial Services Group and requests and instructs the Company to repurchase this Security, or the portion hereof (which is \$1,000 principal amount or a multiple thereof) designated below, in accordance with the terms of this Security and the Indenture referred to in this Security and directs that the payment for this Security or the portion thereof and any Securities representing any unrepurchased principal amount hereof, be issued and delivered to the registered holder hereof unless a different name has been indicated below. If any portion of this Security not repurchased is to be issued in the name of a Person other than the undersigned, the undersigned shall pay all transfer taxes payable with respect thereto.

Dated:

Signature(s)

Fill in for registration of Securities not repurchased if to be issued other than to and in the name of registered holder:

(Name)

(Street Address)

(City, state and zip code)

Please print name and address

principal amount to be repurchased (if less than all): \$__000

SCHEDULE I*

PNC FUNDING CORP.

Floating Rate Exchangeable Senior Notes due December 20, 2036

No.:

Date

Principal Amount

Notation

- Include only on Global Security

TRANSFER CERTIFICATE

In connection with any transfer of any of the Securities within the period prior to the expiration of the holding period applicable to the sales thereof under Rule 144(k) under the Securities Act of 1933, as amended (the "Securities Act") (or any successor provision), the undersigned registered owner of this Security hereby certifies with respect to \$_____ principal amount of the above-captioned Securities presented or surrendered on the date hereof (the "Surrendered Securities") for registration of transfer, or for exchange where the securities deliverable upon such exchange are to be registered in a name other than that of the undersigned registered owner (each such transaction being a "transfer"), that such transfer complies with the restrictive legend set forth on the face of the Surrendered Securities for the reason checked below:

- ☐ The transfer of the Surrendered Securities complies with Rule 144A under the U.S. Securities Act of 1933, as amended (the "Securities Act"); or
- ☐ The transfer of the Surrendered Securities is pursuant to an exemption from the registration requirement of the Securities Act provided by Rule 144 thereunder; or
- ☐ The transfer of the Surrendered Securities is to an institutional investor that is an "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act; or
- ☐ The transfer of the Surrendered Securities is pursuant to an effective registration statement under the Securities Act; or
- ☐ The transfer of the Surrendered Securities is made to the Company or any of its subsidiaries.

The undersigned confirms that, to the undersigned's knowledge, such Securities are not being transferred to an "affiliate" of the Company as defined in Rule 144 under the Securities Act (an "Affiliate").

Date:

Signature(s)

(If the registered owner is a corporation, partnership or fiduciary, the title of the Person signing on behalf of such registered owner must be stated.)

Signature Guaranteed

Participant in a Recognized Signature
Guarantee Medallion Program

By: _____
Authorized Signatory

FORM OF ACCREDITED INVESTOR CERTIFICATE

[DATE]

PNC Funding Corp
Attn: Senior Vice President and Chief Financial Officer
One PNC Plaza
249 Fifth Avenue
Pittsburgh, PA 15222-2027

Ladies and Gentlemen:

We are delivering this letter in connection with the proposed transfer of \$_____ of Floating Rate Exchangeable Senior Notes due December 20, 2036 (the "Securities") of PNC Funding Corp (the "Company"), as described in the Offering Circular dated December 20, 2006 (the "Offering Circular") relating to the Securities.

We hereby confirm that:

1. We are an institutional "accredited investor" (as defined in Rule 501(a) (1), (2), (3) or (7) of Regulation D under the Securities Act of 1933, as amended (the "Securities Act")), or an entity in which all of the equity owners are institutional "accredited investors" within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act ("Institutional Accredited Investors"), and have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of our investment in the Securities, and we and any accounts for which we are acting are each able to bear the economic risks of our or their investment. We will acquire Securities having a minimum principal amount of not less than \$100,000 for our own account or for any accounts for which we are acting.
2. We are acquiring the Securities for our own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which we exercise sole investment discretion.
3. We are not acquiring the Securities with a view to distribution thereof or with any present intention of offering or selling the Securities or the shares of Common Stock of The PNC Financial Services Group, Inc. (the "Guarantor") issuable upon exchange thereof (the "Underlying Shares"), except as permitted below; provided that the disposition of our property and the property of any accounts for which we are acting as fiduciary shall remain at all times within our control.
4. We understand that any subsequent transfer of the Securities and the Underlying Shares is subject to certain restrictions and conditions set forth in the indenture relating to the Securities and the undersigned agrees to be bound by, and not to resell, pledge or otherwise transfer the Securities or the Underlying Shares except in compliance with such restrictions and conditions and the Securities Act.

5. We understand that the offer and sale of neither the Securities nor the Underlying Shares have been or will be registered under the Securities Act, and that neither the Securities nor the Underlying Shares may be offered or sold except as permitted in the following sentence. We agree, on our own behalf and on behalf of any accounts for which we are acting as hereinafter stated, that if we should sell any Securities or Underlying Shares, we will do so only (i) to a person whom we reasonably believe is a qualified institutional buyer, as such term is defined in Rule 144A (a “QIB”), acquiring for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (ii) subject to the requirements of the indenture relating to the Securities, pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), (iii) to an institutional investor that is an “accredited investor” as such term is defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act pursuant to an exemption from registration under the Securities Act (if available), (iv) pursuant to an effective registration statement under the Securities Act or (v) to the Company, Guarantor or any of their subsidiaries, in each of cases (i) through (v) in accordance with any applicable securities laws of any state of the United States and other jurisdictions, and we further agree to provide to any person purchasing any of the Securities or Underlying Shares from us a notice advising such purchaser that resales of the Securities and Underlying Shares are restricted as stated herein.

6. We understand that, on any proposed transfer of any Securities or Underlying Shares, we will be required to furnish to the Company and the trustee for the Securities (the “Trustee”) such certificates, legal opinions and other information as the Company, the Guarantor or the Trustee may reasonably require to confirm that the proposed transfer complies with the foregoing restrictions. We further understand that the Securities and Underlying Shares purchased by us will be in certificated form and will bear a legend to the foregoing effect.

Each of the Company, the Guarantor, the Trustee and the initial purchaser of the Securities is entitled to rely upon this letter and is irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

(Name of Purchaser)

By: _____

Name: _____

Title: _____

Address: _____

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SCHEDULE A

The following table sets forth the hypothetical Share Price and the number of Additional Shares to be received per \$1,000 principal amount of Securities:

| Effective Date of Change in Control | Stock Price | | | | | | | | | | | | | |
|-------------------------------------|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 73.46 | 75.00 | 80.00 | 85.00 | 90.00 | 95.00 | 100.00 | 110.00 | 120.00 | 130.00 | 150.00 | 200.00 | 250.00 | 300.00 |
| December 20, 2006 | 5.8341 | 5.5546 | 4.7212 | 3.9859 | 3.3323 | 2.7475 | 2.2212 | 1.3691 | 0.8262 | 0.4767 | 0.1503 | 0.0058 | 0.0000 | 0.0000 |
| March 20, 2007 | 5.8341 | 5.5546 | 4.7212 | 3.9859 | 3.3323 | 2.7475 | 2.2212 | 1.3129 | 0.7524 | 0.4033 | 0.1098 | 0.0041 | 0.0000 | 0.0000 |
| June 20, 2007 | 5.8341 | 5.5546 | 4.7212 | 3.9859 | 3.3323 | 2.7475 | 2.2212 | 1.3121 | 0.6655 | 0.3134 | 0.0662 | 0.0026 | 0.0000 | 0.0000 |
| September 20, 2007 | 5.8341 | 5.5546 | 4.7212 | 3.9859 | 3.3323 | 2.7475 | 2.2212 | 1.3121 | 0.5572 | 0.1947 | 0.0251 | 0.0010 | 0.0000 | 0.0000 |
| December 20, 2007 | 5.8341 | 5.5546 | 4.7212 | 3.9859 | 3.3323 | 2.7475 | 2.2212 | 1.3121 | 0.5546 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |

The share prices and additional share amounts set forth above are based upon a PNC Common Share price of \$73.46 at December 14, 2006 and an initial exchange price of \$128.5545.

Schedule A-1

FORM T-1

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF ELIGIBILITY
UNDER THE TRUST INDENTURE ACT OF 1939 OF A
CORPORATION DESIGNATED TO ACT AS TRUSTEE

CHECK IF AN APPLICATION TO DETERMINE
ELIGIBILITY OF A TRUSTEE PURSUANT TO
SECTION 305(b)(2)

THE BANK OF NEW YORK

(Exact name of trustee as specified in its charter)

New York

(State of incorporation
if not a U.S. national bank)

13-5160382

(I.R.S. employer
identification no.)

One Wall Street, New York, N.Y.

(Address of principal executive offices)

10286

(Zip code)

THE PNC FINANCIAL SERVICES GROUP, INC.
PNC FUNDING CORP

(Exact name of obligor as specified in its charter)

Pennsylvania

(State of incorporation
if not a U.S. national bank)

25-1234372

25-1234372
(I.R.S. employer
identification no.)

One PNC Plaza

249 Fifth Avenue

Pittsburgh, Pennsylvania

(Address of principal executive offices)

15222-2707

(Zip code)

Convertible Debt Securities of PNC Funding
Guaranteed by The PNC Financial Services Group, Inc.
(Title of the indenture securities)

1. General information. Furnish the following information as to the Trustee:

(a) Name and address of each examining or supervising authority to which it is subject.

| Name | Address |
|---|---|
| Superintendent of Banks of the State of New York | One State Street, New York, N.Y. 10004-1417, and Albany, N.Y. 12223 |
| Federal Reserve Bank of New York | 33 Liberty Street, New York, N.Y. 10045 |
| Federal Deposit Insurance Corporation | Washington, D.C. 20429 |
| New York Clearing House Association | New York, New York 10005 |

(b) Whether it is authorized to exercise corporate trust powers.

Yes.

2. Affiliations with Obligor.

If the obligor is an affiliate of the trustee, describe each such affiliation.

None.

16. List of Exhibits.

Exhibits identified in parentheses below, on file with the Commission, are incorporated herein by reference as an exhibit hereto, pursuant to Rule 7a-29 under the Trust Indenture Act of 1939 (the "Act") and 17 C.F.R. 229.10(d).

1. A copy of the Organization Certificate of The Bank of New York (formerly Irving Trust Company) as now in effect, which contains the authority to commence business and a grant of powers to exercise corporate trust powers. (Exhibit 1 to Amendment No. 1 to Form T-1 filed with Registration Statement No. 33-6215, Exhibits 1a and 1b to Form T-1 filed with Registration Statement No. 33-21672, Exhibit 1 to Form T-1 filed with Registration Statement No. 33-29637 and Exhibit 1 to Form T-1 filed with Registration Statement No. 333-121195.)
4. A copy of the existing By-laws of the Trustee. (Exhibit 4 to Form T-1 filed with Registration Statement No. 333-121195.)
6. The consent of the Trustee required by Section 321(b) of the Act. (Exhibit 6 to Form T-1 filed with Registration Statement No. 333-106702.)

-
7. A copy of the latest report of condition of the Trustee published pursuant to law or to the requirements of its supervising or examining authority.

SIGNATURE

Pursuant to the requirements of the Act, the Trustee, The Bank of New York, a corporation organized and existing under the laws of the State of New York, has duly caused this statement of eligibility to be signed on its behalf by the undersigned, thereunto duly authorized, all in The City of New York, and State of New York, on the 2nd **day of August, 2007**.

THE BANK OF NEW YORK

By /s/ Francine Springer-Kincaid
/s/ Francine Springer-Kincaid
Vice President

Consolidated Report of Condition of

THE BANK OF NEW YORK

of One Wall Street, New York, N.Y. 10286

And Foreign and Domestic Subsidiaries,

a member of the Federal Reserve System, at the close of business March 31, 2007, published in accordance with a call made by the Federal Reserve Bank of this District pursuant to the provisions of the Federal Reserve Act.

| ASSETS | Dollar Amounts In Thousands |
|---|--------------------------------|
| Cash and balances due from depository institutions: | |
| Noninterest-bearing balances and currency and coin | 1,859,000 |
| Interest-bearing balances | 12,315,000 |
| Securities: | |
| Held-to-maturity securities | 1,572,000 |
| Available-for-sale securities | 20,948,000 |
| Federal funds sold and securities purchased under agreements to resell: | |
| Federal funds sold in domestic offices | 491,000 |
| Securities purchased under agreements to resell | 153,000 |
| Loans and lease financing receivables: | |
| Loans and leases held for sale | 0 |
| Loans and leases, net of unearned income | 31,479,000 |
| LESS: Allowance for loan and lease losses | 289,000 |
| Loans and leases, net of unearned income and allowance | 31,190,000 |
| Trading assets | 3,171,000 |
| Premises and fixed assets (including capitalized leases) | 844,000 |
| Other real estate owned | 2,000 |
| Investments in unconsolidated subsidiaries and associated companies | 340,000 |
| Not applicable | |
| Intangible assets: | |
| Goodwill | 2,714,000 |
| Other intangible assets | 966,000 |

| | |
|---|-------------------|
| Other assets | 7,043,000 |
| Total assets | <u>83,608,000</u> |
| LIABILITIES | |
| Deposits: | |
| In domestic offices | 26,775,000 |
| Noninterest-bearing | 16,797,000 |
| Interest-bearing | 9,978,000 |
| In foreign offices, Edge and Agreement subsidiaries, and IBFs | 33,309,000 |
| Noninterest-bearing | 702,000 |
| Interest-bearing | 32,607,000 |
| Federal funds purchased and securities sold under agreements to repurchase: | |
| Federal funds purchased in domestic offices . | 712,000 |
| Securities sold under agreements to repurchase | 129,000 |
| Trading liabilities | 2,321,000 |
| Other borrowed money: (includes mortgage indebtedness and obligations under capitalized leases) | 3,621,000 |
| Not applicable | |
| Not applicable | |
| Subordinated notes and debentures | 2,255,000 |
| Other liabilities | <u>5,933,000</u> |
| Total liabilities | <u>75,055,000</u> |
| Minority interest in consolidated subsidiaries | 161,000 |
| EQUITY CAPITAL | |
| Perpetual preferred stock and related surplus | 0 |
| Common stock | 1,135,000 |
| Surplus (exclude all surplus related to preferred stock) | 2,143,000 |
| Retained earnings | 5,430,000 |
| Accumulated other comprehensive income | -316,000 |
| Other equity capital components | 0 |
| Total equity capital | <u>8,392,000</u> |
| Total liabilities, minority interest, and equity capital | <u>83,608,000</u> |

I, Thomas P. Gibbons, Chief Financial Officer of the above-named bank do hereby declare that this Report of Condition is true and correct to the best of my knowledge and belief.

Thomas P. Gibbons,
Chief Financial Officer

We, the undersigned directors, attest to the correctness of this statement of resources and liabilities. We declare that it has been examined by us, and to the best of our knowledge and belief has been prepared in conformance with the instructions and is true and correct.

Thomas A. Renyi
Gerald L. Hassell
Catherine A. Rein

Directors