UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

or

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer X Accelerated filer __ Non-accelerated filer __Smaller reporting company __

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

As of July 31, 2008, there were 346,497,190 shares of the registrant's common stock ($5 par value) outstanding.

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THE PNC FINANCIAL SERVICES GROUP, INC.

Dollars in millions, except per share data Unaudited	Three months ended June 30 2008	2007	Six months ended June 30 2008	2007
FINANCIAL PERFORMANCE (a)				
Revenue				
Net interest income	**$ 977**	$ 738	**$ 1,831**	$ 1,361
Noninterest income	**1,062**	975	**2,029**	1,966
Total revenue	**$2,039**	$1,713	**$ 3,860**	$ 3,327
Noninterest expense	**$1,115**	$1,040	**$ 2,157**	$ 1,984
Net income	**$ 505**	$ 423	**$ 882**	$ 882
Per common share				
Diluted earnings	**$ 1.45**	$ 1.22	**$ 2.54**	$ 2.67
Cash dividends declared	**$ .66**	$ .63	**$ 1.29**	$ 1.18
SELECTED RATIOS				
Net interest margin (b)	**3.47%**	3.03%	**3.28%**	3.00%
Noninterest income to total revenue	**52**	57	**53**	59
Efficiency (c)	**55**	61	**56**	60
Return on				
Average common shareholders' equity	**13.99%**	11.61%	**12.32%**	13.39%
Average assets	**1.44**	1.38	**1.26**	1.54

See page 38 for a glossary of certain terms used in this Report.

Certain prior period amounts have been reclassified to conform with the current period presentation.

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

(b) Calculated as annualized taxable-equivalent net interest income divided by average earning assets. The interest income earned on certain earning 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 margins for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin 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 taxable-equivalent adjustments to net interest income for the three months ended June 30, 2008 and June 30, 2007 were $10 million and $8 million, respectively. The taxable-equivalent adjustments to net interest income for the six months ended June 30, 2008 and June 30, 2007 were $19 million and $14 million, respectively.

(c) Calculated as noninterest expense divided by total revenue.

Unaudited	June 30 2008	December 31 2007	June 30 2007
BALANCE SHEET DATA (dollars in millions, except per share data)			
Assets	**$142,771**	$ 138,920	$ 125,651
Loans, net of unearned income	**73,040**	68,319	64,714
Allowance for loan and lease losses	**988**	830	703
Securities available for sale	**31,032**	30,225	25,903
Loans held for sale	**2,288**	3,927	2,562
Goodwill and other intangibles	**9,928**	9,551	8,658
Equity investments	**6,376**	6,045	5,584
Deposits	**84,689**	82,696	77,221
Borrowed funds	**32,472**	30,931	24,516
Shareholders' equity	**15,108**	14,854	14,504
Common shareholders' equity	**14,602**	14,847	14,497
Book value per common share	**42.17**	43.60	42.36
Common shares outstanding (millions)	**346**	341	342
Loans to deposits	**86%**	83%	84%
ASSETS ADMINISTERED (billions)			
Managed	**$ 66**	$ 73	$ 77
Nondiscretionary	**111**	113	111
FUND ASSETS SERVICED (billions)			
Accounting/administration net assets	**$ 988**	$ 990	$ 868
Custody assets	**471**	500	467
CAPITAL RATIOS			
Tier 1 risk-based (a)	**8.2%**	6.8%	8.3%
Total risk-based (a)	**11.9**	10.3	11.8
Leverage (a)	**7.3**	6.2	7.3
Tangible common equity	**4.3**	4.7	5.5
Common shareholders' equity to assets	**10.2**	10.7	11.5
ASSET QUALITY RATIOS			
Nonperforming loans to total loans	**.95%**	.66%	.36%
Nonperforming assets to total loans and foreclosed assets	**1.00**	.72	.40
Nonperforming assets to total assets	**.51**	.36	.21
Net charge-offs to average loans (for the three months ended)	**.62**	.49	.20
Allowance for loan and lease losses to loans	**1.35**	1.21	1.09
Allowance for loan and lease losses to nonperforming loans	**142**	183	303

(a) The regulatory minimums are 4.0% for Tier 1, 8.0% for Total, and 4.0% 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 2007 Annual Report on Form 10-K ("2007 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 2007 Form 10-K and Item 1A included in Part II of this Report. 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 historical performance and those anticipated in the forward-looking statements included in this Report. See Note 16 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 investment servicing. 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 investment servicing internationally.

KEY STRATEGIC GOALS

We manage our company for the long term by focusing on maintaining a moderate risk profile, investing in our markets and products, and embracing our corporate responsibility to the communities where we do business.

Our strategy to enhance shareholder value centers on driving positive operating leverage by achieving growth in revenue from our balance sheet and 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 offering convenient banking options and leading technology solutions, providing a broad range of fee-based products and services, focusing on customer service, and through a significantly enhanced branding initiative. We may also grow revenue through appropriate and targeted acquisitions and, in certain businesses, by expanding into new geographical markets.

We are focused on our strategies for growth. We remain committed to maintaining a moderate risk profile characterized by disciplined credit management 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 well-positioned and strong balance sheet, ample liquidity and investment flexibility to adjust, where appropriate, to changing interest rates and market conditions. We continue to be disciplined in investing capital in our businesses while returning a portion to shareholders through dividends and share repurchases when appropriate.

RECENT ACQUISITION AND DIVESTITURE ACTIVITY

On April 4, 2008, we acquired Lancaster, Pennsylvania-based Sterling Financial Corporation ("Sterling") for approximately 4.6 million shares of PNC common stock and $224 million in cash. Sterling was a banking and financial services company with approximately $3.2 billion in assets, $2.7 billion in deposits, and 65 branches in south-central Pennsylvania, northern Maryland and northern Delaware.

As previously reported, on March 31, 2008, we sold J.J.B. Hilliard, W.L. Lyons, LLC ("Hilliard Lyons"), a Louisville, Kentucky-based wholly-owned subsidiary of PNC and a full-service brokerage and financial services provider, to Houchens Industries, Inc. We recognized an after-tax gain of $23 million in the first quarter of 2008 in connection with this divestiture. Business segment information for the periods presented in this report reflects the reclassification of results for Hilliard Lyons, including the gain on the sale of this business, from the Retail Banking business segment to "Other."

KEY FACTORS AFFECTING FINANCIAL PERFORMANCE

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

- General economic conditions,
- The level of, and direction, timing and magnitude of movement in interest rates, and the shape of the interest rate yield curve,
- The functioning and other performance of, and availability of liquidity in, the capital and other financial markets,
- Loan demand, utilization of credit commitments and standby letters of credit, and asset quality,
- Customer demand for other products and services,
- Movement of customer deposits from lower to higher rate accounts or to investment alternatives, and
- The impact of market credit spreads on asset valuations.

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Starting in the middle of 2007, and continuing at present, there has been significant turmoil and volatility in worldwide financial markets, accompanied by uncertain prospects for the overall national economy. Our performance for the remainder of 2008 will continue to be impacted by developments in these areas. In addition, our success in 2008 will depend, among other things, upon:

- Further success in the acquisition, growth and retention of customers,
- The successful integration of our recent acquisitions,
- Continued development of the markets related to our recent acquisitions, including full deployment of our product offerings,
- Revenue growth,
- A sustained focus on expense management and creating positive operating leverage,
- Maintaining solid overall asset quality,
- Prudent risk and capital management, and
- Actions we take within the capital and other financial markets.

SUMMARY FINANCIAL RESULTS

	Three months ended		Six months ended	
In millions, except per share data	**June 30 2008**	June 30 2007	**June 30 2008**	June 30 2007
Net income	**$ 505**	$ 423	**$ 882**	$ 882
Diluted earnings per share	**$ 1.45**	$ 1.22	**$ 2.54**	$ 2.67
Return on				
Average common shareholders' equity	**13.99%**	11.61%	**12.32%**	13.39%
Average assets	**1.44%**	1.38%	**1.26%**	1.54%

Highlights of the second quarter of 2008 included the following:

- Net interest income grew 32% in the second quarter of 2008 compared with the second quarter of 2007 reflecting a significant decline in funding costs. The net interest margin expanded to 3.47% compared with 3.03% in the second quarter of 2007.
- Noninterest income increased 9% compared with the second quarter of 2007. Diversity of noninterest revenue continued to differentiate us.
- Net income for the second quarter of 2008 included an after-tax gain of $52 million, or $.15 per diluted share, on the mark to market of our BlackRock long-term incentive plan (LTIP) shares obligation and $24 million, or $.07 per diluted share, of after-tax integration costs.
- Average loans increased 15% and average deposits increased 7% in the second quarter of 2008 compared with the second quarter of 2007.
- Certain market risk positions were lowered during the second quarter via a reduction of commercial mortgage loans held for sale intended for securitization by approximately 23% and trading assets by approximately 22%, resulting in increased hedge coverage in connection with these activities.
- Overall asset quality continued to be manageable in a challenging credit environment. Coverage ratio of the allowance for loan and lease losses to total loans improved to 1.35% at June 30, 2008 from 1.21% at December 31, 2007.
- We continued to maintain a strong capital position. Our Tier 1 risk-based capital ratio increased to 8.2% at June 30, 2008 compared with 6.8% at December 31, 2007.

In addition, we created positive operating leverage by growing revenue while controlling noninterest expense. Revenue growth of 16% in the first half of 2008 compared with the same period in 2007 exceeded noninterest expense growth of 9% for the same periods.

Our Consolidated Income Statement Review section of this Financial Review describes in greater detail the various items that impacted our results for the second quarter and first half of 2008 and 2007.

BALANCE SHEET HIGHLIGHTS

Total assets were $142.8 billion at June 30, 2008 compared with $138.9 billion at December 31, 2007. Total average assets were $141.0 billion for the first six months of 2008 compared with $115.4 billion for the first six months of 2007. This increase reflected a $20.6 billion increase in average interest-earning assets and a $5.0 billion increase in average noninterest-earning assets. An increase of $12.2 billion in loans and a $5.8 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 2008 reflected an increase in average goodwill of $2.3 billion primarily related to the acquisition of Sterling on April 4, 2008, Yardville National Bancorp ("Yardville") on October 26, 2007 and Mercantile Bankshares Corporation ("Mercantile") on March 2, 2007.

The impact of the Sterling, Yardville and Mercantile acquisitions is also reflected in our year-over-year increases in average total loans, average securities available for sale and average total deposits described further below.

Average total loans were $71.1 billion for the first six months of 2008 and $58.8 billion in the first six months of 2007. The increase in average total loans included growth in commercial loans of $6.7 billion, consumer loans of $2.3 billion, residential mortgage loans of $1.7 billion and commercial real estate loans of $1.6 billion. Loans represented 63% of average interest-earning assets for the first six months of 2008 and 64% for the first six months of 2007.

Average securities available for sale totaled $30.7 billion for the first half of 2008 and $24.9 billion for the first half of 2007. Average residential and commercial mortgage-backed securities increased $4.6 billion on a combined basis in the comparison. In addition, asset-backed securities increased $.9 billion in the first six months of 2008 compared with the prior year six-month period. Securities available for sale comprised 27% of average interest-earning assets for the first six months of both 2008 and 2007.

Average total deposits were $82.8 billion for the first six months of 2008, an increase of $8.8 billion over the first six months of 2007. Average deposits grew from the prior year period primarily as a result of increases in money market balances, other time deposits, time deposits in foreign offices, and demand and other noninterest-bearing deposits.

Average total deposits represented 59% of average total assets for the first half of 2008 and 64% for the first half of 2007. Average transaction deposits were $54.1 billion for the first six months of 2008 compared with $49.2 billion for the first six months of 2007.

Average borrowed funds were $31.6 billion for the first six months of 2008 and $19.1 billion for the first six months of 2007. Increases of $8.8 billion in Federal Home Loan Bank borrowings, $1.8 billion in bank notes and senior debt and $1.4 billion in other borrowed funds drove the increase compared with the first half of 2007.

Shareholders' equity totaled $15.1 billion at June 30, 2008 compared with $14.9 billion at December 31, 2007. See the Consolidated Balance Sheet Review section of this Financial Review for additional information.

BUSINESS SEGMENT HIGHLIGHTS

Total business segment earnings were $663 million for the first six months of 2008 and $846 million for the first six months of 2007. Second quarter 2008 business segment earnings of $376 million decreased $58 million compared with the second quarter of 2007. Results for 2008 were impacted by a lower assigned revenue value for deposits in the current interest rate environment as well as the impact of net valuation adjustments on certain illiquid assets. Notwithstanding these factors, our business segments made significant progress in growing loans and deposits, adding customers and investing in products and services.

Highlights of results for the second quarter and first half of 2008 and 2007 are included below. The Business Segments Review section of this Financial Review includes further analysis of our business segment results over these periods.

We provide a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a GAAP basis in Note 16 Segment Reporting in the Notes To Consolidated Financial Statements in this Report.

Retail Banking

Retail Banking's earnings were $335 million for the first half of 2008 compared with $419 million for the first half of 2007. The 20% decline in earnings over the prior year was driven by increases in expenses and the provision for credit losses, partially offset by benefits from the first quarter 2008 gain related to the Visa initial public offering and the net benefits from acquisitions.

Retail Banking's earnings were $140 million for the second quarter of 2008 compared with $222 million for the same period in 2007. The decline from the prior year second quarter was driven by an increase in the provision for credit losses and lower net interest income.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $136 million in the first six months of 2008 compared with $254 million in the first six months of 2007. Earnings in 2008 were impacted by pretax valuation losses of $156 million on commercial mortgage loans and commitments held for sale, net of hedges, and increases in the provision for credit losses and noninterest expenses, partially offset by higher net interest income.

For the second quarter of 2008, earnings from Corporate & Institutional Banking totaled $134 million compared with $122 million for the second quarter of 2007. Higher earnings in the second quarter of 2008 reflected higher revenue partially offset by increases in the provision for credit losses and noninterest expense.

BlackRock

Our BlackRock business segment earned $129 million for the first six months of 2008, a 17% increase compared with $110 million for the first six months of 2007. Earnings from our BlackRock business segment totaled $69 million for the second quarter of 2008 compared with $58 million for the second quarter of 2007.

Global Investment Servicing

Our Global Investment Servicing business segment, formerly PFPC, earned $63 million for the first six months of both 2008 and 2007. Earnings from Global Investment Servicing totaled $33 million in the second quarter of 2008 compared with $32 million in the second quarter of 2007. In the quarter comparison, increases in servicing revenue resulting from the impact of acquisitions and growth in offshore operations were offset by higher operating expenses resulting from investments in technology, a larger employee base to support business growth and costs related to acquisitions.

Other

"Other" earnings for the first half of 2008 totaled $219 million compared with earnings of $36 million for the first half of 2007. The first quarter 2008 gain on the sale of Hilliard Lyons, higher gains from PNC's LTIP obligation in 2008, the first quarter 2008 partial reversal of the Visa indemnification liability and growth in net interest income related to asset and liability management activities, partially offset by lower trading results, drove the higher earnings in the comparison.

For the second quarter of 2008, "Other" earnings totaled $129 million compared with a net loss of $11 million in the second quarter of 2007. Higher earnings in the second quarter of 2008 were mainly due to higher net interest income and a net gain related to PNC's LTIP obligation compared with a net loss in the prior year quarter.

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CONSOLIDATED INCOME STATEMENT REVIEW

Our Consolidated Income Statement is presented in Part I, Item 1 of this Report. Net income for the first six months of both 2008 and 2007 was $882 million. Net income for the second quarter of 2008 was $505 million compared with net income of $423 million for the second quarter of 2007. Total revenue for the first six months of 2008 increased 16% compared with the first six months of 2007. We created positive operating leverage as total noninterest expense increased 9% in the comparison.

NET INTEREST INCOME AND NET INTEREST MARGIN

	Three months ended		Six months ended	
Dollars in millions	**June 30 2008**	June 30 2007	**June 30 2008**	June 30 2007
Net interest income	**$ 977**	$ 738	**$1,831**	$1,361
Net interest margin	**3.47%**	3.03%	**3.28%**	3.00%

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 the Statistical Information - Average Consolidated Balance Sheet And Net Interest Analysis section of this Report for additional information.

The 35% increase in net interest income for the first six months of 2008 compared with the first six months of 2007 was favorably impacted by the $20.6 billion, or 22%, increase in average interest-earning assets. Similarly, the 32% increase in net interest income for the second quarter of 2008 compared with the second quarter of 2007 reflected the $15.2 billion, or 15%, increase in average interest-earning assets over this period and a decrease in funding costs. Wider net interest margins also benefited the 2008 periods in both the second quarter and first half comparisons. 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 Financial Review.

We expect net interest income growth will exceed 28% for full year 2008 compared with 2007, assuming our current expectations for interest rates and economic conditions. We include our current economic assumptions underlying our forward-looking statements in the Cautionary Statement Regarding Forward-Looking Information section of this Financial Review.

The net interest margin was 3.28% for the first half of 2008 and 3.00% for the first half of 2007. The following factors impacted the comparison:

- A decrease in the rate paid on interest-bearing liabilities of 114 basis points. The rate paid on interest-bearing deposits, the single largest component, decreased 102 basis points.
- These factors were partially offset by a 58 basis point decrease in the yield on interest-earning assets. The yield on loans, the single largest component, decreased 79 basis points.
- In addition, the impact of noninterest-bearing sources of funding decreased 28 basis points due to lower interest rates and a lower proportion of noninterest-bearing sources of funding to interest-earning assets.

The net interest margin was 3.47% for the second quarter of 2008 and 3.03% for the second quarter of 2007. The following factors impacted the comparison:

- A decrease in the rate paid on interest-bearing liabilities of 151 basis points. The rate paid on interest-bearing deposits, the single largest component, decreased 132 basis points.
- These factors were partially offset by a 76 basis point decrease in the yield on interest-earning assets. The yield on loans, the single largest component, decreased 105 basis points.
- In addition, the impact of noninterest-bearing sources of funding decreased 31 basis points due to lower interest rates and a lower proportion of noninterest-bearing sources of funding to interest-earning assets.

For comparing to the broader market, during the first six months of 2008 the average federal funds rate was 2.62% compared with 5.25% for the first six months of 2007. The average federal funds rate was 2.09% for the second quarter of 2008 compared with 5.25% for the second quarter of 2007.

We believe that net interest margins for our industry will continue to be impacted by competition for high quality loans and deposits and customer migration from lower to higher rate deposit or other products. We expect our net interest margin to improve for full year 2008 compared with 2007, assuming our current expectations for interest rates and economic conditions.

NONINTEREST INCOME

Summary

Noninterest income totaled $2.029 billion for the first six months of 2008 compared with $1.966 billion for the first six months of 2007.

Noninterest income for the first half of 2008 included the following:

- Income from Hilliard Lyons totaling $164 million, including the first quarter gain of $114 million from the sale of this business,
- Gains of $120 million related to our BlackRock LTIP shares adjustment,
- A first quarter gain of $95 million related to the redemption of a portion of our Visa Class B common shares related to Visa’s March 2008 initial public offering,

- Equity management gains and net securities gains totaling $56 million,
- Valuation losses related to our commercial mortgage loans and commitments held for sale, net of hedges, of $156 million, and
- Trading losses of $23 million.

Noninterest income for the first half of 2007 included the following:
- Income from Hilliard Lyons totaling $113 million,
- Trading income of $81 million,
- A net gain related to our equity investment in BlackRock of $51 million, representing an $82 million gain recognized in connection with our transfer of BlackRock shares to satisfy a portion of our 2002 LTIP obligation, partially offset by a net mark-to-market loss totaling $31 million on our remaining BlackRock LTIP shares obligation, and
- Equity management gains and net securities losses netting to $32 million of gains.

Apart from the impact of these items, noninterest income increased $84 million, or 5%, for the first six months of 2008 compared with the first six months of 2007.

Noninterest income totaled $1.062 billion for the second quarter of 2008 compared with $975 million for the second quarter of 2007. The second quarter of 2008 included a gain of $80 million related to our BlackRock LTIP shares adjustment. In addition, the second quarter of 2007 included income from Hilliard Lyons of $58 million. Apart from the impact of these items, noninterest income increased $65 million, or 7%, in this comparison.

Additional Analysis

Fund servicing fees increased $50 million, to $462 million, in the first six months of 2008 compared with the first six months of 2007. Fund servicing fees totaled $234 million in the second quarter of 2008 compared with $209 million in the second quarter of 2007. The increases in both comparisons primarily resulted from the December 2007 acquisition of Albridge Solutions Inc. and growth in Global Investment Servicing's offshore operations.

Global Investment Servicing provided fund accounting/administration services for $988 billion of net fund investment assets and provided custody services for $471 billion of fund investment assets at June 30, 2008, compared with $868 billion and $467 billion, respectively, at June 30, 2007. Global Investment Servicing experienced both organic growth and growth from new business in each of its product areas.

Asset management fees totaled $409 million in the first half of 2008, an increase of $54 million compared with the first half of 2007. For the second quarter of 2008, asset management fees totaled $197 million compared with $190 million in the second quarter of 2007. Higher equity earnings from our BlackRock investment was reflected in both 2008 increases and our March 2007 acquisition of Mercantile impacted the six-month comparison. These factors more than offset the effect on fees of an $11 billion decrease in assets managed related to wealth management. Assets managed at June 30, 2008 totaled $66 billion compared with $77 billion at June 30, 2007. The decrease reflected the Hilliard Lyons sale and the impact of comparatively lower equity markets in the first six months of 2008.

Consumer services fees declined $17 million, to $319 million, for the first six months of 2008 compared with the first six months of 2007. For the second quarter of 2008, consumer services fees totaled $149 million compared with $179 million in the second quarter of 2007. In both comparisons, the sale of Hilliard Lyons more than offset the benefits of higher debit card and credit card revenues. The impact of expansion into new markets contributed to higher debit card revenue in the six-month comparison.

Corporate services revenue totaled $349 million in the first half of 2008 compared with $335 million in the first half of 2007. Corporate services revenue increased $9 million, to $185 million, in the second quarter of 2008 compared with the prior year quarter. Higher revenue from treasury management and third party consumer loan servicing activities, partially offset by lower revenue related to merger and acquisition advisory fees, were the primary factors in both increases.

Service charges on deposits grew $5 million, to $174 million, in the first six months of 2008 compared with the first six months of 2007, and reflected the impact of our expansion into new markets. Service charges on deposits totaled $92 million for the second quarter of both 2008 and 2007.

Net securities gains totaled $40 million for the first half of 2008 compared with net securities losses of $2 million in the first half of 2007.

Other noninterest income totaled $276 million for the first six months of 2008 compared with $361 million for the first six months of 2007.

Other noninterest income for the first six months of 2008 included the $114 million gain from the sale of Hilliard Lyons, the $95 million gain from the redemption of a portion of our investment in Visa related to their March 2008 initial public offering, and gains of $120 million related to our BlackRock LTIP shares adjustment. The impact of these items was partially offset by valuation losses related to our commercial mortgage loans and commitments held for sale, net of hedges, of $156 million, impairments relating to our equity investments of $26 million and trading losses of $23 million.

Trading income of $81 million and a net gain related to our BlackRock LTIP shares adjustment of $51 million were included in other noninterest income for the first six months of 2007.

For the second quarter of 2008, other noninterest income totaled $206 million compared with $128 million for the second quarter of 2007. The second quarter of 2008 included the $80 million gain related to our BlackRock LTIP shares adjustment.

Additional information regarding our transactions related to Visa is included in Note 15 Commitments And Guarantees in the Notes To Consolidated Financial Statements included in this Report. Further details regarding our trading activities are included in the Market Risk Management – Trading Risk portion of the Risk Management section of this Financial Review.

Other noninterest income typically fluctuates from period to period depending on the nature and magnitude of transactions completed.

We expect that total revenue will increase by a mid-teens percentage for full year 2008 compared with full year 2007, assuming our current expectations for interest rates and economic conditions. We also expect to create positive operating leverage for full year 2008 with a percentage growth in total revenue relative to 2007 that will exceed the percentage growth in noninterest expense from 2007.

PRODUCT REVENUE

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

Revenue from capital markets-related products and services totaled $180 million in the first half of 2008 compared with $143 million in the first half of 2007. Revenue totaled $104 million for the second quarter of 2008 compared with $76 million for the second quarter of 2007. These increases were primarily driven by strong customer interest rate derivative and foreign exchange activity partially offset by a decline in merger and acquisition advisory fees.

Treasury management revenue, which includes fees as well as net interest income from customer deposit balances, increased 19% to $266 million in the first six months of 2008 compared with $224 million for the first six months of 2007. The higher revenue reflected the impact of our expansion into new markets and strong growth in the commercial payment card services and in cash and liquidity management products. For the second quarter of 2008, treasury management revenue totaled $133 million compared with $114 million in the second quarter of 2007.

Commercial mortgage banking activities include revenue derived from loan originations, commercial mortgage servicing (including net interest income and noninterest income from loan servicing and ancillary services), gains on sales of loans held for sale, net interest income on loans held for sale, and mark-to-market valuation adjustments on held for sale commercial mortgage loans intended for securitization and related commitments and derivative valuations. Commercial mortgage banking activities resulted in revenue of $9 million in the first six months of 2008 compared with $140 million in the first six months of 2007. The first half of 2008 included valuation losses of $156 million on commercial mortgage loans and commitments held for sale, net of hedges, due to the impact of an illiquid market in most of the first half of 2008.

For the second quarter of 2008, revenue from commercial mortgage banking activities totaled $105 million compared with $67 million in the second quarter of 2007. The increase reflected a $21 million positive valuation adjustment, net of hedges, and higher net interest income in the second quarter of 2008.

PROVISION FOR CREDIT LOSSES

The provision for credit losses totaled $337 million for the first six months of 2008 compared with $62 million for the first six months of 2007. The provision for credit losses for the second quarter of 2008 totaled $186 million compared with $54 million for the second quarter of 2007. The higher provision in both comparisons was driven by general credit quality migration, especially in the residential real estate development sector of our commercial real estate portfolio. Total residential real estate development outstandings were approximately $2.1 billion at June 30, 2008. Growth in our total credit exposure also contributed to the higher provision amounts in both comparisons.

Given our projections for loan growth and continued credit deterioration, and our current assumptions for the national economy, we expect that the provision for credit losses will be approximately $750 million for full year 2008, including the impact of the Sterling acquisition. However, we believe that increased operating leverage will be more than adequate to cover increased credit costs in 2008.

The Credit Risk Management portion of the Risk Management section of this Financial Review includes additional information regarding factors impacting the provision for credit losses.

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NONINTEREST EXPENSE

Total noninterest expense was $2.157 billion for the first six months of 2008 and $1.984 billion for the first six months of 2007. Noninterest expense totaled $1.115 billion for the second quarter of 2008 compared with $1.040 billion for the second quarter of 2007.

Noninterest expense for the first half of 2008 included the benefit of the first quarter 2008 reversal of $43 million of the $82 million Visa indemnification liability that we established in the fourth quarter of 2007. Additional information regarding our transactions related to Visa is included in Note 15 Commitments And Guarantees in the Notes To Consolidated Financial Statements included in this Report.

Higher noninterest expense in both the second quarter and first half comparisons with 2007 primarily resulted from investments in growth initiatives, including acquisitions, partially offset by the impact of the sale of Hilliard Lyons and disciplined expense management.

Integration costs included in noninterest expense totaled $27 million for the first half of 2008 and $26 million for the first half of 2007. Integration costs in the second quarter of 2008 totaled $13 million compared with $15 million in the second quarter of 2007.

We expect noninterest expense to grow at a low-to-mid single digit percentage for full year 2008 compared with 2007.

PERIOD-END EMPLOYEES

	June 30 2008	December 31 2007	June 30 2007
Full-time	**25,667**	25,480	25,026
Part-time	**2,938**	2,840	3,028
Total	**28,605**	28,320	28,054

EFFECTIVE TAX RATE

Our effective tax rate was 35.4% for the first six months of 2008 and 31.1% for the first six months of 2007. The higher effective tax rate for the first six months of 2008 was due to taxes associated with the gain on the sale of Hilliard Lyons. We expect our effective tax rate to be approximately 33% for full year 2008.

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CONSOLIDATED BALANCE SHEET REVIEW

SUMMARIZED BALANCE SHEET DATA

In millions	June 30 2008	December 31 2007
Assets		
Loans, net of unearned income	**$ 73,040**	$ 68,319
Securities available for sale	**31,032**	30,225
Cash and short-term investments	**9,245**	10,425
Loans held for sale	**2,288**	3,927
Equity investments	**6,376**	6,045
Goodwill and other intangible assets	**9,928**	9,551
Other	**10,862**	10,428
Total assets	**$142,771**	$ 138,920
Liabilities		
Funding sources	**$117,161**	$ 113,627
Other	**8,493**	8,785
Total liabilities	**125,654**	122,412
Minority and noncontrolling interests in consolidated entities	**2,009**	1,654
Total shareholders' equity	**15,108**	14,854
Total liabilities, minority and noncontrolling interests, and shareholders' equity	**$142,771**	$ 138,920

The summarized balance sheet data above is based upon our Consolidated Balance Sheet that is presented in Part I, Item 1 of this Report.

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) are more indicative of underlying business trends.

An analysis of changes in certain balance sheet categories follows.

LOANS, NET OF UNEARNED INCOME

Loans increased $4.7 billion, to $73.0 billion, at June 30, 2008 compared with the balance at December 31, 2007. In February 2008, we transferred the education loans in our held for sale portfolio to the loan portfolio as further described in the Loans Held For Sale section of this Consolidated Balance Sheet Review.

Details Of Loans

In millions	June 30 2008	December 31 2007
Commercial		
Retail/wholesale	**$ 6,374**	$ 5,973
Manufacturing	**5,322**	4,705
Other service providers	**3,670**	3,529
Real estate related (a)	**6,101**	5,425
Financial services	**1,452**	1,268
Health care	**1,637**	1,446
Other	**6,419**	6,261
Total commercial	**30,975**	28,607
Commercial real estate		
Real estate projects	**6,539**	6,114
Mortgage	**2,912**	2,792
Total commercial real estate	**9,451**	8,906
Lease financing	**3,522**	3,500
Total commercial lending	**43,948**	41,013
Consumer		
Home equity	**14,735**	14,447
Education	**2,117**	132
Automobile	**1,590**	1,513
Other	**2,245**	2,234
Total consumer	**20,687**	18,326
Residential mortgage	**9,047**	9,557
Other	**292**	413
Unearned income	**(934)**	(990)
Total, net of unearned income	**$73,040**	$ 68,319

(a) Includes loans to customers in the real estate and construction industries.

Total loans represented 51% of total assets at June 30, 2008 and 49% of total assets at December 31, 2007.

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.

Approximately $2.1 billion of the $6.5 billion of real estate projects loans at June 30, 2008 were in residential real estate development. These represented approximately 3% of total loans and less than 2% of total assets at June 30, 2008.

Our home equity loan outstandings totaled $14.7 billion at June 30, 2008. In this portfolio, we consider the higher risk loans to be those with a recent FICO credit score of less than or equal to 660 and a loan-to-value ratio greater than or equal to 90%. We had $544 million or approximately 4% of the total portfolio in this grouping at June 30, 2008. Consistent with the entire home equity portfolio, approximately 94% of these higher-risk loans are located in our geographic footprint. In our $9.0 billion residential mortgage portfolio, loans with a recent FICO credit score of less than or equal to 660 and a loan-to-value ratio greater than or equal to 90% totaled $152 million and comprised approximately 2% of this portfolio at June 30, 2008.

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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 $886 million, or 90%, of the total allowance for loan and lease losses at June 30, 2008 to these loans. We allocated $90 million, or 9%, of the remaining allowance at that date to consumer loans and $12 million, or 1%, to all other 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 2008	December 31 2007
Commercial	**$37,127**	$ 39,171
Consumer	**11,394**	10,875
Commercial real estate	**2,525**	2,734
Other	**512**	567
Total	**$51,558**	$ 53,347

Unfunded commitments are concentrated in our primary geographic markets. Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. Commercial commitments reported net of participations, assignments and syndications totaled $7.9 billion at June 30, 2008 and $8.9 billion at December 31, 2007. The decrease from December 31, 2007 was primarily due to Market Street.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $7.5 billion at June 30, 2008 and $9.4 billion at December 31, 2007 and are included in the preceding table primarily within the “Commercial” and “Consumer” categories. The decrease from December 31, 2007 was primarily due to Market Street.

In addition to credit commitments, our net outstanding standby letters of credit totaled $5.7 billion at June 30, 2008 and $4.8 billion at December 31, 2007. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

Securities Available For Sale

In millions	Amortized Cost	Fair Value
June 30, 2008		
Debt securities		
Residential mortgage-backed	**$22,175**	**$20,707**
Commercial mortgage-backed	**5,884**	**5,754**
Asset-backed	**3,568**	**3,162**
US Treasury and government agencies	**32**	**33**
State and municipal	**799**	**776**
Other debt	**259**	**255**
Corporate stocks and other	**349**	**345**
Total securities available for sale	**$33,066**	**$31,032**
December 31, 2007		
Debt securities		
Residential mortgage-backed	$21,147	$20,952
Commercial mortgage-backed	5,227	5,264
Asset-backed	2,878	2,770
US Treasury and government agencies	151	155
State and municipal	340	336
Other debt	85	84
Corporate stocks and other	662	664
Total securities available for sale	$30,490	$30,225

Securities available for sale represented 22% of total assets at both June 30, 2008 and December 31, 2007.

At June 30, 2008, securities available for sale included a net pretax unrealized loss of $2.0 billion, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2007 was a net unrealized loss of $265 million. The fair value of securities available for sale is impacted by interest rates, credit spreads, volatility and illiquidity. We believe that substantially all of the decline in value of these securities is attributable to changes in credit spreads and not from deterioration in the credit quality of individual securities or underlying collateral, where applicable. However, if the current issues affecting the US housing market were to continue for the foreseeable future or worsen, or if market volatility and illiquidity were to continue or worsen, or if market interest rates were to increase appreciably, the valuation of our available for sale securities portfolio could be adversely affected. See Note 4 Securities in the Notes To Consolidated Financial Statements included in this Report for further information.

Net unrealized gains and losses in the securities available for sale portfolio are included in shareholders' equity as accumulated other comprehensive income or loss, net of tax.

The Fair Value Measurements and Fair Value Option section of this Financial Review includes information regarding other-than-temporary impairments totaling $9 million that we recognized during the second quarter of 2008.

The expected weighted-average life of securities available for sale (excluding corporate stocks and other) was 4 years and 3 months at June 30, 2008 and 3 years and 6 months at December 31, 2007.

We estimate that at June 30, 2008 the effective duration of securities available for sale was 3.4 years for an immediate 50 basis points parallel increase in interest rates and 3.3 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2007 were 2.8 years and 2.5 years, respectively.

LOANS HELD FOR SALE

In millions	June 30 2008	December 31 2007
Commercial mortgage	**$1,864**	$ 2,116
Residential mortgage	**102**	117
Education		1,525
Other	**322**	169
Total	**$2,288**	$ 3,927

During the second quarter of 2008, we reduced our inventory of commercial mortgage loans held for sale via securitizations by approximately $.5 billion, to $1.6 billion, and recognized a positive valuation adjustment for loans and commitments of $21 million, net of hedges. In early 2008, spreads widened and there was limited activity in the commercial real estate loan securitization market. During the first quarter of 2008, we recorded a negative valuation adjustment for loans and commitments of $177 million, net of hedges. These loans are recorded at fair value. The valuation adjustments were reflected in the other noninterest income line item in our Consolidated Income Statement and in the results of the Corporate & Institutional Banking business segment.

We value our commercial mortgage loans held for sale based on securitization prices. If conditions similar to early 2008 recur, additional valuation losses may be incurred. If spreads narrow, we may realize valuation gains. However, we do not expect the impact to be significant to our capital position. We are not currently originating commercial mortgages for distribution through commercial real estate loan securitizations. We intend to pursue opportunities to further reduce our commercial mortgage loans held for sale position during the remainder of 2008 if we can receive prices we feel are appropriate.

We previously classified substantially all of our education loans as loans held for sale as we sold education loans to issuers of asset-backed paper when the loans were placed into repayment status. During 2008, the secondary markets for education loans have been impacted by liquidity issues similar to those for other asset classes. In February 2008, given this outlook and the economic and customer relationship value inherent in this product, we transferred these loans at lower of cost or market value from held for sale to the loan portfolio. We did not sell education loans during the second quarter of 2008 and do not anticipate sales of these loans in the foreseeable future.

FUNDING AND CAPITAL SOURCES

Details Of Funding Sources

In millions	June 30 2008	December 31 2007
Deposits		
Money market	**$ 38,772**	$ 32,785
Demand	**18,171**	20,861
Retail certificates of deposit	**16,618**	16,939
Savings	**2,801**	2,648
Other time	**5,239**	2,088
Time deposits in foreign offices	**3,088**	7,375
Total deposits	**84,689**	82,696
Borrowed funds		
Federal funds purchased	**7,343**	7,037
Repurchase agreements	**1,887**	2,737
Federal Home Loan Bank borrowings	**9,572**	7,065
Bank notes and senior debt	**5,804**	6,821
Subordinated debt	**5,169**	4,506
Other	**2,697**	2,765
Total borrowed funds	**32,472**	30,931
Total	**$117,161**	$ 113,627

Total funding sources increased $3.5 billion, or 3%, at June 30, 2008 compared with December 31, 2007.

Total deposits increased $2.0 billion, or 2%, as higher money market balances and other time deposits more than offset declines in demand and time deposits in foreign offices. Total borrowed funds increased $1.5 billion, or 5%, at June 30, 2008 compared with the prior year end primarily due to the increase of $2.5 billion in Federal Home Loan Bank ("FHLB") borrowings, partially offset by reductions in bank notes and senior debt and repurchase agreements. The Liquidity Risk Management portion of the Risk Management section of this Financial Review includes additional information regarding our 2008 borrowed funds activities.

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Capital

We manage our capital position by making adjustments to our balance sheet size and composition, issuing subordinated debt, equity or hybrid instruments, executing treasury stock transactions, maintaining dividend policies and retaining earnings. In April 2008, we announced a 5% increase of the cash dividend on our common stock, to 66 cents per share. Also, the Liquidity Risk Management section of this Report describes our May 2008 Series K preferred stock issuance.

Total shareholders' equity increased $.3 billion, to $15.1 billion, at June 30, 2008 compared with December 31, 2007. In addition to net income, the Series K preferred stock issuance and new common shares issued in connection with the Sterling acquisition more than offset the impact of dividends and an increase in accumulated other comprehensive loss in the first six months of 2008. The increase in accumulated other comprehensive loss was primarily due to higher net unrealized losses on available for sale securities that reflected market illiquidity.

Common shares outstanding totaled 346 million at June 30, 2008 and 341 million at December 31, 2007. PNC issued approximately 4.6 million common shares in April 2008 in connection with the closing of the Sterling acquisition.

Our current common stock repurchase program permits us to purchase up to 25 million shares of PNC common stock on the open market or in privately negotiated transactions. This program will remain in effect until fully utilized or until modified, superseded or terminated. The extent and timing of 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 ratings.

We did not purchase any shares during the first half of 2008 under this program. We do not expect to actively engage in share repurchase activity for the foreseeable future as we look to enhance our capital position.

Risk-Based And Tangible Capital

Dollars in millions	**June 30 2008**	December 31 2007
Capital components		
Shareholders' equity		
Common	**$ 14,602**	$ 14,847
Preferred	**506**	7
Trust preferred capital securities	**1,106**	572
Minority interest	**1,352**	985
Goodwill and other intangible assets	**(9,238)**	(8,853)
Eligible deferred income taxes on intangible assets	**111**	119
Pension, other postretirement benefit plan adjustments	**122**	177
Net unrealized securities losses, after-tax	**1,283**	167
Net unrealized (gains) losses on cash flow hedge derivatives, after-tax	**(162)**	(175)
Equity investments in nonfinancial companies	**(42)**	(31)
Tier 1 risk-based capital	**9,640**	7,815
Subordinated debt	**3,225**	3,024
Eligible allowance for credit losses	**1,112**	964
Total risk-based capital	**$ 13,977**	$ 11,803
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	**$117,549**	$ 115,132
Adjusted average total assets	**132,935**	126,139
Capital ratios		
Tier 1 risk-based	**8.2%**	6.8%
Total risk-based	**11.9**	10.3
Leverage	**7.3**	6.2
Tangible common equity		
Common shareholders' equity	**$ 14,602**	$ 14,847
Goodwill and other intangible assets	**(9,238)**	(8,853)
Total deferred income taxes on goodwill and other intangible assets (a)	**401**	119
Tangible common equity	**$ 5,765**	$ 6,113
Total assets excluding goodwill and other intangible assets, net of deferred income taxes (a)	**$133,934**	$ 130,185
Tangible common equity ratio	**4.3%**	4.7%

(a) As of June 30, 2008, deferred taxes on taxable combinations were added to eligible deferred income taxes for non-taxable combinations that are used in the calculation of the tangible common equity ratio.

The tangible common equity information provided in the table above does not reflect the full value of our equity investment in BlackRock. As of June 30, 2008, the market value of our investment exceeded the book value by $3.3 billion. This unrecognized gain would have resulted in a $2.1 billion after-tax increase to our tangible common equity, to $7.9 billion. See additional information regarding our investment in BlackRock on page 26.

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, 2008, each of our domestic banking subsidiaries was considered "well-capitalized" based on US regulatory capital ratio requirements, which are indicated on page 2 of this Report. We believe our current bank subsidiaries will continue to meet these requirements during the remainder of 2008.

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OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

We engage in a variety of activities that involve unconsolidated entities or that are otherwise not reflected in our Consolidated Balance Sheet that are generally referred to as "off-balance sheet arrangements."

Commitments, including contractual obligations and other commitments, are included within the Risk Management section of this Financial Review and in 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 that we have consolidated and those in which we hold a significant variable interest but have not consolidated into our financial statements as of June 30, 2008 and December 31, 2007.

Consolidated VIEs – PNC Is Primary Beneficiary

In millions	Aggregate Assets	Aggregate Liabilities
Partnership interests in low income housing projects		
June 30, 2008	**$ 1,062**	**$ 1,062**
December 31, 2007	$ 1,110	$ 1,110

Additional information on our partnership interests in low income housing projects is included in our 2007 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, 2008			
Market Street	**$ 4,582**	**$ 4,628**	**$ 7,230**(a)
Collateralized debt obligations	**47**	**1**	**5**
Partnership interests in low income housing projects	**50**	**34**	**8**
Total	**$ 4,679**	**$ 4,663**	**$ 7,243**
December 31, 2007			
Market Street	$ 5,304	$ 5,330	$ 9,019(a)
Collateralized debt obligations	255	177	6
Partnership interests in low income housing projects	50	34	8
Total	$ 5,609	$ 5,541	$ 9,033

(a) PNC's risk of loss consists of off-balance sheet liquidity commitments to Market Street of $7.0 billion and other credit enhancements of $.2 billion at June 30, 2008. The comparable amounts were $8.8 billion and $.2 billion at December 31, 2007. These liquidity commitments are included in the Net Unfunded Credit Commitments table in the Consolidated Balance Sheet Review section of this Report.

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 primarily involve purchasing assets or making loans secured by interests in pools of receivables from US corporations that desire access to the commercial paper market. Market Street funds the purchases of assets 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 enhancements, liquidity facilities and program-level credit enhancement. Generally, Market Street mitigates its potential interest rate risk by entering into agreements with its borrowers that reflect interest rates based upon its weighted average commercial paper cost of funds. During 2007 and the first six months of 2008, Market Street met all of its funding needs through the issuance of commercial paper.

Market Street commercial paper outstanding was $4.4 billion at June 30, 2008 and $5.1 billion at December 31, 2007. The weighted average maturity of the commercial paper was 31 days at June 30, 2008 compared with 32 days at December 31, 2007.

In the ordinary course of business during the first six months of 2008, PNC Capital Markets, acting as a placement agent for Market Street, held a maximum daily position in Market Street commercial paper of $75 million with an average of $19 million and a June 30, 2008 position of zero. This compares with a maximum daily position of $113 million with an average of $27 million during the year ended December 31, 2007. PNC Capital Markets owned less than $1 million of Market Street commercial paper at December 31, 2007. PNC made no other purchases of Market Street commercial paper during 2007 or 2008.

PNC Bank, National Association ("PNC Bank, N.A.") provides certain administrative services, a portion of the program-level credit enhancement and 99% of liquidity facilities to Market Street in exchange for fees negotiated based on market rates. PNC recognized program administrator fees and commitment fees related to PNC's portion of the liquidity facilities of $8 million and $2 million, respectively, for the six months ended June 30, 2008. The comparable amounts were $6 million and $2 million for the six months ended June 30, 2007.

PNC views its credit exposure for the Market Street transactions as limited. Neither creditors nor investors in Market Street have any recourse to our general credit. The commercial paper obligations at June 30, 2008 and December 31, 2007 were effectively collateralized by Market Street's assets. While PNC may be obligated to fund under the $7.0 billion of liquidity facilities for events such as commercial paper market disruptions, borrower bankruptcies, collateral deficiencies or covenant violations, our credit risk under the liquidity facilities is 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

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Market Street is generally structured to cover a multiple of expected losses for the pool of assets and is sized to generally meet rating agency standards for comparably structured transactions. In addition, PNC would be required to fund $1.2 billion of the liquidity facilities if the underlying assets are in default. See Note 15 Commitments And Guarantees included in the Notes To Consolidated Financial Statements of this Report for additional information.

Program-level credit enhancement in the amount of 10% of commitments, excluding explicitly rated AAA/Aaa facilities, is provided by PNC and Ambac, a monoline insurer. PNC provides 25% of the enhancement in the form of a cash collateral account funded by a loan facility. This facility expires in March 2013. The monoline insurer provides the remaining 75% of the enhancement in the form of a surety bond. The cash collateral account is subordinate to the surety bond.

Market Street has 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 $7.0 million as of June 30, 2008. 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.

Assets of Market Street Funding LLC

In millions	Outstanding	Commitments	Weighted Average Remaining Maturity In Years
June 30, 2008 (a)			
Trade receivables	**$ 1,522**	**$ 3,150**	**2.60**
Automobile financing	**1,088**	**1,202**	**3.98**
Collateralized loan obligations	**269**	**607**	**2.86**
Credit cards	**400**	**400**	**.69**
Residential mortgage	**14**	**14**	**27.50**
Other	**1,141**	**1,307**	**1.68**
Cash and miscellaneous receivables	**148**		
Total	**$ 4,582**	**$ 6,680**	**2.63**
December 31, 2007 (a)			
Trade receivables	$ 1,375	$ 2,865	2.63
Automobile financing	1,387	1,565	4.06
Collateralized loan obligations	519	1,257	2.54
Credit cards	769	775	.26
Residential mortgage	37	720	.90
Other	1,031	1,224	1.89
Cash and miscellaneous receivables	186		
Total	$ 5,304	$ 8,406	2.41

(a) Market Street did not recognize an asset impairment charge or experience a rating downgrade on its assets during 2007 and the first six months of 2008.

Market Street Commitments by Credit Rating (a)

	June 30, 2008	December 31, 2007
AAA/Aaa	**14%**	19%
AA/Aa	**5**	6
A/A	**78**	72
BBB/Baa	**3**	3
Total	**100%**	100%

(a) Not all facilities are explicitly rated by the rating agencies. Facilities are structured to meet rating agency standards for comparably structured transactions.

We evaluated the design of Market Street, its capital structure, the Note, 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 are not the primary beneficiary as defined by FIN 46R and therefore the assets and liabilities of Market Street are not reflected in our Consolidated Balance Sheet.

We would consider changes to the variable interest holders (such as new expected loss note investors and changes to program-level credit enhancement providers), terms of expected loss notes, and new types of risks (such as foreign currency or interest rate) related to Market Street as reconsideration events. We review the activities of Market Street on at least a quarterly basis to determine if a reconsideration event has occurred. As indicated earlier, 75% of the program-level credit enhancement is provided by Ambac in the form of a surety bond. PNC Bank, N.A., in the role of program administrator, is closely following market developments relative to the rating agency outlooks of monoline insurers. Ambac is rated AA and Aa3 by Standard and Poor's and Moody's, respectively. This rating change has not impacted the Market Street commercial paper ratings of A1/P1. Various alternatives to the program-level enhancement are available if future rating changes impact either the ratings of Market Street commercial paper or its financial results.

Based on current accounting guidance, we are not required to consolidate Market Street into our consolidated financial statements. However, if PNC would be determined to be the primary beneficiary under FIN 46R, we would consolidate the commercial paper conduit at that time. Based on current accounting guidance, to the extent that the par value of the assets in Market Street exceeded the fair value of the assets upon consolidation, the difference would be recognized by PNC as a loss in our Consolidated Income Statement in that period. Based on the fair value of the assets held by Market Street at June 30, 2008, the consolidation of Market Street would not have had a material impact on our risk-based capital ratios, credit ratings or debt covenants.

Perpetual Trust Securities

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

In February 2008, PNC Preferred Funding LLC (the "LLC"), one of our indirect subsidiaries, sold $375 million of 8.700%

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Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities of PNC Preferred Funding Trust III (“Trust III”) to third parties in a private placement. In connection with the private placement, Trust III acquired $375 million of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Securities of the LLC (the “LLC Preferred Securities”). The sale was similar to the March 2007 private placement by the LLC of $500 million of 6.113% Fixed-to-Floating Rate Non-Cumulative Exchangeable Trust Securities (the “Trust II Securities”) of PNC Preferred Funding Trust II (“Trust II”) in which Trust II acquired $500 million of LLC Preferred Securities and to the December 2006 private placement by PNC REIT Corp. of $500 million of 6.517% Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities (the “Trust I Securities”) of PNC Preferred Funding Trust I (“Trust I”) in which Trust I acquired $500 million of LLC Preferred Securities.

Each Trust III Security is automatically exchangeable into a share of Series J Non-Cumulative Perpetual Preferred Stock of PNC, each Trust II Security is automatically exchangeable into a share of Series I Non-Cumulative Perpetual Preferred Stock of PNC, and each Trust I Security is automatically exchangeable into a share of Series F Non-Cumulative Perpetual Preferred Stock of PNC Bank, N.A., in each case 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.

PNC has contractually committed to each of Trust II and Trust III that if full dividends are not paid in a dividend period on the Trust II Securities or the Trust III Securities, as applicable, or the LLC Preferred Securities held by Trust II or Trust III, as applicable, 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.

PNC Bank, N.A. has contractually committed to Trust I that if full dividends are not paid in a dividend period on the Trust Securities, LLC Preferred Securities or any other parity equity securities issued by the LLC, neither PNC Bank, N.A. nor its subsidiaries will declare or pay dividends or other distributions with respect to, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its equity capital securities during the next succeeding period (other than to holders of the LLC Preferred Securities and any parity equity securities issued by the LLC) except: (i) in the case of dividends payable to subsidiaries of PNC Bank, N.A., to PNC Bank, N.A. or another wholly-owned subsidiary of PNC Bank, N.A. or (ii) in the case of dividends payable to persons that are not subsidiaries of PNC Bank, N.A., to such persons only if, (A) in the case of a cash dividend, PNC has first irrevocably committed to contribute amounts at least equal to such cash dividend or (B) in the case of in-kind dividends payable by PNC REIT Corp., PNC has committed to purchase such in-kind dividend from the applicable PNC REIT Corp. holders in exchange for a cash payment representing the market value of such in-kind dividend, and PNC has committed to contribute such in-kind dividend to PNC Bank, N.A.

PNC Capital Trust E Trust Preferred Securities

In February 2008, PNC Capital Trust E issued $450 million of 7.75% Trust Preferred Securities due March 15, 2068 (the “Trust E Securities”). PNC Capital Trust E’s only assets are $450 million of 7.75% Junior Subordinated Notes due March 15, 2068 and issued by PNC (the “JSNs”). The Trust E Securities are fully and unconditionally guaranteed by PNC. We may, at our option, redeem the JSNs at 100% of their principal amount on or after March 15, 2013.

In connection with the closing of the Trust E Securities sale, we agreed that, if we have given notice of our election to defer interest payments on the JSNs or a related deferral period is continuing, then PNC would be subject during such period to restrictions on dividends and other provisions protecting the status of the JSN debenture holder similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described above. PNC Capital Trusts C and D have similar protective provisions with respect to $500 million in principal amount of junior subordinated debentures.

Acquired Entity Trust Preferred Securities

As a result of the Mercantile, Yardville and Sterling acquisitions, we assumed obligations with respect to $158 million in principal amount of junior subordinated debentures issued by the acquired entities. 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 the 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 or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described above.

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Fair Value Measurements And Fair Value Option

We adopted SFAS 157, "*Fair Value Measurements*" ("SFAS 157"), and SFAS 159, "*The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*" ("SFAS 159"), on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Under SFAS 159, we elected to fair value certain commercial mortgage loans classified as held for sale and certain customer resale agreements and bank notes to align the accounting for the changes in the fair value of these financial instruments with the changes in the value of their related hedges. See Note 6 Fair Value in the Notes To Consolidated Financial Statements included in this Report for further information.

At June 30, 2008, approximately 27% of our total assets were measured at fair value, consisting primarily of securities and other financial assets. Approximately 3% of our total liabilities were measured at fair value at that date. The corresponding amounts at March 31, 2008 were 28% and 4%, respectively.

Assets and liabilities measured at fair value on a recurring basis, including instruments for which PNC has elected the fair value option, are summarized below:

Fair Value Measurements – Summary

	June 30, 2008			
In millions	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Securities available for sale	$5,129	$24,749	$1,154	$31,032
Financial derivatives (a)	25	2,283	85	2,393
Trading securities (b)	624	1,509	30	2,163
Commercial mortgage loans held for sale (c)			1,604	1,604
Customer resale agreements (d)		1,001		1,001
Equity investments			572	572
Other assets		224	8	232
Total assets	$5,778	$29,766	$3,453	$38,997
Liabilities				
Financial derivatives (e)	$ 30	$ 1,703	$ 154	$ 1,887
Trading securities sold short (f)	1,278	93		1,371
Other liabilities		234		234
Total liabilities	$1,308	$ 2,030	$ 154	$ 3,492

(a) Included in other assets on the Consolidated Balance Sheet.
(b) Included in trading securities and other short-term investments on the Consolidated Balance Sheet.
(c) Included in loans held for sale on the Consolidated Balance Sheet. PNC has elected the fair value option under SFAS 159 for certain commercial mortgage loans held for sale intended for CMBS securitization.
(d) Included in federal funds sold and resale agreements on the Consolidated Balance Sheet. PNC has elected the fair value option under SFAS 159 for this item.
(e) Included in other liabilities on the Consolidated Balance Sheet.
(f) Included in other borrowed funds on the Consolidated Balance Sheet.

Valuation Hierarchy

The following is an outline of the valuation methodologies used for measuring fair value under SFAS 157 for the major items above. The fair value hierarchy (i.e., Level 1, Level 2, and Level 3) is described in detail in Note 6 Fair Value in the Notes To Consolidated Financial Statements included in this Report. Any models used to determine fair values based on the descriptions below are subject to review and independent testing as part of our model validation and internal control testing processes. Significant models are tested by our Model Validation Committee on at least an annual basis. In addition, we have teams independent of the traders verify marks and assumptions used for valuations at each period end.

Securities

Securities include both the available for sale and trading portfolios. We use market prices, sourced from pricing services, dealer quotes or recent trades to determine the fair value of securities. The majority of our securities are classified as Level 1 or Level 2 in the fair value hierarchy. In circumstances where market prices are limited or unavailable, valuations may require significant management judgments or adjustments to determine fair value. In these cases, the securities are classified as Level 3.

Residential Mortgage-Backed Securities

At June 30, 2008, our residential mortgage-backed securities portfolio was comprised of $9.8 billion fair value of US government agency-backed securities (substantially all classified as available for sale) and $11.0 billion fair value of private-issuer securities (substantially all classified as available for sale). The agency securities are generally collateralized by 1-4 family, conforming, fixed-rate residential mortgages**.** The private-issuer securities are also generally collateralized by 1-4 family residential mortgages. The mortgage loans underlying the private-issuer securities are generally non-conforming (i.e., original balances in excess of the amount qualifying for agency securities) and predominately have interest rates that are fixed for a period of time, after which the rate adjusts to a floating rate based upon a contractual spread that is indexed to a market rate (i.e., a "hybrid ARM").

Of the total private-issuer securities, we consider that, based on the underlying credit score of the borrower, less than 1% were higher risk (i.e., FICO scores of equal to or less than 660) credit quality. Substantially all of the securities are senior tranches in the subordination structure and have credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts. Of the total private-issuer securities, approximately 55% are vintage 2005 and earlier, approximately 24% are vintage 2006 and approximately 21% are vintage 2007 and 2008. At June 30, 2008, $10.9 billion, or 99%, of the private-issuer securities were rated "AAA" equivalents by at least two nationally recognized rating agencies. There were 11 private-issuer securities totaling $69 million fair value where at least one national rating agency rated the security either "AA" or "A" equivalent.

For one security, we recorded an other-than-temporary impairment charge of $7 million in the second quarter of 2008. Since June 30, 2008, no significant deterioration in the credit ratings assigned to the private-issuer securities has occurred.

Commercial Mortgage-Backed Securities

The commercial mortgage-backed securities portfolio was $6.4 billion fair value at June 30, 2008 ($5.8 billion fair value classified as available for sale), and consisted of fixed-rate, private-issuer securities collateralized by non-residential properties, primarily retail properties, office buildings, and multi-family housing. Substantially all of the securities are the most senior tranches in the subordination structure.

Of the total commercial mortgage-backed securities, approximately 49% are vintage 2005 and earlier, approximately 35% are vintage 2006 and approximately 16% are vintage 2007 and 2008. At June 30, 2008, $6.3 billion, or 99%, of the commercial mortgage-backed securities were rated "AAA" equivalents by at least two nationally recognized rating agencies. There were four commercial mortgage-backed securities totaling $52 million fair value where at least one national rating agency rated the security "AA" equivalent and three commercial mortgage-backed securities totaling $4 million where at least one national rating agency rated the security "BBB" equivalent.

Since June 30, 2008, no significant deterioration in the credit ratings assigned to the commercial mortgage-backed securities has occurred.

Other Asset-Backed Securities

The asset-backed securities portfolio was $3.2 billion fair value at June 30, 2008 (substantially all classified as available for sale), and consisted of fixed-rate and floating-rate, private-issuer securities collateralized primarily by various consumer credit products, including home equity loans, credit cards, and automobile loans. Substantially all of the securities are senior tranches in the subordination structure and have credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts.

Of the $1.3 billion fair value of asset-backed securities collateralized by fixed- and floating-rate home equity loans (all classified as available for sale), we consider that, based on the underlying credit score of the borrower, approximately 23% were higher risk credit quality. Of the total asset-backed securities collateralized by fixed- and floating-rate home equity loans, approximately 39% are vintage 2005 and earlier, approximately 25% are vintage 2006 and approximately 36% are vintage 2007. At June 30, 2008, $3.0 billion, or 94%, of the other asset-backed securities were rated "AAA" equivalents by at least two nationally recognized rating agencies. There were five asset-backed securities totaling $63 million fair value where at least one national rating agency rated the security "AA" equivalent, 11 asset-backed securities totaling $130 million fair value where the rating was between "AA" equivalent and "BBB" equivalent, and two asset-backed securities totaling $6 million fair value where the rating was lower than "BBB" equivalent.

For both of the securities rated lower than "BBB" equivalent, we recorded other-than-temporary impairment charges totaling approximately $2 million in the second quarter of 2008. Since June 30, 2008, no significant deterioration in the credit ratings assigned to the other asset-backed securities has occurred.

Financial Derivatives

Exchange-traded derivatives are valued using quoted market prices and are classified as Level 1. However, the majority of derivatives that we enter into are executed over-the-counter and are valued using internal techniques. Readily observable market inputs to these models can be validated to external sources, including industry pricing services, or corroborated through recent trades, dealer quotes, yield curves, implied volatility or other market related data. Certain derivatives, such as total rate of return swaps, are corroborated to the CMBX index. These derivatives are classified as Level 2. Derivatives priced using significant management judgment or assumptions are classified as Level 3. The fair values of our derivatives are adjusted for nonperformance risk as appropriate.

Commercial Mortgage Loans and Commitments Held for Sale
This portfolio of loans is held for securitization. As such, a synthetic securitization methodology is used to value the loans and the related unfunded commitments on an aggregate basis based upon current commercial mortgage-backed securities (CMBS) market structures and conditions. Observable inputs include the pricing of CMBS with similar collateral and using tranche interest rates from end of period yield curves. Management assumptions include subordination levels, CMBS bond spreads, and the value of the mortgage servicing rights. Adjustments are made to the valuations to account for securitization uncertainties, including the composition of the portfolio, market conditions, and liquidity. Based on the significance of unobservable inputs, we classify this portfolio as Level 3.

Equity Investments
The valuation of direct and partnership private equity investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such investments. The carrying values of direct investments and affiliated partnership interests reflect the expected exit price and are based on various techniques including multiples of adjusted earnings of the entity, independent appraisals, anticipated financing and sale transactions with third parties or the pricing used to value the entity in a recent financing transaction. The limited partnership investments are generally valued based on the financial statements received from the general partner with the underlying investments being valued utilizing techniques similar to those noted above. These investments are classified as Level 3.

Level 3 Assets and Liabilities
Under SFAS 157, financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

Our Level 3 assets and liabilities represented 2% of our total assets and less than 1% of our total liabilities at both June 30, 2008 and March 31, 2008.

Assets and liabilities measured using Level 3 inputs represented $3.5 billion or 9% of total assets measured at fair value and $154 million or 4% of total liabilities measured at fair value at June 30, 2008. Assets and liabilities measured using Level 3 inputs represented $2.9 billion or 7% of total assets measured at fair value and $239 million or 5% of total liabilities measured at fair value at March 31, 2008.

During the second quarter of 2008, securities transferred into Level 3 from Level 2 exceeded securities transferred out by $527 million. These primarily related to asset-backed securities, taxable auction rate securities, and residential mortgage-backed securities, and occurred due to reduced volume of recently executed transactions and the lack of corroborating market price quotations for these instruments.

As indicated in the table on page 17, our largest category of Level 3 assets consists of certain commercial mortgage loans held for sale.

We originated the loans held in the commercial real estate portfolio that are classified as held for sale and accounted for at fair value. The values of these loans were based on exit prices at June 30, 2008 reflecting an illiquid securitization market for these loans. However, it is our intention to continue to reduce the size of this portfolio.

Total securities measured at fair value at June 30, 2008 included securities available for sale and trading securities consisting primarily of residential and commercial mortgage-backed securities and other asset-backed securities. Unrealized gains and losses on available for sale securities do not impact liquidity or risk-based capital. However, reductions in the credit ratings of these securities would have an impact on the determination of risk-weighted assets which could reduce our regulatory capital ratios. In addition, other-than-temporary impairments on available for sale securities would reduce our regulatory capital ratios.

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BUSINESS SEGMENTS REVIEW

We have four major businesses engaged in providing banking, asset management and global investment servicing products and services. Business segment results, including inter-segment revenues, and a description of each business are included in Note 16 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 16 primarily due to the presentation in this Financial Review of business net interest revenue on a taxable-equivalent basis and income statement classification differences related to Global Investment Servicing.

Results of individual businesses are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of our 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 operated on a stand-alone basis. As permitted under GAAP, we have aggregated the business results for certain similar 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 servicing 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 domestic banks and to approximate market comparables for this business. The capital assigned for Global Investment Servicing reflects its legal entity shareholder's equity.

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 business segment loan portfolios. Our allocation of the costs incurred by operations and other shared support areas not directly aligned with the businesses is primarily based on the use of services.

Total business segment financial results differ from total consolidated results. The impact of these differences is reflected in the "Other" category. "Other" for purposes of this Business Segments Review and the Business Segment Highlights in the Executive Summary 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 share distributions and obligations, earnings and gains or losses related to Hilliard Lyons, integration costs, asset and liability management activities including net securities gains or losses and certain trading activities, equity management activities, differences between business segment performance reporting and financial statement reporting (GAAP), intercompany eliminations, and most corporate overhead.

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

Results Of Businesses – Summary
(Unaudited)

	Earnings		Revenue		Average Assets (a)	
Six months ended June 30 – in millions	**2008**	2007	**2008**	2007	**2008**	2007
Retail Banking (b)	**$335**	$419	**$1,848**	$1,707	**$ 46,206**	$ 39,171
Corporate & Institutional Banking	**136**	254	**724**	751	**35,575**	27,471
BlackRock	**129**	110	**171**	143	**4,463**	4,048
Global Investment Servicing (c) (d)	**63**	63	**465**	408	**2,606**	2,400
Total business segments	**663**	846	**3,208**	3,009	**88,850**	73,090
Other (b) (c) (e)	**219**	36	**652**	318	**52,123**	42,325
Total consolidated	**$882**	$882	**$3,860**	$3,327	**$140,973**	$115,415

(a) Period-end balances for BlackRock and Global Investment Servicing.
(b) Amounts for the periods presented reflect the reclassification of the results of Hilliard Lyons, which we sold on March 31, 2008, and the related gain on sale, from Retail Banking to "Other."
(c) For our segment reporting presentation in this Financial Review, after-tax integration costs of $2 million related to Albridge Solutions and Coates Analytics have been reclassified from Global Investment Servicing to "Other" for the first six months of 2008. "Other" for the first six months of 2008 also includes $48 million of pretax other integration costs while "Other" for the first six months of 2007 includes $29 million of pretax integration costs primarily related to Mercantile.
(d) Global Investment Servicing revenue represents the sum of servicing revenue and nonoperating income (expense) less debt financing costs.
(e) "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 (a)

(Unaudited)

Six months ended June 30 Dollars in millions	2008	2007
INCOME STATEMENT		
Net interest income	**$997**	$985
Noninterest income		
Asset management	**222**	213
Service charges on deposits	**169**	164
Brokerage	**73**	65
Consumer services	**207**	187
Other	**180**	93
Total noninterest income	**851**	722
Total revenue	**1,848**	1,707
Provision for credit losses	**194**	60
Noninterest expense	**1,107**	978
Pretax earnings	**547**	669
Income taxes	**212**	250
Earnings	**$335**	$419
AVERAGE BALANCE SHEET		
Loans		
Consumer		
Home equity	**$14,500**	$14,060
Indirect	**2,048**	1,759
Education	**1,466**	110
Other consumer	**1,688**	1,434
Total consumer	**19,702**	17,363
Commercial and commercial real estate	**14,798**	11,150
Floor plan	**1,032**	995
Residential mortgage	**2,442**	1,715
Other	**66**	71
Total loans	**38,040**	31,294
Goodwill and other intangible assets	**5,982**	4,228
Loans held for sale	**593**	1,558
Other assets	**1,591**	2,091
Total assets	**$46,206**	$39,171
Deposits		
Noninterest-bearing demand	**$10,662**	$9,974
Interest-bearing demand	**9,443**	8,728
Money market	**18,534**	16,385
Total transaction deposits	**38,639**	35,087
Savings	**2,704**	2,614
Certificates of deposit	**16,383**	16,684
Total deposits	**57,726**	54,385
Other liabilities	**339**	490
Capital	**3,693**	3,433
Total funds	**$61,758**	$58,308
PERFORMANCE RATIOS		
Return on average capital	**18%**	25%
Noninterest income to total revenue	**46**	42
Efficiency	**60**	57
OTHER INFORMATION (b) (c)		
Credit-related statistics:		
Commercial nonperforming assets	**$304**	$110
Consumer nonperforming assets	**49**	30
Total nonperforming assets (d)	**$353**	$140
Commercial net charge-offs	**$106**	$27
Consumer net charge-offs	**54**	25
Total net charge-offs (e)	**$160**	$52
Commercial net charge-off ratio	**1.34%**	.45%
Consumer net charge-off ratio	**.49%**	.26%
Total net charge-off ratio (e)	**.85%**	.34%
Other statistics:		
Full-time employees	**11,671**	10,786
Part-time employees	**2,371**	2,344
ATMs	**4,015**	3,917
Branches (f)	**1,153**	1,084

At June 30 Dollars in millions, except where noted	2008	2007
OTHER INFORMATION (CONTINUED)		
ASSETS UNDER ADMINISTRATION (in billions) (g)		
Assets under management		
Personal	**$46**	$50
Institutional	**20**	22
Total	**$66**	$72
Asset Type		
Equity	**$36**	$41
Fixed income	**17**	19
Liquidity/other	**13**	12
Total	**$66**	$72
Nondiscretionary assets under administration		
Personal	**$30**	$30
Institutional	**81**	81
Total	**$111**	$111
Asset Type		
Equity	**$47**	$47
Fixed income	**27**	28
Liquidity/other	**37**	36
Total	**$111**	$111
Home equity portfolio credit statistics (j):		
% of first lien positions	**39%**	42%
Weighted average loan-to-value ratios (k)	**72%**	70%
Weighted average FICO scores (l)	**726**	727
Annualized net charge-off ratio	**.44%**	.18%
Loans 90 days past due	**.46%**	.26%
Checking-related statistics (j):		
Retail Banking checking relationships	**2,328,000**	1,967,000
Consumer DDA relationships using online banking	**1,157,000**	975,000
% of consumer DDA relationships using online banking	**56%**	55%
Consumer DDA relationships using online bill payment	**768,000**	505,000
% of consumer DDA relationships using online bill payment	**37%**	29%
Small business loans and managed deposits (j):		
Small business loans	**$13,582**	$5,410
Managed deposits:		
On-balance sheet		
Noninterest-bearing demand	**$6,043**	$4,250
Interest-bearing demand	**1,851**	1,505
Money market	**3,349**	2,595
Certificates of deposit	**879**	584
Off-balance sheet (h)		
Small business sweep checking	**2,958**	1,933
Total managed deposits	**$15,080**	$10,867
Brokerage statistics (j):		
Financial consultants (i)	**394**	350
Full service brokerage offices	**24**	23
Brokerage account assets (billions)	**$18**	$18

(a) Information for all periods presented excludes the impact of Hilliard Lyons, which was sold on March 31, 2008, and whose results have been reclassified to "Other."
(b) Presented as of June 30 except for net charge-offs and annualized net charge-off ratios.
(c) Amounts include the impact of Mercantile, which we acquired effective March 2, 2007. Amounts as of and for the six months ended June 30, 2008 include the impact of Yardville. Amounts subsequent to April 4, 2008 include the impact of Sterling.
(d) Includes nonperforming loans of $339 million at June 30, 2008 and $130 million at June 30, 2007.
(e) Increase related to the impact of more closely aligning small business and consumer loan charge-off policies.
(f) Excludes certain satellite branches that provide limited products and service hours.
(g) Excludes brokerage account assets.
(h) 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.
(i) Financial consultants provide services in full service brokerage offices and PNC traditional branches.
(j) Amounts at June 30, 2007 do not include the impact of Mercantile. Amounts at June 30, 2008 do not include the impact of Sterling, except for brokerage statistics. We generally do not report these statistics for acquired companies prior to systems conversion.
(k) Calculated as of origination date.
(l) Represents the most recent FICO scores we have on file.

Retail Banking's earnings were $335 million for the first six months of 2008 compared with $419 million for the same period in 2007. The 20% decline in earnings over the prior year was driven by increases in expenses and the provision for the credit losses, partially offset by benefits from the first quarter 2008 gain related to the Visa initial public offering and the net benefits from acquisitions.

Highlights of Retail Banking's performance during the first half of 2008 include the following:

- The April 2008 acquisition of Sterling added 65 branches and 62 ATMs to our network. This acquisition has resulted in a leading deposit share in the central Pennsylvania footprint and enhanced our presence in surrounding markets.
- Total reported checking relationships increased by a net 56,000 since December 31, 2007, reflecting both the conversion of Yardville accounts and strong organic growth. Without Yardville, we increased reported checking relationships by approximately 35,000 in the first half of the year, which compares favorably to the 13,000 reported relationships we added during the same period last year. This strong organic growth was driven by strength in both customer acquisition and retention with significant contributions coming from the former Mercantile franchise and our Workplace Banking Channel.
- Our investment in online banking capabilities continues to pay off. Since June 30, 2007, the percentage of consumer checking households using online bill payment increased from 29% to 37%. We will continue to seek customer growth by expanding our use of technology. We recently launched our new "Virtual Wallet" product, which was specifically designed to provide a distinctive online money management experience for Generation Y customers in our footprint. This product features three accounts: a spend account to be used for purchases, a reserve account for short-term savings and a growth account for long-term savings. We expect to add long-term, loyal customers by attracting this customer segment now with a tech-driven solution and exceptional service.
- In the first six months of 2008, we opened 8 new branches, consolidated 29 branches, and acquired 65 branches for a total of 1,153 branches at June 30, 2008. We continue to work to optimize our network by opening new branches in high growth areas, relocating branches to areas of higher market opportunity, and consolidating branches in areas of declining opportunity.

Total revenue for the first six months of 2008 was $1.848 billion, an 8% increase compared with $1.707 billion for the same period in 2007. Net interest income of $997 million increased $12 million, or 1%, compared with the first six months of 2007. The growth was driven by acquisitions, partially offset by a lower value attributed to deposits in the lower interest rate environment in 2008 versus 2007.

Noninterest income increased $129 million, or 18%, compared with the first six months of 2007. This growth was attributed primarily to the following:

- A gain of $95 million from the redemption of a portion of our Visa Class B common shares related to Visa's March 2008 initial public offering,
- Acquisitions,
- Increased volume-related consumer fees, and
- Customer growth.

The Market Risk Management – Equity and Other Investment Risk section of this Financial Review includes further information regarding Visa.

The provision for credit losses for the first six months of 2008 was $194 million compared to $60 million for the same period last year. Net charge-offs were $160 million for the first six months of 2008 and $52 million in the first six months of 2007. The increases in provision and net charge-offs were primarily a result of the following:

- Aligning small business and consumer loan charge-off policies,
- Downward credit migration of commercial loan portfolios primarily in Maryland, Virginia and New Jersey related to residential real estate development and related sectors,
- Continued growth in our commercial loan portfolio, and
- Increased levels of charge-offs given the current credit environment.

Based upon the current environment, we believe the provision and nonperforming assets will continue to increase in 2008 versus 2007 levels.

Noninterest expense for the first six months of 2008 totaled $1.107 billion, an increase of $129 million, or 13%, compared with the same period in 2007. The increase was primarily attributable to acquisitions, with the remainder related to expenses directly associated with fee income-related businesses and continued investments in the business.

Full-time employees at June 30, 2008 totaled 11,671, an increase of 885 over the prior year. Part-time employees have increased by 27 since June 30, 2007. The increase in full-time and part-time employees was primarily the result of the Yardville and Sterling acquisitions.

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. Furthermore, core checking accounts are critical to our strategy of expanding our payments business. Average total deposits increased $3.3 billion, or 6%, compared with the first half of 2007.

- Average money market deposits increased $2.1 billion, and average certificates of deposits declined $.3 billion.

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Money market deposits experienced core growth and both deposit categories benefited from the acquisitions. The decline in certificates of deposits was a result of a focus on relationship customers rather than pursuing higher-rate single service customers. The deposit strategy of Retail Banking is to remain disciplined on pricing, target specific products and markets for growth, and focus on the retention and growth of balances for relationship customers.
- Average demand deposit growth of $1.4 billion, or 8%, was almost solely due to acquisitions as organic growth was impacted by current economic conditions, such as lower average balances per account.
- 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 and commercial real estate loans grew $3.6 billion, or 33%, compared with the first half of 2007. The increase was primarily attributable to acquisitions. Organic loan growth reflecting the strength of increased small business loan demand from existing customers and the acquisition of new relationships through our sales efforts was also a factor in the increase. At June 30, 2008, commercial and commercial real estate loans totaled $15.1 billion. This portfolio included $3.7 billion of commercial real estate loans, of which approximately $3.0 billion were related to our expansion from acquisitions into the greater Maryland and Washington, DC markets.
- Average home equity loans grew $440 million, or 3%, compared with the first half of 2007 primarily due to acquisitions. Consumer loan growth has slowed as a result of lower demand from our customers as well as tightening of credit standards. Our home equity loan portfolio is relationship based, with 93% of the portfolio attributable to borrowers in our primary geographic footprint. We monitor this portfolio closely and the nonperforming assets and charge-offs that we have experienced are within our expectations given current market conditions.
- Average indirect loans increased $289 million, or 16%, compared with the first half of 2007. The increase is primarily attributable to acquisitions.
- Average education loans grew $1.4 billion compared with the first half of 2007. The increase was primarily the result of the transfer of approximately $1.8 billion of education loans previously held for sale to the loan portfolio during the first quarter of 2008. The Loans Held For Sale portion of the Consolidated Balance Sheet Review section of this Financial Review includes additional information related to this transfer.
- Average residential mortgage loans increased $727 million primarily due to the addition of loans from acquisitions.

Assets under management of $66 billion at June 30, 2008 decreased $6 billion compared with the balance at June 30, 2007. The decline in assets under management was primarily due to comparatively lower equity markets and the effects of the divestiture of a Mercantile asset management subsidiary during the fourth quarter, partially offset by the Sterling acquisition and positive net inflows.

Nondiscretionary assets under administration of $111 billion at June 30, 2008 remained flat when compared with the balance at June 30, 2007. The effects of net positive client flows were offset by comparatively lower equity markets.

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CORPORATE & INSTITUTIONAL BANKING
(Unaudited)

Six months ended June 30 Dollars in millions except as noted	2008	2007
INCOME STATEMENT		
Net interest income	**$491**	$377
Noninterest income		
Corporate service fees	**268**	266
Other	**(35)**	108
Noninterest income	**233**	374
Total revenue	**724**	751
Provision for credit losses	**121**	1
Noninterest expense	**425**	385
Pretax earnings	**178**	365
Income taxes	**42**	111
Earnings	**$136**	$254
AVERAGE BALANCE SHEET		
Loans		
Corporate (a)	**$11,603**	$9,419
Commercial real estate	**5,321**	4,055
Commercial – real estate related	**2,919**	2,285
Asset-based lending	**5,107**	4,513
Total loans (a)	**24,950**	20,272
Goodwill and other intangible assets	**2,215**	1,669
Loans held for sale	**2,312**	1,142
Other assets	**6,098**	4,388
Total assets	**$35,575**	$27,471
Deposits		
Noninterest-bearing demand	**$7,417**	$7,017
Money market	**5,168**	4,592
Other	**2,109**	1,020
Total deposits	**14,694**	12,629
Other liabilities	**5,296**	2,906
Capital	**2,449**	2,057
Total funds	**$22,439**	$17,592

(a) Includes lease financing.

Corporate & Institutional Banking earned $136 million in the first six months of 2008 compared with $254 million in the first six months of 2007. Earnings in 2008 were impacted by pretax valuation losses of $156 million on commercial mortgage loans and commitments held for sale, net of hedges, and increases in the provision for credit losses and noninterest expenses, partially offset by higher net interest income.

Six months ended June 30 Dollars in millions except as noted	2008	2007
PERFORMANCE RATIOS		
Return on average capital	**11%**	25%
Noninterest income to total revenue	**32**	50
Efficiency	**59**	51
COMMERCIAL MORTGAGE SERVICING PORTFOLIO (in billions)		
Beginning of period	**$243**	$200
Acquisitions/additions	**16**	44
Repayments/transfers	**(11)**	(22)
End of period	**$248**	$222
OTHER INFORMATION		
Consolidated revenue from: (a)		
Treasury Management	**$266**	$224
Capital Markets	**$180**	$143
Commercial mortgage securitizations and valuations (b)	**$(97)**	$30
Commercial mortgage loan servicing (c)	**106**	110
Total commercial mortgage banking activities	**$9**	$140
Total loans (d)	**$26,075**	$21,662
Nonperforming assets (d) (e)	**$329**	$100
Net charge-offs	**$50**	$16
Full-time employees (d)	**2,310**	2,084
Net carrying amount of commercial mortgage servicing rights (d)	**$681**	$493

(a) Represents consolidated PNC amounts.
(b) Includes valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, origination fees, gains on sale of loans held for sale and net interest income on loans held for sale.
(c) Includes net interest income and noninterest income from loan servicing and ancillary services.
(d) At June 30.
(e) Includes nonperforming loans of $321 million at June 30, 2008 and $87 million at June 30, 2007.

- Net interest income grew $114 million, or 30%, in the first six months of 2008 compared with the first six months of 2007. The increase over the prior year was primarily a result of acquisitions, organic loan growth and an increase in commercial mortgage loans held for sale.
- Corporate service fees increased slightly in the first half of 2008 compared with the prior year first half, to $268 million. Increases in treasury management, syndication and structured finance fees more than offset decreases in merger and acquisition advisory fees and mortgage servicing fees, net of amortization.
- Other noninterest income was negative $35 million for the first six months of 2008 compared with income of $108 million in the first six months of 2007. The first six months of 2008 included losses of $156 million related to valuations of commercial mortgage loans and commitments held for sale, net of hedges. These losses are net of the $21 million positive valuation adjustment described below. These valuation losses reflect the illiquid market conditions and are non-cash losses. During the second quarter of 2008, we sold approximately $.5 billion of commercial mortgage loans held for sale via securitizations and recognized a positive

valuation adjustment for loans and commitments of $21 million, net of hedges. As previously reported, PNC adopted SFAS 159 beginning January 1, 2008 and elected to account for its loans held for sale and intended for securitization at fair value. Given the current market disruption, we have stopped originating these loans. We intend to continue pursuing opportunities to reduce our loans held for sale position if we can receive prices we feel are appropriate. Excluding the impact of these valuation losses, other income increased approximately 12% due to higher interest rate derivative and foreign exchange trading revenue from customer activity.

- Noninterest expense increased $40 million, or 10%, compared with the first half of 2007. The increase was primarily due to the impact of the Mercantile and ARCS Commercial Mortgage acquisitions, and other growth initiatives.
- The provision for credit losses was $121 million in the first six months of 2008 compared with $1 million in the first six months of 2007. The increase in the provision compared with the year-ago period was primarily due to credit quality migration mainly related to residential real estate development and related sectors along with growth in total credit exposure. Nonperforming assets increased $229 million in the comparison, the majority of which was due to acquisitions. The largest component of the increase was in commercial real estate and commercial real estate related loans. Based upon the current environment, we believe the provision will continue to increase in 2008 versus 2007 levels.
- Average loan balances increased $4.7 billion, or 23%, from the prior year first half. The increase in corporate and commercial real estate loans resulted from higher utilization of facilities, new business and the impact of the Mercantile and Yardville acquisitions.
- Average deposit balances increased $2.1 billion, or 16%, compared with the first six months of 2007. The increase resulted primarily from higher client time deposits and the impact of acquisitions.
- The commercial mortgage servicing portfolio was $248 billion at June 30, 2008, an increase of $26 billion, or 12%, from June 30, 2007. The increase resulted from strong growth in the third quarter of 2007 including the ARCS acquisition, which added $13 billion of commercial mortgage servicing. Servicing portfolio additions have been modest since the third quarter of 2007 due to the declining volumes in the commercial mortgage securitization market.
- Average other assets and other liabilities increased $1.7 billion and $2.4 billion, respectively. These increases were due to customer driven trading and related hedging transactions. In addition, an increase in customer driven money management activities contributed to the higher other liabilities balance.

See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities on page 8.

BLACKROCK

Our BlackRock business segment earned $129 million in the first six months of 2008 and $110 million in the first six months of 2007. These results reflect our approximately 33.3% share of BlackRock's reported GAAP earnings and the additional income taxes on these earnings incurred by PNC.

Our investment in BlackRock was $4.3 billion at June 30, 2008 and $4.1 billion at December 31, 2007. Based upon BlackRock's closing market price of $177.00 per common share at June 30, 2008, the market value of our investment in BlackRock was $7.6 billion at that date. As such, an additional $3.3 billion of pretax value was not recognized in our equity investment or shareholders' equity account at that date.

BLACKROCK LTIP PROGRAMS

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 $233 million under the 2002 LTIP program, of which approximately $208 million were paid on January 30, 2007. The award payments were funded by 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. The gain was included in other noninterest income and reflected the excess of market value over book value of the one million shares transferred in January 2007. Additional BlackRock shares were distributed to LTIP participants during the first quarter of 2008, resulting in a $3 million pretax gain in other noninterest income.

PNC's noninterest income for the first half of 2008 included a $117 million pretax gain related to our commitment to fund additional BlackRock LTIP programs. This gain represented the mark-to-market adjustment related to our remaining BlackRock LTIP shares obligation as of June 30, 2008 and resulted from the decrease in the market value of BlackRock common shares during the first six months of 2008. In the first six months of 2007, we recognized a pretax charge of $31 million for an increase in the market value of BlackRock common shares during that period.

BlackRock granted awards in 2007 under an additional LTIP program, all of which are subject to achieving earnings performance goals prior to the vesting date of September 29, 2011. Of the shares of BlackRock common stock that we have agreed to transfer to fund their LTIP programs, approximately 1.6 million shares have been committed to fund the awards vesting in 2011 and the amount remaining would then be available for future awards.

We may continue to see volatility in earnings as we mark to market our LTIP shares obligation each quarter end. However, additional gains based on the difference between the market value and the book value of the committed BlackRock common shares will generally not be recognized until the shares are distributed to LTIP participants.

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GLOBAL INVESTMENT SERVICING

(Unaudited)

Six months ended June 30 Dollars in millions except as noted	2008	2007
INCOME STATEMENT		
Servicing revenue (a)	**$482**	$424
Operating expense (a)	**367**	311
Operating income	**115**	113
Debt financing	**19**	19
Nonoperating income (b)	**2**	3
Pretax earnings	**98**	97
Income taxes	**35**	34
Earnings	**$63**	$63
PERIOD-END BALANCE SHEET		
Goodwill and other intangible assets	**$1,305**	$1,005
Other assets	**1,301**	1,395
Total assets	**$2,606**	$2,400
Debt financing	**$935**	$734
Other liabilities	**1,005**	1,109
Shareholder's equity	**666**	557
Total funds	**$2,606**	$2,400
PERFORMANCE RATIOS		
Return on average equity	**20%**	24%
Operating margin (c)	**24**	27
SERVICING STATISTICS (at June 30)		
Accounting/administration net fund assets (in billions) (d)		
Domestic	**$862**	$765
Offshore	**126**	103
Total	**$988**	$868
Asset type (in billions)		
Money market	**$400**	$286
Equity	**358**	373
Fixed income	**126**	118
Other	**104**	91
Total	**$988**	$868
Custody fund assets (in billions)	**$471**	$467
Shareholder accounts (in millions)		
Transfer agency	**19**	20
Subaccounting	**55**	50
Total	**74**	70
OTHER INFORMATION		
Full-time employees (at June 30)	**4,946**	4,522

(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 are received 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.

(b) Net of nonoperating expense.

(c) Total operating income divided by servicing revenue.

(d) Includes alternative investment net assets serviced.

Global Investment Servicing, formerly PFPC, earned $63 million for both the first six months of 2008 and 2007. While servicing revenue growth of 14% was realized through new business, organic growth, and the completion of two acquisitions in December 2007, increased costs related to this growth and the acquisitions offset the increase.

Highlights of Global Investment Servicing's performance for the first six months of 2008 included:

- Total fund accounting assets serviced increased 14% over the prior year, despite declines in major stock market indices over the same time frame, due to a 13% increase in the number of funds serviced.
- Initiatives in the offshore arena have resulted in a 34% increase in servicing revenue and a 22% increase in assets serviced, which now stand at $126 billion.
- Subaccounting shareholder accounts rose by 5 million, or 10%, to 55 million, as existing clients continued to convert additional fund families to this platform. Global Investment Servicing remains a leading provider of subaccounting services.

Servicing revenue for the first half of 2008 reached $482 million, an increase of $58 million, or 14%, over the first half of 2007. This increase resulted primarily from the growth in offshore operations and the acquisitions of Albridge Solutions Inc. and Coates Analytics, LP in December 2007.

Operating expense increased $56 million, or 18%, to $367 million, in the first six months of 2008 compared with the first six months of 2007. Investments in technology, a larger employee base to support business growth, and costs related to the recent acquisitions drove the higher expense level.

Total assets serviced by Global Investment Servicing amounted to $2.6 trillion at June 30, 2008 compared with $2.4 trillion at June 30, 2007 as this business segment continued to see both organic growth and growth from new business in each of its product lines.

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CRITICAL ACCOUNTING POLICIES AND JUDGMENTS

Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report and in Part II, Item 8 of our 2007 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 measured and reported at 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. See Fair Value Measurements And Fair Value Option in this Financial Review for a description of fair value measurement under SFAS 157.

We discuss the following critical accounting policies and judgments under this same heading in Item 7 of our 2007 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 information regarding these policies is found elsewhere in this Financial Review and in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

In addition, see Note 1 Accounting Policies in the Notes To Consolidated Financial Statements regarding our adoption in the first quarter of 2008 of the following:

- EITF Issue 06-4, "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*",
- SFAS 157, "*Fair Value Measurements*",
- SFAS 159, "*The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115*", and
- SEC Staff Accounting Bulletin No. 109

STATUS OF QUALIFIED DEFINED BENEFIT PENSION PLAN

We have a noncontributory, qualified defined benefit pension plan ("plan" or "pension plan") covering eligible employees. Benefits are derived from a cash balance formula based on compensation levels, age and length of service. Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants. Consistent with our investment strategy, plan assets are primarily invested in equity investments and fixed income instruments. Plan fiduciaries determine and review the plan's investment policy, which is described more fully in Note 17 Employee Benefit Plans in the Notes To Consolidated Financial Statements included under Part II, Item 8 of our 2007 Form 10-K.

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.

The discount rate and compensation increase assumptions do not significantly affect pension expense. However, 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 2008 was 8.25%, unchanged from 2007. 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 annual assumptions, using 2008 estimated expense as a baseline.

Change in Assumption	Estimated Increase to 2008 Pension Expense (In millions)
.5% decrease in discount rate	$1
.5% decrease in expected long-term return on assets	$10
.5% increase in compensation rate	$2

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We currently estimate a pretax pension benefit of $32 million in 2008 compared with a pretax benefit of $30 million in 2007.

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 contributions to the plan in the near term 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 risks 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 2007 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 2007 Form 10-K provides an analysis of the risk management processes for what we view as our primary areas of risk: credit, operational, liquidity and market, as well as a discussion of our use of financial derivatives as part of our overall asset and liability risk management process. The following updates our 2007 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 our most significant risks.

Nonperforming, Past Due And Potential Problem Assets

We continued to experience credit deterioration at a manageable pace and overall asset quality performed as anticipated in the challenging environment during the first six months of 2008. We remained focused on maintaining a moderate risk profile.

Nonperforming Assets by Type

In millions	June 30 2008	December 31 2007
Nonaccrual loans		
Commercial		
Retail/wholesale	**$ 58**	$ 39
Manufacturing	**34**	35
Other service providers	**66**	48
Real estate related (a)	**70**	45
Financial services	**10**	15
Health care	**7**	4
Other	**8**	7
Total commercial	**253**	193
Commercial real estate		
Real estate projects	**330**	184
Mortgage	**35**	28
Total commercial real estate	**365**	212
Consumer	**24**	17
Residential mortgage (b)	**49**	27
Lease financing	**4**	3
Total nonaccrual loans (b)	**695**	452
Restructured loans		2
Total nonperforming loans (b)	**695**	454
Foreclosed and other assets		
Residential mortgage	**28**	16
Lease financing		11
Other	**10**	14
Total foreclosed and other assets	**38**	41
Total nonperforming assets (b) (c) (d)	**$ 733**	$ 495

(a) Includes loans related to customers in the real estate and construction industries.
(b) We have adjusted the December 31, 2007 amounts to be consistent with the current methodology for recognizing nonaccrual residential mortgage loans serviced under master servicing arrangements.
(c) Excludes equity management assets carried at estimated fair value of $44 million at June 30, 2008 and $4 million at December 31, 2007.
(d) Excludes loans held for sale carried at lower of cost or market value of $59 million at June 30, 2008 (amount includes troubled debt restructured assets of $20 million) and $25 million at December 31, 2007.

Total nonperforming assets at June 30, 2008 increased $238 million, to $733 million, from the balance at December 31, 2007. Our nonperforming assets represented .51% of total assets at June 30, 2008 compared with .36% at December 31, 2007. The increase in nonperforming assets reflected higher nonaccrual residential real estate development loans, commercial real estate related loans and residential mortgage loans, partially offset by the impact of aligning small business and consumer loan charge-off policies.

The amount of nonperforming loans that was current as to principal and interest was $209 million at June 30, 2008 and $178 million at December 31, 2007.

See Note 5 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, 2008 and December 31, 2007. In addition, certain performing assets have interest payments that are past due or have the potential for future repayment problems.

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Changes In Nonperforming Assets

In millions	2008	2007
January 1	**$ 495**	$184
Transferred from accrual	**602**	195
Acquisition (a)	**9**	35
Charge-offs and valuation adjustments	**(185)**	(51)
Principal activity including payoffs	**(153)**	(90)
Returned to performing	**(31)**	(9)
Asset sales	**(4)**	(4)
June 30	**$ 733**	$260

(a) Sterling in 2008 and Mercantile in 2007.

In the first quarter of 2008, we more closely aligned our charge-off policies for consumer and small business loans, which had the effect of reducing nonperforming assets by $44 million in that period.

Accruing Loans Past Due 90 Days Or More

	Amount		Percent of Total Outstandings	
Dollars in millions	**June 30 2008**	Dec. 31 2007	**June 30 2008**	Dec. 31 2007
Commercial	**$ 22**	$ 14	**.07%**	.05%
Commercial real estate	**10**	18	**.11**	.20
Consumer	**70**	49	**.34**	.27
Residential mortgage	**46**	43	**.51**	.45
Other	**12**	12	**4.12**	2.91
Total loans	**$ 160**	$ 136	**.22**	.20

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 $262 million at June 30, 2008 compared with $134 million at December 31, 2007.

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 5 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

	June 30, 2008		December 31, 2007	
Dollars in millions	**Allowance**	**Loans to Total Loans**	Allowance	Loans to Total Loans
Commercial	**$ 664**	**42.3%**	$ 560	41.8%
Commercial real estate	**187**	**12.9**	153	13.0
Consumer	**90**	**28.5**	68	26.9
Residential mortgage	**9**	**12.4**	9	14.0
Lease financing	**35**	**3.5**	36	3.7
Other	**3**	**.4**	4	.6
Total	**$ 988**	**100.0%**	$ 830	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 totaled $337 million for the first six months of 2008 and $62 million for the first six months of 2007. The higher provision in the first half of 2008 compared with the prior year period was driven by general credit quality migration, especially in the residential real estate development sector of our commercial real estate portfolio. See the Consolidated Balance Sheet Review section of this Financial Review for further information. In addition, the provision for credit losses for the first six months of 2008 and the evaluation of the allowances for loan and lease losses and unfunded loan commitments and letters of credit as of June 30, 2008 reflected loan and total credit exposure growth, changes in loan portfolio composition, and other 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.

Given our projections for loan growth and continued credit deterioration, and our current assumptions for the national economy, we expect that the provision for credit losses will be approximately $750 million for full year 2008, including the impact of the Sterling acquisition. However, we believe that increased operating leverage will be more than adequate to cover increased credit costs in 2008.

The allowance as a percent of nonperforming loans was 142% and as a percent of total loans was 1.35% at June 30, 2008. The comparable percentages at December 31, 2007 were 183% and 1.21%. We expect to continue to increase our allowance as a percent of total loans as the market and our credit quality migration dictates.

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Charge-Offs And Recoveries

Six months ended June 30 Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans
2008				
Commercial	**$ 141**	**$ 19**	**$ 122**	**.82%**
Consumer	**61**	**7**	**54**	**.55**
Commercial real estate	**35**	**3**	**32**	**.70**
Lease financing	**3**	**1**	**2**	**.16**
Total	**$ 240**	**$ 30**	**$ 210**	**.59**
2007				
Commercial	$ 58	$ 15	$ 43	.37%
Consumer	32	7	25	.29
Commercial real estate	1	1		
Total	$ 91	$ 23	$ 68	.23

In the first quarter of 2008, we more closely aligned our charge-off policies for consumer and small business loans, which had the effect of increasing charge-offs by $44 million during that period.

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, the following:

- 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
- 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 4.3% of the total allowance and .06% of total loans, net of unearned income, at June 30, 2008.

Credit Default Swaps

From a credit risk management perspective, we buy and sell credit loss protection via the use of credit derivatives. When we buy loss protection by purchasing a credit default swap ("CDS"), we pay a fee to the seller, or CDS counterparty, in return for the right to receive a payment if a specified credit event occurs for a particular obligor or reference entity. We purchase CDSs to mitigate the risk of economic loss on a portion of our loan exposures.

We also sell loss protection to mitigate the net premium cost and the impact of fair value accounting on the CDS in cases where we buy protection to hedge the loan portfolio and to take proprietary trading positions. These activities represent additional risk positions rather than hedges of risk.

We approve counterparty credit lines for all of our trading activities, including CDSs. Counterparty credit lines are approved based on a review of credit quality in accordance with our traditional credit quality standards and credit policies.

The credit risk of our counterparties is monitored in the normal course of business. In addition, all counterparty credit lines are subject to collateral thresholds and exposures above these thresholds are secured.

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 used to hedge our loan portfolio and take proprietary trading positions, reflected in other noninterest income in our Consolidated Income Statement, totaled $7 million for the first six months of 2008 compared with $8 million for the first six months of 2007.

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 corporate and institutional 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, trading securities and other short-term investments) and securities available for sale. At June 30, 2008, our liquid assets totaled $36.8 billion, with $21.0 billion pledged as collateral for borrowings, trust, and other commitments.

Bank Level Liquidity

PNC Bank, N.A. can borrow from the Federal Reserve Bank of Cleveland's ("Federal Reserve Bank") discount window to meet short-term liquidity requirements. These borrowings are secured by securities and commercial loans. PNC Bank, N.A. is also a member of the Federal Home Loan Bank ("FHLB")-Pittsburgh and as such has access to advances from FHLB-Pittsburgh secured generally by residential mortgage and other mortgage-related loans. At June 30, 2008, we maintained significant unused borrowing capacity from the Federal Reserve Bank discount window and FHLB-Pittsburgh under current collateral requirements.

At June 30, 2008, we pledged $4.1 billion of loans and $15.4 billion of securities to the Federal Reserve Bank with a combined collateral value of $18.1 billion. Also, we pledged $31.7 billion of loans and $5.0 billion of securities to FHLB-Pittsburgh under a blanket lien with a combined collateral value of $18.1 billion as of that date. We pledged this collateral with the Federal Reserve Bank and FHLB- Pittsburgh for the ability to borrow if necessary. At June 30, 2008 we had no outstanding borrowings with the Federal Reserve Bank and $9.3 billion outstanding with FHLB-Pittsburgh resulting in unused borrowing capacity of $18.1 billion and $8.8 billion, respectively, for a combined unused borrowing capacity under these arrangements of $26.9 billion, which is based on current collateral requirements.

At December 31, 2007, we had $1.6 billion of loans and $18.8 billion of securities pledged to the Federal Reserve Bank with a combined collateral value of $18.2 billion. Also at December 31, 2007, we pledged $33.5 billion of loans and $4.3 billion of securities to FHLB-Pittsburgh with a combined collateral value of $23.5 billion. At December 31, 2007 we had no outstanding borrowings with the Federal Reserve Bank and $6.8 billion outstanding with FHLB-Pittsburgh resulting in unused borrowing capacity of $18.2 billion and $16.7 billion, respectively, for a combined unused borrowing capacity under these arrangements of $34.9 billion.

In the first half of 2008 we increased FHLB borrowings, which provided us with additional liquidity at relatively attractive rates. Total FHLB borrowings were $9.6 billion at June 30, 2008 compared with $7.1 billion at December 31, 2007.

We can also obtain funding through traditional forms of borrowing, including federal funds purchased, repurchase agreements, and short 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, 2008, PNC Bank, N.A. had issued $6.9 billion of debt under this program.

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, 2008, there were no issuances outstanding under this program.

As of June 30, 2008, there were $1.5 billion of PNC Bank, N.A. short- and long-term debt issuances with maturities of less than one year.

Parent Company Liquidity

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

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

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

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

Also, there are statutory and regulatory limitations on the ability of national banks to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. Dividends may also be impacted by the bank's capital needs and by contractual restrictions. We provide additional information on certain contractual restrictions under the "Perpetual Trust Securities." "PNC Capital Trust E Trust Preferred Securities," and "Acquired Entity Trust Preferred Securities" sections of the Off-Balance Sheet Arrangements And Variable Interest Entities section of this Financial Review. The amount available for dividend payments to the parent company by PNC Bank, N.A. without prior regulatory approval was approximately $510 million at June 30, 2008.

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, 2008, the parent company had approximately $679 million in funds available from its cash and short-term investments.

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

In July 2006, PNC Funding Corp established a program to offer up to $3.0 billion of commercial paper to provide the parent company with additional liquidity. As of June 30, 2008, $384 million of commercial paper was outstanding under this program.

In May 2008, we issued $500 million of Depositary Shares, each representing a fractional interest in a share of PNC Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series K. Dividends are payable if and when declared beginning November 21, 2008 and then each May 21 and November 21 until May 21, 2013. After that date, dividends will be payable each 21st of August, November, February and May. Dividends will be paid at a rate of 8.25% prior to May 21, 2013 and at a rate of three-month LIBOR plus 422 basis points beginning May 21, 2013.

We have effective shelf registration statements which enable us to issue additional debt and equity securities, including certain hybrid capital instruments.

As of June 30, 2008, there were $1.7 billion of parent company contractual obligations, including commercial paper, with maturities of less than one year.

We also provide tables showing contractual obligations and various other commitments representing required and potential cash outflows as of June 30, 2008 under the heading "Commitments" below.

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.

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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.

Asset and Liability Management 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 quarters of 2008 and 2007 follow:

Interest Sensitivity Analysis

	Second Quarter 2008	Second Quarter 2007
Net Interest Income Sensitivity Simulation		
Effect on net interest income in first year from gradual interest rate change over following 12 months of:		
100 basis point increase	**(2.6)%**	(2.5)%
100 basis point decrease	**2.4%**	2.5%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	**(5.2)%**	(5.7)%
100 basis point decrease	**2.5%**	4.4%
Duration of Equity Model		
Base case duration of equity (in years):	**2.6**	3.2
Key Period-End Interest Rates		
One-month LIBOR	**2.46%**	5.32%
Three-year swap	**3.89%**	5.39%

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.

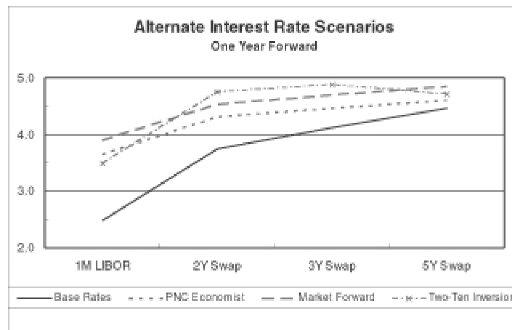
Net Interest Income Sensitivity To Alternate Rate Scenarios (Second Quarter 2008)

	PNC Economist	Market Forward	Two-Ten Inversion
First year sensitivity	.3%	(4.3)%	(7.4)%
Second year sensitivity	(7.1)%	(11.3)%	(7.1)%

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

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

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



Our risk position is currently liability sensitive, which has been the objective of 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 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 2008, our VaR ranged between $9.1 million and $13.8 million, averaging $11.7 million. During the first six months of 2007, our VaR ranged between $6.1 million and $9.3 million, averaging $7.6 million. The increase in VaR compared with the first half of 2007 reflected ongoing market volatility.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process known

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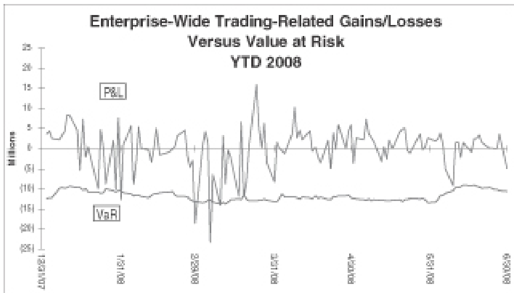
as backtesting. The backtesting process consists of comparing actual observations of trading-related gains or losses against the VaR levels that were calculated at the close of the prior day. Under typical market conditions, we would expect an average of two to three instances a year in which actual losses exceeded the prior day VaR measure at the enterprise-wide level. As a result of increased volatility in certain markets, there were five such instances during the first six months of 2008.

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



Total trading revenue for the first half and second quarter of 2008 and 2007 was as follows:

Six months ended June 30 – in millions	**2008**	2007
Net interest income	**$ 39**	$ 1
Noninterest income	**(23)**	81
Total trading revenue	**$ 16**	$82
Securities underwriting and trading (a)	**$ 10**	$17
Foreign exchange	**33**	27
Financial derivatives	**(27)**	38
Total trading revenue	**$ 16**	$82

Three months ended June 30 – in millions	**2008**	2007
Net interest income	**$23**	$ 1
Noninterest income	**53**	29
Total trading revenue	**$76**	$30
Securities underwriting and trading (a)	**$19**	$ 8
Foreign exchange	**17**	13
Financial derivatives	**40**	9
Total trading revenue	**$76**	$30

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

The decline in total trading revenue for the first six months of 2008 primarily related to our first quarter 2008 proprietary trading activities and reflected the negative impact of a very illiquid market on the assets that we held. In response to first quarter 2008 market volatility, during the second quarter of 2008 we substantially reduced our trading positions and increased our hedges in connection with proprietary trading activities.

Average trading assets and liabilities consisted of the following:

Six months ended June 30 – in millions	**2008**	2007
Trading assets		
Securities (a)	**$3,177**	$1,858
Resale agreements (b)	**2,046**	1,254
Financial derivatives (c)	**2,420**	1,166
Loans at fair value (c)	**103**	177
Total trading assets	**$7,746**	$4,455
Trading liabilities		
Securities sold short (d)	**$1,642**	$1,348
Repurchase agreements and other borrowings (e)	**864**	653
Financial derivatives (f)	**2,460**	1,178
Borrowings at fair value (f)	**28**	39
Total trading liabilities	**$4,994**	$3,218

Three months ended June 30 – in millions	**2008**	2007
Trading assets		
Securities (a)	**$2,471**	$2,144
Resale agreements (b)	**1,731**	1,247
Financial derivatives (c)	**2,028**	1,221
Loans at fair value (c)	**92**	161
Total trading assets	**$6,322**	$4,773
Trading liabilities		
Securities sold short (d)	**$1,157**	$1,431
Repurchase agreements and other borrowings (e)	**691**	669
Financial derivatives (f)	**2,051**	1,230
Borrowings at fair value (f)	**25**	40
Total trading liabilities	**$3,924**	$3,370

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

MARKET RISK MANAGEMENT – EQUITY AND OTHER INVESTMENT RISK

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

BlackRock

PNC owns approximately 43 million shares of BlackRock common stock, accounted for under the equity method. Our total investment in BlackRock was $4.3 billion at June 30, 2008 compared with $4.1 billion at December 31, 2007. The market value of our investment in BlackRock was $7.6 billion at June 30, 2008. 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. These investments, consisting of partnerships accounted for under the equity method as well as equity investments held by consolidated partnerships, totaled $1.0 billion at June 30, 2008 and

$1.0 billion at December 31, 2007. PNC's equity investment at risk was $209 million at June 30, 2008 compared with $188 million at year-end 2007. We also had commitments to make additional equity investments in affordable housing limited partnerships of $97 million at June 30, 2008 compared with $98 million at December 31, 2007. These commitments are included in other liabilities on the Consolidated Balance Sheet.

Visa

Our remaining investment in Visa Class B common shares totals approximately 3.6 million and is recorded at zero book value. At the IPO conversion ratio, these shares would convert to approximately 2.5 million of the publicly traded Visa Class A common shares. Based on the June 30, 2008 closing price of $81.31 for the Visa shares, our remaining investment had an unrecognized pretax value of approximately $207 million. The Visa Class B common shares we own generally will not be transferable until they can be converted into shares of the publicly traded class of stock, which cannot happen until the later of three years after the IPO or settlement of all of the specified litigation. Additionally, Visa is allowed to reduce the number of shares that we own to fund any litigation liabilities that are above and beyond the initial escrow amount set aside at the time of the IPO. Note 15 Commitments And Guarantees in our Notes To Consolidated Financial Statements included in this Report has further information on our Visa indemnification obligation.

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, 2008, private equity investments carried at estimated fair value totaled $584 million compared with $561 million at December 31, 2007. As of June 30, 2008, $306 million was invested directly in a variety of companies and $278 million was invested in various limited partnerships. Included in direct investments are investment activities of two private equity funds that are consolidated for financial reporting purposes. The minority and noncontrolling interests of these funds totaled $111 million as of June 30, 2008. Our unfunded commitments related to private equity totaled $254 million at June 30, 2008 and $270 million at December 31, 2007.

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, 2008, other investments totaled $541 million compared with $389 million at December 31, 2007. During the second quarter of 2008, we recognized impairments relating to these investments of $26 million. Given the nature of these investments and if current market conditions affecting their valuation were to continue or worsen, we could incur future impairment charges.

Our unfunded commitments related to other investments totaled $74 million at June 30, 2008 compared with $79 million at December 31, 2007.

COMMITMENTS

The following tables set forth contractual obligations and various other commitments representing required and potential cash outflows as of June 30, 2008.

Contractual Obligations

June 30, 2008 – in millions	Total
Remaining contractual maturities of time deposits	**$24,945**
Borrowed funds	**32,472**
Minimum annual rentals on noncancellable leases	**1,309**
Nonqualified pension and post-retirement benefits	**315**
Purchase obligations (a)	**420**
Total contractual cash obligations	**$59,461**

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

Other Commitments (a)

June 30, 2008 – in millions	Total
Loan commitments	**$51,558**
Standby letters of credit (b)	**5,672**
Other commitments (c)	**445**
Total commitments	**$57,675**

(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 $2.5 billion of standby letters of credit that support remarketing programs for customers' variable rate demand notes.

(c) Includes unfunded commitments related to private equity investments of $254 million and other investments of $74 million which are not on our Consolidated Balance Sheet. Also includes commitments related to low income housing projects of $97 million and historic tax credits of $20 million which are included in other liabilities on the Consolidated Balance Sheet.

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 is presented in Note 1 Accounting Policies and Note 10 Financial Derivatives in the Notes To Consolidated Financial Statements included in 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, 2008 and December 31, 2007. 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 – 2008

June 30, 2008 – dollars in millions	Notional/ Contract Amount	Estimated Net Fair Value	Weighted- Average Maturity	Weighted-Average Interest Rates Paid	Weighted-Average Interest Rates Received
Accounting Hedges					
Interest rate risk management					
Asset rate conversion					
Interest rate swaps (a)					
Receive fixed	**$9,813**	**$303**	**3 yrs. 2 mos.**	**4.36%**	**5.16%**
Forward purchase commitments	**1,000**	**11**	**1 mo.**	**NM**	**NM**
Liability rate conversion					
Interest rate swaps (a)					
Receive fixed	**9,275**	**279**	**4 yrs. 10 mos.**	**3.98%**	**5.07%**
Total interest rate risk management	**20,088**	**593**			
Total accounting hedges (b)	**$20,088**	**$593**			
Free-Standing Derivatives					
Customer-related					
Interest rate					
Swaps (c)	**$73,496**	**$(48)**	**5 yrs. 2 mos.**	**4.15%**	**4.16%**
Caps/floors					
Sold (c)	**2,767**	**(9)**	**5 yrs. 7 mos.**	**NM**	**NM**
Purchased	**2,157**	**12**	**2 yrs. 11 mos.**	**NM**	**NM**
Futures	**5,742**		**9 mos.**	**NM**	**NM**
Foreign exchange	**9,747**	**5**	**5 mos.**	**NM**	**NM**
Equity	**1,258**	**(34)**	**1 yr. 4 mos.**	**NM**	**NM**
Swaptions	**3,304**	**39**	**13 yrs. 5 mos.**	**NM**	**NM**
Total customer-related	**98,471**	**(35)**			
Other risk management and proprietary					
Interest rate					
Swaps (c) (d)	**31,205**	**(66)**	**5 yrs.**	**3.98%**	**3.96%**
Caps/floors					
Sold	**500**		**5 mos.**	**NM**	**NM**
Purchased	**700**	**9**	**1 yr. 7 mos.**	**NM**	**NM**
Futures	**19,581**		**1 yr. 5 mos.**	**NM**	**NM**
Foreign exchange (c)	**3,436**	**(8)**	**7 yrs. 3 mos.**	**NM**	**NM**
Credit derivatives	**5,178**	**106**	**15 yrs. 2 mos.**	**NM**	**NM**
Risk participation agreements	**1,426**		**4 yrs. 2 mos.**	**NM**	**NM**
Commitments related to mortgage-related assets	**3,447**	**5**	**3 mos.**	**NM**	**NM**
Options					
Futures	**13,200**	**1**	**5 mos.**	**NM**	**NM**
Swaptions (c)	**10,778**	**(17)**	**7 yrs. 6 mos.**	**NM**	**NM**
Other (e)	**488**	**(82)**	**NM**	**NM**	**NM**
Total other risk management and proprietary	**89,939**	**(52)**			
Total free-standing derivatives	**$188,410**	**$(87)**			

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 48% were based on 1-month LIBOR, 40% on 3-month LIBOR and 12% on Prime Rate.
(b) Fair value amount includes net accrued interest receivable of $219 million.
(c) The increases in the negative fair values from December 31, 2007 to June 30, 2008 for equity, interest rate contracts and foreign exchange were due to the changes in fair values of the existing contracts along with new contracts entered into during 2008.
(d) Due to the adoption of SFAS 159 as of January 1, 2008, we discontinued hedge accounting with our commercial mortgage banking pay fixed interest rate swaps; therefore, the fair value of these are now reported in this category.
(e) Relates to PNC's obligation to help fund certain BlackRock LTIP programs and to certain customer-related derivatives. Additional information regarding the BlackRock/MLIM transaction and our BlackRock LTIP shares obligation is included in Note 2 Acquisitions and Divestitures included in the Notes To Consolidated Financial Statements in Item 8 of our 2007 Form 10-K.
NM Not meaningful

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Financial Derivatives – 2007

December 31, 2007 – dollars in millions	Notional/ Contract Amount	Estimated Net Fair Value	Weighted-Average Maturity	Weighted-Average Interest Rates Paid	Weighted-Average Interest Rates Received
Accounting Hedges					
Interest rate risk management					
Asset rate conversion					
Interest rate swaps (a)					
Receive fixed	$ 7,856	$ 325	4 yrs. 2 mos.	4.28%	5.34%
Liability rate conversion					
Interest rate swaps (a)					
Receive fixed	9,440	269	4 yrs. 10 mos.	4.12	5.09
Total interest rate risk management	17,296	594			
Commercial mortgage banking risk management					
Pay fixed interest rate swaps (a)	1,128	(79)	8 yrs. 8 mos.	5.45	4.52
Total accounting hedges (b)	$ 18,424	$ 515			
Free-Standing Derivatives					
Customer-related					
Interest rate					
Swaps	$ 61,768	$ (39)	5 yrs. 4 mos.	4.46%	4.49%
Caps/floors					
Sold	2,837	(5)	6 yrs. 5 mos.	NM	NM
Purchased	2,356	7	3 yrs. 7 mos.	NM	NM
Futures	5,564		8 mos.	NM	NM
Foreign exchange	7,028	8	7 mos.	NM	NM
Equity	1,824	(69)	1 yr. 5 mos.	NM	NM
Swaptions	3,490	40	13 yrs. 10 mos.	NM	NM
Other	200		10 yrs. 6 mos.	NM	NM
Total customer-related	85,067	(58)			
Other risk management and proprietary					
Interest rate					
Swaps	41,247	6	4 yrs. 5 mos.	4.44%	4.47%
Caps/floors					
Sold	6,250	(82)	2 yrs. 1 mo.	NM	NM
Purchased	7,760	117	1 yr. 11 mos.	NM	NM
Futures	43,107		1 yr. 7 mos.	NM	NM
Foreign exchange	8,713	5	6 yrs. 8 mos.	NM	NM
Credit derivatives	5,823	42	12 yrs. 1 mo.	NM	NM
Risk participation agreements	1,183		4 yrs. 6 mos.	NM	NM
Commitments related to mortgage-related assets	3,190	10	4 mos.	NM	NM
Options					
Futures	39,158	(2)	8 mos.	NM	NM
Swaptions	21,800	49	8 yrs. 1 mo.	NM	NM
Other (c)	442	(201)	NM	NM	NM
Total other risk management and proprietary	178,673	(56)			
Total free-standing derivatives	$263,740	$ (114)			

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 52% were based on 1-month LIBOR, 43% on 3-month LIBOR and 5% on Prime Rate.
(b) Fair value amount includes net accrued interest receivable of $130 million.
(c) Relates to PNC's obligation to help fund certain BlackRock LTIP programs. Additional information regarding the BlackRock/MLIM transaction and our BlackRock LTIP shares obligation is included in Note 2 Acquisitions and Divestitures included in the Notes to Consolidated Financial Statements in Item 8 of our 2007 Form 10-K.
NM Not meaningful

INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES

As of June 30, 2008, 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, 2008, and that there has been no change in internal control over financial reporting that occurred during the second quarter of 2008 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, by the amount of that difference.

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, primarily credit default swaps, 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; trading securities and other short-term investments; 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.

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.

Fair value - The price that would be received to sell an asset or the price that would be paid to transfer a liability on the measurement date using the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants.

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 income from loans and deposits - A management accounting assessment, using funds transfer pricing methodology, of the net interest contribution from loans and deposits.

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, 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 assets - Annualized net income divided by average assets.

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

Return on average common shareholders' equity- Annualized net income less preferred stock dividends divided by average common shareholders' equity.

Return on average tangible common shareholders' equity- Annualized net income less preferred stock dividends divided by average common shareholders' equity less goodwill and other intangible assets (net of deferred taxes for both taxable and nontaxable combinations), and excluding mortgage servicing rights.

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

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

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

Tangible common equity ratio - Period-end common shareholders' equity less goodwill and other intangible assets (net of deferred taxes), and excluding mortgage servicing rights, divided by period-end assets less goodwill and other intangible assets (net of 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 use interest income on a taxable-equivalent basis in calculating average yields and net interest margins 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 relating to nontaxable combinations), 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.

Watchlist - A list of criticized loans, credit exposure or other assets compiled for internal monitoring purposes. We define criticized exposure for this purpose as exposure with an internal risk rating of other assets especially mentioned, substandard, doubtful or loss.

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," "will," "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 2007 Form 10-K and elsewhere in this Report, including in the Risk Factors and Risk Management sections of these 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 businesses and financial results are affected by business and economic conditions, both generally and specifically in the principal markets in which we operate. In particular, our businesses and financial results may be impacted by:
  - Changes in interest rates and valuations in the debt, equity and other financial markets.
  - Disruptions in the liquidity and other functioning of financial markets, including such disruptions in the markets for real estate and other assets commonly securing financial products.

- Actions by the Federal Reserve and other government agencies, including those that impact money supply and market interest rates.
- Changes in our customers', suppliers' and other counterparties' performance in general and their creditworthiness in particular.
- Changes in customer preferences and behavior, whether as a result of changing business and economic conditions or other factors.

- A continuation of recent turbulence in significant portions of the global financial markets could impact our performance, both directly by affecting our revenues and the value of our assets and liabilities and indirectly by affecting the economy generally.
- Given current economic and financial market conditions, our forward-looking financial statements are subject to the risk that these conditions will be substantially different than we are currently expecting. These statements are based on our current expectations that interest rates will remain low through 2008 with continued wide market credit spreads, and our view that national economic conditions currently point toward a mild recession followed by a subdued recovery.
- Our operating results are affected by our liability to provide shares of BlackRock common stock to help fund certain 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.
- 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, derivatives, and capital management techniques.
- 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 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.
- Our ability to implement our business initiatives and strategies could affect our financial performance over the next several years.
- 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 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 capital and other financial 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 filings with the SEC, including in the Risk Factors sections of BlackRock's reports. BlackRock's SEC filings are accessible on the SEC's website and on or through BlackRock's website at www.blackrock.com.

We grow our business from time to time by acquiring other financial services companies. Acquisitions in general present us with risks in addition to 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. Our recent acquisition of Sterling Financial Corporation ("Sterling") presents regulatory and litigation risk, as a result of financial irregularities at Sterling's commercial finance subsidiary, that may adversely impact our financial results.

CONSOLIDATED INCOME STATEMENT

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except per share data *Unaudited*	Three months ended June 30 **2008**	2007	Six months ended June 30 **2008**	2007
Interest Income				
Loans	**$ 1,050**	$ 1,084	**$ 2,121**	$ 1,980
Securities available for sale	**419**	355	**823**	665
Other	**108**	115	**252**	224
Total interest income	**1,577**	1,554	**3,196**	2,869
Interest Expense				
Deposits	**362**	532	**812**	1,000
Borrowed funds	**238**	284	**553**	508
Total interest expense	**600**	816	**1,365**	1,508
Net interest income	**977**	738	**1,831**	1,361
Noninterest Income				
Fund servicing	**234**	209	**462**	412
Asset management	**197**	190	**409**	355
Consumer services	**149**	179	**319**	336
Corporate services	**185**	176	**349**	335
Service charges on deposits	**92**	92	**174**	169
Net securities gains (losses)	**(1)**	1	**40**	(2)
Other	**206**	128	**276**	361
Total noninterest income	**1,062**	975	**2,029**	1,966
Total revenue	**2,039**	1,713	**3,860**	3,327
Provision for credit losses	**186**	54	**337**	62
Noninterest Expense				
Personnel	**547**	544	**1,091**	1,034
Occupancy	**90**	81	**185**	168
Equipment	**94**	79	**176**	150
Marketing	**34**	29	**56**	50
Other	**350**	307	**649**	582
Total noninterest expense	**1,115**	1,040	**2,157**	1,984
Income before income taxes	**738**	619	**1,366**	1,281
Income taxes	**233**	196	**484**	399
Net income	**$ 505**	$ 423	**$ 882**	$ 882
Earnings Per Common Share				
Basic	**$ 1.47**	$ 1.24	**$ 2.58**	$ 2.71
Diluted	**$ 1.45**	$ 1.22	**$ 2.54**	$ 2.67
Average Common Shares Outstanding				
Basic	**344**	342	**342**	325
Diluted	**347**	346	**345**	329

See accompanying Notes To Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEET

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except par value *Unaudited*	**June 30 2008**	December 31 2007
Assets		
Cash and due from banks	**$ 3,525**	$ 3,567
Federal funds sold and resale agreements (includes $1,001 measured at fair value at June 30, 2008) (a)	**3,015**	2,729
Trading securities and other short-term investments	**2,705**	4,129
Loans held for sale (includes $1,604 measured at fair value at June 30, 2008) (a)	**2,288**	3,927
Securities available for sale	**31,032**	30,225
Loans, net of unearned income of $934 and $990	**73,040**	68,319
Allowance for loan and lease losses	**(988)**	(830)
Net loans	**72,052**	67,489
Goodwill	**8,824**	8,405
Other intangible assets	**1,104**	1,146
Equity investments	**6,376**	6,045
Other	**11,850**	11,258
Total assets	**$142,771**	$ 138,920
Liabilities		
Deposits		
Noninterest-bearing	**$ 19,869**	$ 19,440
Interest-bearing	**64,820**	63,256
Total deposits	**84,689**	82,696
Borrowed funds		
Federal funds purchased	**7,343**	7,037
Repurchase agreements	**1,887**	2,737
Federal Home Loan Bank borrowings	**9,572**	7,065
Bank notes and senior debt (includes $11 measured at fair value at June 30, 2008) (a)	**5,804**	6,821
Subordinated debt	**5,169**	4,506
Other	**2,697**	2,765
Total borrowed funds	**32,472**	30,931
Allowance for unfunded loan commitments and letters of credit	**124**	134
Accrued expenses	**3,388**	4,330
Other	**4,981**	4,321
Total liabilities	**125,654**	122,412
Minority and noncontrolling interests in consolidated entities	**2,009**	1,654
Shareholders' Equity		
Preferred stock (b)		
Common stock - $5 par value		
Authorized 800 shares, issued 357 and 353 shares	**1,787**	1,764
Capital surplus	**3,387**	2,618
Retained earnings	**11,940**	11,497
Accumulated other comprehensive loss	**(1,227)**	(147)
Common stock held in treasury at cost: 11 and 12 shares	**(779)**	(878)
Total shareholders' equity	**15,108**	14,854
Total liabilities, minority and noncontrolling interests, and shareholders' equity	**$142,771**	$ 138,920

(a) Amounts represent items for which the Corporation has elected the fair value option under SFAS 159.
(b) 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.

In millions *Unaudited*	Six months ended June 30 **2008**	2007
Operating Activities		
Net income	**$ 882**	$ 882
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	**337**	62
Depreciation, amortization and accretion	**168**	155
Deferred income taxes	**45**	70
Net securities (gains) losses	**(40)**	2
Loan related valuation adjustments	**183**	1
Net gains related to BlackRock LTIP shares adjustment	**(120)**	(51)
Undistributed earnings of BlackRock	**(115)**	(76)
Visa redemption gain	**(95)**	
Excess tax benefits from share-based payment arrangements	**(4)**	(12)
Net change in		
Trading securities and other short-term investments	**1,471**	(32)
Loans held for sale	**(120)**	(217)
Other assets	**(240)**	163
Accrued expenses and other liabilities	**(202)**	(1,088)
Other	**(47)**	(69)
Net cash provided (used) by operating activities	**2,103**	(210)
Investing Activities		
Repayment of securities	**2,208**	2,491
Sales		
Securities	**3,506**	3,872
Visa shares	**95**	
Loans	**43**	220
Purchases		
Securities	**(7,460)**	(8,058)
Loans	**(168)**	(2,615)
Net change in		
Federal funds sold and resale agreements	**(65)**	(250)
Loans	**(1,376)**	(302)
Net cash received from divestitures	**377**	36
Net cash received from (paid for) acquisitions	**241**	(1,890)
Purchases of corporate and bank-owned life insurance		(117)
Other	**(505)**	(277)
Net cash used by investing activities	**(3,104)**	(6,890)
Financing Activities		
Net change in		
Noninterest-bearing deposits	**351**	(728)
Interest-bearing deposits	**(1,107)**	(780)
Federal funds purchased	**306**	4,294
Repurchase agreements	**(855)**	20
Federal Home Loan Bank short-term borrowings	**(2,000)**	
Other short-term borrowed funds	**(163)**	415
Sales/issuances		
Federal Home Loan Bank long-term borrowings	**4,500**	
Bank notes and senior debt	**825**	4,273
Subordinated debt	**759**	595
Other long-term borrowed funds	**50**	71
Perpetual trust securities	**369**	490
Preferred stock	**492**	
Treasury stock	**114**	156
Repayments/maturities		
Federal Home Loan Bank long-term borrowings	**(158)**	(13)
Bank notes and senior debt	**(1,850)**	(575)
Subordinated debt	**(140)**	(537)
Other long-term borrowed funds	**(13)**	(100)
Excess tax benefits from share-based payment arrangements	**4**	12
Acquisition of treasury stock	**(81)**	(460)
Cash dividends paid	**(444)**	(379)
Net cash provided by financing activities	**959**	6,754
Net Decrease In Cash And Due From Banks	**(42)**	(346)
Cash and due from banks at beginning of period	**3,567**	3,523
Cash and due from banks at end of period	**$ 3,525**	$ 3,177
Cash Paid For		
Interest	**$ 1,325**	$ 1,390
Income taxes	**273**	435
Non-cash Items		
Issuance of common stock for acquisitions	**312**	3,779
Net increase in investment in BlackRock	**144**	24
Transfer from (to) loans held for sale to (from) loans, net	**1,805**	(160)
Impact of 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"	**10**	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 investment servicing.

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 investment servicing 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.

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 2008 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 2007 Annual Report on Form 10-K (“2007 Form 10-K”).

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.

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 acquisition price over the estimated fair value of the net assets acquired.

SPECIAL PURPOSE ENTITIES

Special purpose entities are defined as legal entities structured for a particular purpose. We use special purpose entities in various legal forms to conduct normal business activities. We review the structure and activities of special purpose entities for possible 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.

A variable interest entity (“VIE”) is a corporation, partnership, limited liability company, 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, receivables, real estate or other property.

Based on the guidance contained in FIN 46R, we consolidate a VIE if we are considered to be its primary beneficiary. The primary beneficiary, determined based on variability of expected cash flows, will absorb 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 on our Consolidated Balance Sheet. See Note 3 Variable Interest Entities for information about VIEs that we do not consolidate but in which we hold a significant variable interest.

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 capital markets transactions.

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

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. The caption asset management also includes our share of the earnings of BlackRock recognized 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 when earned. 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 and interest income from subordinated private equity debt investments is recorded on an accrual basis.

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 any gains from the sale of loans upon cash settlement of the transaction.

When appropriate, 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:
- Ownership interest,
- Our plans for the investment, and
- The nature of the investment.

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 fair value and classified as trading securities and other short-term investments on our Consolidated Balance Sheet. Realized and unrealized gains and losses on these securities are included in other noninterest income.

Interest income related to trading securities (both debt and equity) totaled $75 million for the first six months of 2008 and $37 million for the first six months of 2007. For the second quarter of 2008 and 2007, interest income related to trading securities totaled $31 million and $22 million, respectively. These amounts are included in other interest income on the Consolidated Income Statement.

Debt securities not classified as held to maturity or trading are designated as securities available for sale and carried at fair 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 fair value of available for sale debt securities that are deemed other than temporary are recognized on our Consolidated Income Statement in net securities gains/(losses) in the period in which the determination is made.

We include all interest on debt securities, including amortization of premiums and accretion of discounts, 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 net securities gains/ (losses).

Equity Securities and Other Interests

We account for equity securities and 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 trading securities and other short-term investments on our Consolidated Balance Sheet. Both realized and unrealized gains and losses on trading securities are included in other 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 on securities classified as available for sale are recognized in current period earnings.

- For investments in limited partnerships, limited liability companies and other investments that are not required to be consolidated, we use either the cost method or the equity method of accounting. We use the cost method for investments in which we are not considered to have influence over the operations of the investee and when cost appropriately reflects our economic interest in the underlying investment. Under the cost 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 other 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 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 other noninterest income. Investments described above are included in the caption equity investments on the Consolidated Balance Sheet.

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 adjusted earnings of the entity, independent appraisals, anticipated financing and sale transactions with third parties, or the pricing used to value the entity in a recent financing transaction. We generally value limited partnership investments based on the financial statements we receive from the general partner. We value affiliated partnership interests based on the underlying investments of the partnership using procedures consistent with those applied to direct investments. We include all private equity investments on the Consolidated Balance Sheet in the caption equity investments. Changes in the fair value of private equity investments are recognized in other noninterest income.

We consolidate private equity investments when we are the 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.

Investment in BlackRock

We account for our investment in BlackRock under the equity method of accounting. The investment in BlackRock is reflected on our Consolidated Balance Sheet in the caption equity investments, while our equity share in the 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 certain 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 is shown on a net basis on our Consolidated Income Statement in other noninterest income. Our obligation to transfer BlackRock shares related to the LTIP programs and the resulting accounting are described in more detail in our 2007 Form 10-K.

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 on performing loans is accrued based on the principal amount outstanding and recorded in interest income as earned using the effective yield method. Loan origination fees, direct loan origination costs, and loan premiums and discounts are deferred and accreted or amortized into net interest income, over periods not exceeding the contractual life of the loan.

Certain loans are accounted for at fair value in accordance with Statement of Financial Accounting Standards No. ("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 other noninterest income. The fair value of these loans was $77 million, or less than .5% of the total loan portfolio, at June 30, 2008.

In addition to originating loans, we also acquire loans through portfolio purchases or business acquisitions. For certain acquired loans that experienced a deterioration of credit quality prior to our acquisition, we follow the guidance contained in AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer" ("SOP 03-3"). Under SOP 03-3, the excess of the cash flows expected to be collected over the purchase price of the loan at acquisition is accreted into interest income over the remaining life of the loan. Any valuation allowance for these loans reflects only those losses incurred after acquisition. The carrying value of loans accounted for under SOP 03-3 at June 30, 2008 was $36 million, or less than .5% of the total loan portfolio.

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 other noninterest income while valuation adjustments on lease residuals are included in other 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 may 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.

When loans are redesignated from held for investment to held for sale, specific reserves and allocated pooled reserves included in the allowance for loan and lease losses are charged-off to reduce the basis of the loans to lower of cost or market. Gains or losses recognized on the sale of the loans depend on the allocation of carrying value between the loans sold and the retained interests, based on their fair market values at the date of sale. We generally estimate the fair value of the retained interests 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 loan sales transactions are reported in other noninterest income.

Our loan sales and securitizations are generally structured without recourse to us and with no restrictions on the retained interests with the exception of loan sales to certain US government chartered entities.

When we are obligated for loss-sharing or recourse in a sale, our policy is to record such liabilities at fair value upon closing of the transaction based on the guidance contained in FIN 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,” or as a contingent liability recognized at inception of the guarantee under SFAS 5, “Accounting for Contingencies.”

We originate, sell and service mortgage loans under the Fannie Mae Delegated Underwriting and Servicing (“DUS”) program. Under the provisions of the DUS program, we participate in a loss-sharing arrangement with Fannie Mae. We participate in a similar program with Freddie Mac. Refer to Note 15 Commitments And Guarantees for more information about our obligations related to sales of loans under these programs.

SFAS 156, “Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140,” requires all newly recognized servicing rights and obligations to be initially measured at fair value. For subsequent measurement of the asset or obligation, the standard permits the election of either the amortization method or the fair value method by class of recognized servicing rights and obligations. For servicing rights and obligations related to commercial loans and commercial mortgages, we have elected the amortization method. This method requires the amortization of the servicing assets or liabilities in proportion to and over the periods of estimated net servicing income or net servicing loss.

In securitization transactions, 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 for impairment on a quarterly basis. 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 as a charge in other noninterest income.

LOANS HELD FOR SALE

We designate loans and related unfunded loan commitments as held for sale when we have a positive intent to sell them. We transfer loans to the loans held for sale category at the lower of cost or fair market value. At the time of transfer, write-downs on the loans and the related unfunded loan commitments are recorded as charge-offs or as a reduction in the liability for unfunded commitments. We establish a new cost basis upon transfer except for certain commercial mortgages held for sale discussed below. Any subsequent lower of cost or market adjustment is determined on an individual loan and unfunded loan commitment basis and is recognized as a valuation allowance with any charges included in other noninterest income. Gains or losses on the sale of these loans and/or related unfunded loan commitments are included in other noninterest income when realized.

Effective January 1, 2008, we adopted SFAS 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115”, and elected to fair value certain commercial mortgage loans held for sale intended for commercial mortgage-backed securities (“CMBS”) securitization. Under SFAS 159, changes in the fair value of these loans are measured and recorded in other noninterest income each period. See Note 6 Fair Value for additional information.

Interest income with respect to loans held for sale classified as performing is accrued based on the principal amount outstanding.

In certain circumstances, loans designated as held for sale may be transferred to the loan portfolio based on a change in strategy. We transfer these loans to the loan portfolio at the lower of cost or fair market value; however, any loans designated under SFAS 159 will remain at fair value.

NONPERFORMING ASSETS

Nonperforming assets include:

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

Measurement of delinquency and past due status are based on the contractual terms of each loan.

We generally classify commercial 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 previously included in net interest income is reversed. We charge off small business commercial loans less than $1 million at 120 days after transfer to nonaccrual status. We charge off other nonaccrual loans based on the facts and circumstances of the individual loans.

Most consumer loans, not secured by residential real estate, are charged off after 120 to 180 days past due and are not placed on nonaccrual status.

Home equity installment loans and lines of credit, as well as residential mortgage loans, that are well secured by residential real estate are classified as nonaccrual at 12 months past due, consistent with regulatory guidance. 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 recorded investment in the loan including any superior liens. A fair market value assessment of the property is initiated when the loan becomes 80 to 90 days past due.

Home equity installment loans and residential real estate loans that are not well secured, but are in the process of collection, are classified as nonaccrual at 120 days past due. Home equity lines of credit and residential purchase money mortgages that are not well secured, but are in the process of collection, are classified as nonaccrual at 180 days past due. These loans are recorded at the lower of cost or market value, less liquidation costs, and the unsecured portion of these loans is charged off in accordance with regulatory guidelines. The remaining portion of the loan is placed on nonaccrual status.

Additionally, residential mortgage loans serviced by others under master servicing arrangements that are in the process of foreclosure are also classified as nonaccrual.

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

Nonperforming loans are generally not returned to performing status until the obligation is brought current and the borrower has performed in accordance with the contractual terms for a reasonable period of time and collection of the contractual principal and interest is no longer doubtful. Nonaccrual commercial and commercial real estate loans and troubled debt restructurings are designated as impaired loans. We recognize interest collected on these loans on the 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 we acquire the deed, the transfer of loans to other real estate owned 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 other 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:

- Probability of default,
- Loss given default,
- Exposure at date of default,
- Amounts and timing of expected future cash flows on impaired loans,
- Value of collateral,
- Historical loss experience, and
- Amounts for changes in current economic conditions that may not be reflected in historical results.

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 non-watchlist loans, and allocations to consumer and residential mortgage loans. We also allocate reserves to provide coverage for probable losses based upon current market results which may not be reflected in historical loss data. 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 expected cash flows, observable market price or the fair value of 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 product and industry with estimated losses based on probability of default and loss given default credit 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
- Industry and portfolio concentrations.

Loss factors are based on industry and/or internal experience and may be adjusted for issues or conditions 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 current risk factors.

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 imprecision in the estimation process due to the inherent time lag of obtaining information. We provide additional reserves that are designed to provide coverage for losses attributable to such risks. These reserves also include factors which may not be directly measured in the determination of specific or pooled reserves. Such factors include:

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

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. The allowance for unfunded loan commitments and letters of credit is recorded as a liability on the Consolidated Balance Sheet. Net adjustments to the allowance for unfunded loan commitments and letters of credit are included in the provision for credit losses.

COMMERCIAL MORTGAGE SERVICING RIGHTS

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

- Interest rates,
- Discount rates,
- Estimated prepayment speeds, and
- Estimated servicing costs.

For subsequent measurements, we have elected to account for our commercial mortgage loan servicing rights as a class of assets and use the amortization method. This election was made based on the unique characteristics of the commercial mortgage 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 mortgage servicing rights assets. Specific risk characteristics of commercial mortgages include loan type, currency or exchange rate, interest rates and expected cash flows. We record these servicing assets as other intangible assets and amortize them over their estimated lives based on estimated net servicing income or loss. On a quarterly basis, we test the assets for impairment by categorizing the pools of assets underlying the servicing rights into various stratum. If the estimated fair value of the assets is less than the carrying value, an impairment loss is recognized and a valuation reserve is established. Servicing fees are recognized as they are earned and are reported net of amortization expense and any impairments in the line item corporate services on the Consolidated Income Statement.

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 help manage interest rate, market and credit risk inherent in our business activities. 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 on the Consolidated Balance

Sheet. 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 gain or loss is recognized in other noninterest income.

For those derivative instruments that are designated and qualify as accounting hedges, 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 an accounting 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 accounting hedge relationships, we formally assess, both at the inception of the hedge and on an ongoing basis, if the derivatives are highly effective in offsetting designated changes in the fair value or cash flows of the hedged item. If it is determined that the derivative instrument is not highly effective, 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 instrument 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 not highly effective, the changes in fair value will not offset and the difference or ineffectiveness is reflected in the same financial statement category in the income statement 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 to interest income in the same period or periods during which the hedged transaction affects earnings. The change in fair value of any ineffective portion of the hedging derivative is recognized immediately in other noninterest income.

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 hedge accounting is discontinued, the derivative will continue to be recorded on the balance sheet at its fair value with changes in fair value included in current earnings. For a discontinued fair value hedge, the previously hedged item is no longer adjusted for changes in fair value.

When hedge accounting is discontinued because it is no longer probable that a forecasted transaction will occur, the derivative will continue to be recorded on the balance sheet at its fair value with changes in fair value included in current earnings, and the gains and losses in accumulated other comprehensive income (loss) will be recognized immediately into earnings. When we discontinue hedge accounting because the hedging instrument is sold, terminated or no longer designated, the amount reported in accumulated other comprehensive income (loss) up to the date of sale, termination or de-designation, continues to be reported in other comprehensive income or loss until the forecasted transaction affects earnings. We did not terminate any cash flow hedges in the first six months of 2008 or 2007 due to a determination that a forecasted transaction was no longer probable of occurring.

We occasionally purchase or originate financial instruments that contain an embedded derivative. At the inception of the transaction, we assess if economic characteristics of the embedded derivative are 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 are 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 does 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.

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 or sell commercial mortgage loans. Both interest rate lock commitments and commitments to buy or sell mortgage loans are accounted for as free-standing derivatives when appropriate. Interest rate lock commitments and purchase commitments that are considered to be derivatives are recorded at fair value in other assets or other liabilities on the Consolidated Balance Sheet. Any gain or loss from the change in fair value after the inception of the commitment is recognized in other noninterest income.

RECENT ACCOUNTING PRONOUNCEMENTS

We adopted the guidance in Staff Accounting Bulletin No. (“SAB”) 109 on January 1, 2008. SAB 109 provides the SEC staff’s view that the expected future cash flows related to servicing should be included in the fair value measurement of all written loan commitments that are accounted for at fair value through earnings. The impact of this guidance on our consolidated financial statements has not been significant.

We adopted SFAS 157, “Fair Value Measurements” on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. See Note 6 Fair Value for additional information.

As indicated above, we adopted SFAS 159 on January 1, 2008. SFAS 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value. We elected to fair value certain commercial mortgage loans classified as held for sale and certain other financial instruments. See Note 6 Fair Value for additional information.

As required, we adopted the provisions of Emerging Issues Task Force Issue No. ("EITF") 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," on January 1, 2008. EITF 06-4 requires the recognition of a liability and related compensation costs for endorsement split-dollar life insurance arrangements that provide a benefit to retired employees. The adoption of the guidance resulted in a reduction of retained earnings at January 1, 2008 of approximately $12 million and is not expected to have a material effect on our future results of operations or financial position.

In March 2008, the FASB issued SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities." This standard will require revisions to our derivative disclosures to provide greater transparency as to the use of derivative instruments and hedging activities. This guidance will be effective for interim and annual financial statements beginning with the first quarter 2009 Form 10-Q.

In May 2008, the FASB issued SFAS 162, "The Hierarchy of Generally Accepted Accounting Principles." This standard formalizes minor changes in prioritizing accounting principles used in the preparation of financial statements that are presented in conformity with GAAP.

In May 2008, the FASB issued SFAS 163, "Accounting for Financial Guarantee Insurance Contracts an Interpretation of FASB Statement No. 60." This standard changes the current practice of accounting for financial guarantee insurance contracts by insurance companies and enhances related disclosure requirements. This guidance will be effective for interim and annual financial statements beginning in 2009. The adoption of this guidance is not expected to have a material effect on our results of operations or financial position.

In February 2008, the FASB issued FSP FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions." This FSP provides guidance on how the transferor and transferee should separately account for a transfer of a financial asset and a related repurchase financing if certain criteria are met. This guidance will be effective January 1, 2009 for PNC and will impact our accounting for structured repurchase agreements entered into after that date.

In May 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)." This FSP clarifies that certain convertible debt instruments should be separately accounted for as liability and equity components. This guidance will be effective beginning with our first quarter 2009 Form 10-Q. We do not expect the adoption of this guidance to have a material effect on our results of operations or financial position.

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." This FSP clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are considered participating securities and should be included in the calculation of basic earnings per share using the two-class method prescribed by SFAS 128, "Earnings Per Share." This guidance will be effective for disclosure beginning with our first quarter 2009 Form 10-Q with retrospective application required. We do not expect the adoption of this guidance to have a material effect on our basic earnings per share disclosures.

NOTE 2 ACQUISITIONS AND DIVESTITURES

On April 4, 2008, we acquired Lancaster, Pennsylvania-based Sterling Financial Corporation ("Sterling"). Sterling shareholders received an aggregate of approximately $224 million in cash and 4.6 million shares of PNC common stock.

On March 31, 2008, we sold J.J.B. Hilliard, W.L. Lyons, LLC ("Hilliard Lyons"), a Louisville, Kentucky-based wholly-owned subsidiary of PNC and a full-service brokerage and financial services provider, to Houchens Industries, Inc. We recognized an after-tax gain of $23 million in the first quarter of 2008 in connection with this divestiture.

NOTE 3 VARIABLE INTEREST ENTITIES

As discussed in our 2007 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, 2008 and December 31, 2007 for which we were determined to be the primary beneficiary. These consolidated VIEs and relationships with PNC are described in our 2007 Form 10-K.

Consolidated VIEs – PNC Is Primary Beneficiary

In millions	Aggregate Assets	Aggregate Liabilities
Partnership interests in low income housing projects		
June 30, 2008	**$ 1,062**	**$ 1,062**
December 31, 2007	$ 1,110	$ 1,110

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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, 2008			
Market Street	**$ 4,582**	**$ 4,628**	**$ 7,230(a)**
Collateralized debt obligations	**47**	**1**	**5**
Partnership interests in low income housing projects	**50**	**34**	**8**
Total	**$ 4,679**	**$ 4,663**	**$ 7,243**
December 31, 2007			
Market Street	$ 5,304	$ 5,330	$ 9,019(a)
Collateralized debt obligations	255	177	6
Partnership interests in low income housing projects	50	34	8
Total	$ 5,609	$ 5,541	$ 9,033

(a) PNC's risk of loss consists of off-balance sheet liquidity commitments to Market Street of $7.0 billion and other credit enhancements of $.2 billion at June 30, 2008. The comparable amounts were $8.8 billion and $.2 billion at December 31, 2007.

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 primarily involve purchasing assets or making loans secured by interests in pools of receivables from US corporations that desire access to the commercial paper market. Market Street funds the purchases of assets 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 enhancements, liquidity facilities and program-level credit enhancement. Generally, Market Street mitigates its potential interest rate risk by entering into agreements with its borrowers that reflect interest rates based upon its weighted average commercial paper cost of funds. During 2007 and the first six months of 2008, Market Street met all of its funding needs through the issuance of commercial paper.

PNC Bank, N.A. provides certain administrative services, a portion of the program-level credit enhancement and 99% of liquidity facilities to Market Street in exchange for fees negotiated based on market rates. PNC recognized program administrator fees and commitment fees related to PNC's portion of the liquidity facilities of $8 million and $2 million, respectively, for the six months ended June 30, 2008. The comparable amounts were $6 million and $2 million for the six months ended June 30, 2007.

Neither creditors nor investors in Market Street have any recourse to our general credit. The commercial paper obligations at June 30, 2008 and December 31, 2007 were effectively collateralized by Market Street's assets. While PNC may be obligated to fund under the $7.0 billion of liquidity facilities for events such as commercial paper market disruptions, borrower bankruptcies, collateral deficiencies or covenant violations, our credit risk under the liquidity facilities is 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 expected losses for the pool of assets and is sized to generally meet rating agency standards for comparably structured transactions. In addition, PNC would be required to fund $1.2 billion of the liquidity facilities if the underlying assets are in default. See Note 15 Commitments And Guarantees for additional information.

Program-level credit enhancement in the amount of 10% of commitments, excluding explicitly rated AAA/Aaa facilities, is provided by PNC and a monoline insurer. PNC provides 25% of the enhancement in the form of a cash collateral account funded by a loan facility. This facility expires in March 2013. The monoline insurer provides the remaining 75% of the enhancement in the form of a surety bond. The cash collateral account is subordinate to the surety bond.

Market Street has 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 $7.0 million as of June 30, 2008. 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.

We evaluated the design of Market Street, its capital structure, the Note and relationships among the variable interest holders under the provisions of FIN 46R. Based on this analysis, we are not the primary beneficiary as defined by FIN 46R and therefore the assets and liabilities of Market Street are not reflected in our Consolidated Balance Sheet.

PNC considers changes to the variable interest holders (such as new expected loss note investors and changes to program-level credit enhancement providers), changes to the terms of expected loss notes, and new types of risks (such as foreign currency or interest rate) related to Market Street as reconsideration events. PNC reviews the activities of Market Street on at least a quarterly basis to determine if a reconsideration event has occurred.

PERPETUAL TRUST SECURITIES

We issue certain hybrid capital vehicles that qualify as capital for regulatory purposes.

In February 2008, PNC Preferred Funding LLC (the "LLC"), one of our indirect subsidiaries, sold $375 million of 8.700% Fixed-to-Floating Rate Non-Cumulative Exchangeable

Perpetual Trust Securities of PNC Preferred Funding Trust III (“Trust III”) to third parties in a private placement. In connection with the private placement, Trust III acquired $375 million of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Securities of the LLC (the “LLC Preferred Securities”). The sale was similar to the March 2007 private placement by the LLC of $500 million of 6.113% Fixed-to-Floating Rate Non-Cumulative Exchangeable Trust Securities (the “Trust II Securities”) of PNC Preferred Funding Trust II (“Trust II”) in which Trust II acquired $500 million of LLC Preferred Securities and to the December 2006 private placement by PNC REIT Corp. of $500 million of 6.517% Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities (the “Trust I Securities”) of PNC Preferred Funding Trust I (“Trust I”) in which Trust I acquired $500 million of LLC Preferred Securities. PNC REIT Corp. owns 100% of LLC’s common voting securities. As a result, LLC is an indirect subsidiary of PNC and is consolidated on our Consolidated Balance Sheet. Trust I, II and III’s investment in LLC Preferred Securities is characterized as a minority interest on our Consolidated Balance Sheet since we are not the primary beneficiary of Trust I, Trust II and Trust III. This minority interest totaled approximately $1.3 billion at June 30, 2008.

Our 2007 Form 10-K includes additional information regarding the Trust I and Trust II Securities, including descriptions of replacement capital and dividend restriction covenants. The Trust III Securities include dividend restriction covenants similar to those described for Trust II Securities.

NOTE 4 SECURITIES

In millions	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2008				
SECURITIES AVAILABLE FOR SALE				
Debt securities				
Residential mortgage-backed	**$22,175**	**$ 89**	**$(1,557)**	**$20,707**
Commercial mortgage-backed	**5,884**	**10**	**(140)**	**5,754**
Asset-backed	**3,568**	**21**	**(427)**	**3,162**
US Treasury and government agencies	**32**	**1**		**33**
State and municipal	**799**	**3**	**(26)**	**776**
Other debt	**259**	**1**	**(5)**	**255**
Total debt securities	**32,717**	**125**	**(2,155)**	**30,687**
Corporate stocks and other	**349**		**(4)**	**345**
Total securities available for sale	**$33,066**	**$125**	**$(2,159)**	**$31,032**
December 31, 2007				
SECURITIES AVAILABLE FOR SALE				
Debt securities				
Residential mortgage-backed	$21,147	$118	$ (313)	$20,952
Commercial mortgage-backed	5,227	53	(16)	5,264
Asset-backed	2,878	4	(112)	2,770
US Treasury and government agencies	151	4		155
State and municipal	340	1	(5)	336
Other debt	85		(1)	84
Total debt securities	29,828	180	(447)	29,561
Corporate stocks and other	662	2		664
Total securities available for sale	$30,490	$182	$ (447)	$30,225

At June 30, 2008, securities available for sale included a net unrealized loss of $2.0 billion, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2007 was a net unrealized loss of $265 million.

The fair value of securities available for sale is impacted by interest rates, credit spreads, volatility and illiquidity. Net unrealized gains and losses in the securities available for sale portfolio are included in shareholders’ equity as accumulated other comprehensive income or loss, net of tax.

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The following table presents unrealized loss and fair value of securities at June 30, 2008 and December 31, 2007 for which an other-than-temporary impairment has not been recognized. These securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and twelve months or more.

In millions	Unrealized loss position less than 12 months		Unrealized loss position 12 months or more		Total	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
June 30, 2008						
SECURITIES AVAILABLE FOR SALE						
Debt securities						
Residential mortgage-backed	**$ (640)**	**$ 8,925**	**$ (917)**	**$ 5,248**	**$ (1,557)**	**$14,173**
Commercial mortgage-backed	**(94)**	**3,837**	**(46)**	**1,104**	**(140)**	**4,941**
Asset-backed	**(121)**	**966**	**(306)**	**996**	**(427)**	**1,962**
State and municipal	**(25)**	**397**	**(1)**	**52**	**(26)**	**449**
Other debt	**(5)**	**197**			**(5)**	**197**
Total debt securities	**(885)**	**14,322**	**(1,270)**	**7,400**	**(2,155)**	**21,722**
Corporate stocks and other	**(4)**	**76**			**(4)**	**76**
Total	**$ (889)**	**$14,398**	**$ (1,270)**	**$ 7,400**	**$ (2,159)**	**$21,798**
December 31, 2007						
SECURITIES AVAILABLE FOR SALE						
Debt securities						
Residential mortgage-backed	$ (157)	$ 6,994	$ (156)	$ 5,065	$ (313)	$12,059
Commercial mortgage-backed	(3)	365	(13)	769	(16)	1,134
Asset-backed	(87)	1,519	(25)	655	(112)	2,174
State and municipal	(4)	79	(1)	82	(5)	161
Other debt	(1)	40		3	(1)	43
Total	$ (252)	$ 8,997	$ (195)	$ 6,574	$ (447)	$15,571

Of the $2.2 billion of gross unrealized losses at June 30, 2008, $1.3 billion related to securities that had been in a loss position for 12 months or more. At December 31, 2007, the comparable amounts were $447 million in gross unrealized losses and $195 million related to securities that had been in a loss position for 12 months or more. During the first half of 2008, unprecedented market volatility and relative illiquidity in certain asset sectors had an adverse impact on the valuation of certain of our securities available for sale. This occurred even as market interest rates (i.e., interest rate swap rates) remained relatively unchanged at June 30, 2008 compared with December 31, 2007. Ongoing mortgage issues and general uncertainty in the broader US housing market have adversely affected market spreads underlying the valuation of certain security classes.

At June 30, 2008, $9.8 billion (fair value) of our residential mortgage-backed securities portfolio was US government agency-backed securities. The remaining $10.9 billion (fair value) are private-issuer securities, which accounted for approximately $1.5 billion of unrealized losses as of June 30, 2008. We considered less than 1% of these securities higher-risk credit quality (i.e., FICO scores equal to or less than 660). Of the private-issuer total, $10.8 billion (fair value) were rated "AAA" equivalents by at least two nationally recognized rating agencies, with the remainder of the portfolio rated at least "A" equivalents.

At June 30, 2008, $1.3 billion (fair value) of our asset-backed portfolio was private-issuer securities collateralized by fixed- and floating-rate home equity loans. These securities had unrealized losses of approximately $0.4 billion at June 30, 2008. We considered 23% of these securities higher-risk credit quality. Of the private-issuer total, $1.2 billion (fair value) were rated "AAA" equivalents by at least two nationally recognized rating agencies, $0.1 billion were rated between "AA" and "BBB" equivalents, with two positions, totaling $6 million, rated lower than "BBB" equivalent.

Through the first half of 2008, we determined that three available for sale security positions were other-than-temporarily impaired, including the two asset-backed securities rated less than "BBB" equivalents referred to above. During the second quarter of 2008, we recognized other-than-temporary impairment charges totaling $9 million related to these securities. These charges are reflected in net securities gains (losses) on our Consolidated Income Statement.

The expected weighted-average life of securities available for sale (excluding corporate stocks and other) was 4 years and 3 months at June 30, 2008 and 3 years and 6 months at December 31, 2007.

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Information relating to securities sold follows:

***Securities Sold** (a)*

Six months ended June 30 In millions	Proceeds	Gross Gains	Gross Losses (a)	Net Gains (Losses)	Income Tax Expense (Benefit)
2008	**$3,506**	**$ 49**	**$ 9**	**$ 40**	**$ 14**
2007	3,872	10	12	(2)	(1)

(a) Includes losses of $9 million recorded for the first six months of 2008 that represent other-than-temporary impairment charges.

The fair value of securities pledged to secure public and trust deposits and repurchase agreements and for other purposes was $21.0 billion at June 30, 2008 and $24.2 billion at December 31, 2007. 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 $2.5 billion at June 30, 2008 and $2.3 billion at December 31, 2007 and is a component of federal funds sold and resale agreements on our Consolidated Balance Sheet. Of the permitted amount, $1.4 billion was repledged to others at June 30, 2008 and $1.5 billion was repledged to others at December 31, 2007.

NOTE 5 ASSET QUALITY

The following table sets forth nonperforming assets and related information:

Dollars in millions	June 30, 2008	December 31. 2007
Nonaccrual loans		
Commercial	**$ 253**	$ 193
Commercial real estate	**365**	212
Consumer	**24**	17
Residential mortgage	**49**	27
Lease financing	**4**	3
Total nonaccrual loans	**695**	452
Restructured loans		2
Total nonperforming loans	**695**	454
Foreclosed and other assets		
Residential mortgage (c)	**28**	16
Lease financing		11
Other	**10**	14
Total foreclosed and other assets	**38**	41
Total nonperforming assets (a) (b) (c)	**$ 733**	$ 495
Nonperforming loans to total loans (c)	**.95%**	.66%
Nonperforming assets to total loans and foreclosed assets (c)	**1.00**	.72
Nonperforming assets to total assets (c)	**.51**	.36

(a) Excludes equity management assets that are carried at estimated fair value of $44 million at June 30, 2008 and $4 million at December 31, 2007.
(b) Excludes loans held for sale carried at lower of cost or market value of $59 million at June 30, 2008 (amount includes troubled debt restructured assets of $20 million) and $25 million at December 31, 2007.
(c) We have adjusted prior period amounts to be consistent with the current period methodology for recognizing nonaccrual residential mortgage loans serviced under master servicing arrangements.

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

In millions	2008	2007
Allowance at January 1	**$ 830**	$560
Charge-offs		
Commercial	**(141)**	(58)
Commercial real estate	**(35)**	(1)
Consumer	**(61)**	(32)
Lease financing	**(3)**	
Total charge-offs	**(240)**	(91)
Recoveries		
Commercial	**19**	15
Commercial real estate	**3**	1
Consumer	**7**	7
Lease financing	**1**	
Total recoveries	**30**	23
Net charge-offs		
Commercial	**(122)**	(43)
Commercial real estate	**(32)**	
Consumer	**(54)**	(25)
Lease financing	**(2)**	
Total net charge-offs	**(210)**	(68)
Provision for credit losses	**337**	62
Acquired allowance (a)	**20**	137
Net change in allowance for unfunded loan commitments and letters of credit	**11**	12
Allowance at June 30	**$ 988**	$703

(a) Sterling in 2008 and Mercantile in 2007.

Net interest income less the provision for credit losses was $1.494 billion for the first six months of 2008 compared with $1.299 billion for the first six months of 2007. Comparable amounts for the second quarter of 2008 and the second quarter 2007 were $791 million and $684 million, respectively.

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

In millions	2008	2007
Allowance at January 1	**$134**	$120
Acquired allowance (a)	**1**	17
Net change in allowance for unfunded loan commitments and letters of credit	**(11)**	(12)
Allowance at June 30	**$124**	$125

(a) Sterling in 2008 and Mercantile in 2007.

NOTE 6 FAIR VALUE

Fair Value Measurement

SFAS 157 defines fair value as the price that would be received to sell an asset or the price paid to transfer a liability on the measurement date. The standard focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants.

SFAS 157 establishes a fair value reporting hierarchy to maximize the use of observable inputs when measuring fair value and defines the three levels of inputs as noted below. The financial instruments in Level 3 are typically less liquid.

Level 1
Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities may include debt securities, equity securities and listed derivative contracts that are traded in an active exchange market and certain US Government and agency-backed securities that are actively traded in over-the-counter markets.

Level 2
Observable inputs other than Level 1 such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability. Level 2 assets and liabilities may include debt securities, equity securities and listed derivative contracts with quoted prices that are traded in markets that are not active, and certain debt and equity securities and over-the-counter derivative contracts whose fair value is determined using a pricing model without significant unobservable inputs. This category generally includes certain US Government and agency mortgage-backed debt securities, private-issuer securities, other asset-backed securities, corporate debt securities, and derivative contracts.

Level 3
Unobservable inputs that are supported by minimal or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities may include financial instruments whose value is determined using pricing models with internally developed assumptions, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain commercial mortgage loans held for sale, private equity investments, certain available for sale securities, certain trading securities and certain financial derivative contracts.

Assets and liabilities measured at fair value on a recurring basis, including instruments for which PNC has elected the fair value option, are summarized below:

Fair Value Measurements - Summary

In millions	June 30, 2008 Level 1	Level 2	Level 3	Total Fair Value
Assets				
Securities available for sale	$5,129	$24,749	$1,154	$31,032
Financial derivatives (a)	25	2,283	85	2,393
Trading securities (b)	624	1,509	30	2,163
Commercial mortgage loans held for sale (c)			1,604	1,604
Customer resale agreements (d)		1,001		1,001
Equity investments			572	572
Other assets		224	8	232
Total assets	$5,778	$29,766	$3,453	$38,997
Liabilities				
Financial derivatives (e)	$ 30	$ 1,703	$ 154	$ 1,887
Trading securities sold short (f)	1,278	93		1,371
Other liabilities		234		234
Total liabilities	$1,308	$ 2,030	$ 154	$ 3,492

(a) Included in other assets on the Consolidated Balance Sheet.
(b) Included in trading securities and other short-term investments on the Consolidated Balance Sheet.
(c) Included in loans held for sale on the Consolidated Balance Sheet. PNC has elected the fair value option under SFAS 159 for certain commercial mortgage loans held for sale intended for CMBS securitization.
(d) Included in federal funds sold and resale agreements on the Consolidated Balance Sheet. PNC has elected the fair value option under SFAS 159 for this item.
(e) Included in other liabilities on the Consolidated Balance Sheet.
(f) Included in other borrowed funds on the Consolidated Balance Sheet.

The tables below present a reconciliation for April 1, 2008 to June 30, 2008 and for January 1, 2008 to June 30, 2008, respectively, of assets and liabilities measured at fair value on a recurring basis using Level 3 inputs.

Reconciliation of Level 3 Fair Value Measurements

Three months ended June 30, 2008

Level 3 Instruments Only In millions	Securities available for sale (b)	Financial derivatives (b)	Trading securities (b)	Commercial mortgage loans held for sale (c)	Equity investments (b)	Other assets (b)	Total assets	Financial derivatives (b)	Total liabilities
March 31, 2008	$ 233	$ 90		$ 2,068	$ 545	$ 4	$2,940	$ 239	$ 239
Total realized/unrealized gains (losses):									
Included in earnings (a)		(10)		(50)	(8)		(68)	(96)	(96)
Included in other comprehensive income	(4)						(4)		
Purchases, issuances, and settlements, net	428	5		(414)	35	4	58	11	11
Transfers into Level 3, net	497		$ 30				527		
June 30, 2008	$ 1,154	$ 85	$ 30	$ 1,604	$ 572	$ 8	$3,453	$ 154	$ 154
(a) Attributable to unrealized gains (losses) related to assets or liabilities held at June 30, 2008:		$ (4)		$ (27)	$ (15)		$ (46)	$ (17)	$ (17)

(b) Carried at fair value prior to our adoption of SFAS 157.
(c) We elected the fair value option under SFAS 159 for this item.

Reconciliation of Level 3 Fair Value Measurements

Six months ended June 30, 2008

Level 3 Instruments Only In millions	Securities available for sale (b)	Financial derivatives (b)	Trading securities (b)	Commercial mortgage loans held for sale (c)	Equity investments (b)	Other assets (b)	Total assets	Financial derivatives (b)	Total liabilities
December 31, 2007	$ 285	$ 130		$ 2,018	$ 568	$ 4	$3,005	$ 326	$ 326
Impact of SFAS 157 and SFAS 159 adoption		2		2			4		
Balance, January 1, 2008	285	132		2,020	568	4	3,009	326	326
Total realized/unrealized gains (losses):									
Included in earnings (a)		(41)		(180)	17		(204)	(165)	(165)
Included in other comprehensive income	(58)						(58)		
Purchases, issuances, and settlements, net	430	(6)		(236)	(13)	4	179	(7)	(7)
Transfers into Level 3, net	497		$ 30				527		
June 30, 2008	$ 1,154	$ 85	$ 30	$ 1,604	$ 572	$ 8	$3,453	$ 154	$ 154
(a) Attributable to unrealized gains (losses) related to assets or liabilities held at June 30, 2008:		$ (38)		$ (157)			$ (195)	$ (45)	$ (45)

(b) Carried at fair value prior to our adoption of SFAS 157.
(c) We elected the fair value option under SFAS 159 for this item.

The after-tax adjustment to beginning retained earnings from the adoption of SFAS 157 and SFAS 159 related to Level 3 fair value measurements was approximately $1 million each.

Net losses (realized and unrealized) relating to Level 3 assets and liabilities for the first six months of 2008 were $39 million and net gains (realized and unrealized) for the second quarter of 2008 were $28 million. These amounts include net unrealized losses of $150 million and $29 million, respectively. These amounts were included in other noninterest income in the Consolidated Income Statement.

During the second quarter of 2008, securities transferred into Level 3 from Level 2 exceeded securities transferred out by $527 million. These primarily related to asset-backed securities, taxable auction rate securities, and residential mortgage-backed securities, and occurred due to reduced volume of recently executed transactions and the lack of corroborating market price quotations for these instruments.

Nonrecurring Fair Value Changes

We may be required to measure certain other financial assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets due to impairment. The fair value determination of the equity investment resulting in an impairment loss included below was based on observable market data for other comparable entities as adjusted for internal assumptions and unobservable inputs. The amounts below for nonaccrual loans and loans held for sale represent the carrying value of loans for which adjustments are primarily based on the appraised value of collateral or the present value of expected future cash flows, which often results in significant management assumptions and input with respect to the determination of fair value.

Fair Value Measurements – Nonrecurring

	June 30, 2008				Total losses for	Total losses for
In millions	Level 1	Level 2	Level 3	Total Fair Value	three months ended June 30, 2008	six months ended June 30, 2008
Assets						
Nonaccrual loans			$ 98	$ 98		$ (26)
Loans held for sale		$ 2	114	116		(8)
Equity investment			74	74	$ (26)	(26)
Total assets		$ 2	$ 286	$ 288	$ (26)	$ (60)

Fair Value Option

Commercial Mortgage Loans Held For Sale

Effective January 1, 2008, we elected to account for certain commercial mortgage loans classified as held for sale and intended for securitization at fair value under the provisions of SFAS 159. The election of the fair value option aligns the accounting for the commercial mortgages with the related hedges. It also eliminates the requirements of hedge accounting under SFAS 133.

PNC has not elected the fair value option for the remainder of our loans held for sale portfolio as the amounts are not significant and hedge accounting is not used for these loans.

We determine the fair value of commercial mortgage loans held for sale by using a synthetic securitization methodology. Observable inputs include the pricing of CMBS with similar collateral and using tranche interest rates from end of period yield curves. Management assumptions include subordination levels, CMBS bond spreads, and the value of the mortgage servicing rights. Adjustments are made to the valuations to account for securitization uncertainties, including the composition of the portfolio, market conditions, and liquidity.

At June 30, 2008, commercial mortgage loans held for sale for which the fair value option had been elected had an aggregate fair value of $1.6 billion and an aggregate outstanding principal balance of $1.7 billion.

Interest income on these loans is recorded as earned and reported in the Consolidated Income Statement in the caption Interest Income – Other. Net losses resulting from changes in fair value of these loans of $180 million were recorded in other noninterest income for the first six months of 2008, including $50 million during the second quarter of 2008. Changes in fair value due to instrument-specific credit risk for the first six months and second quarter of 2008 were not material. The changes in fair value of these loans were partially offset by changes in the fair value of the related financial derivatives that economically hedged these loans.

Customer Resale Agreements and Bank Notes

Also effective January 1, 2008, we elected to account for structured resale agreements and structured bank notes at fair value, which are economically hedged using free-standing financial derivatives.

The fair value for structured resale agreements and structured bank notes is determined using a model which includes observable market data as inputs. At June 30, 2008, structured resale agreements with an aggregate fair value of $1.0 billion were included in federal funds sold and resale agreements on our Consolidated Balance Sheet. At June 30, 2008, structured bank notes with an aggregate fair value of $11 million were included in borrowed funds.

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The following table summarizes the financial instruments for which we elected the fair value option effective January 1, 2008 and the related cumulative-effect adjustment to retained earnings.

Fair Value Option – Adoption

In millions	December 31, 2007	Retained Earnings Net Gain (Loss)	January 1, 2008
Assets			
Customer resale agreements (a)	$ 738	$ 23	$ 761
Commercial mortgage loans held for sale	2,018	2	2,020
Liabilities			
Bank notes	11		11
Cumulative–effect adjustment, before taxes		25	
Tax impact		(9)	
Cumulative-effect adjustment, after taxes		$ 16	

(a) Includes structured resale agreements that are economically hedged with derivatives.

The following table summarizes the changes in fair value included in other noninterest income in the Consolidated Income Statement for items for which we elected the fair value option.

Fair Value Option – Changes in Fair Value

	Total gains (losses)	
In millions	Three months ended June 30, 2008	Six months ended June 30, 2008
Assets		
Customer resale agreements (a)	$ (32)	$ (3)
Commercial mortgage loans held for sale (a)	(50)	(180)

(a) The impact on earnings of offsetting hedges is not reflected in these amounts.

The following table provides fair values and aggregate unpaid principal balances of items for which we elected the fair value option.

Fair Value Option – Fair Value and Principal Balances

In millions	Fair Value June 30, 2008	Aggregate Unpaid Principal Balance June 30, 2008	Difference
Assets			
Customer resale agreements	$ 1,001	$ 980	$ 21
Commercial mortgage loans held for sale (a)	1,604	1,745	(141)
Liabilities			
Bank notes	11	11	
(a) Includes loans held for sale which are 90 days or more past due.	$6	$6	

NOTE 7 GOODWILL AND OTHER INTANGIBLE ASSETS

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 pre-acquisition contingencies. Revisions would likely result in subsequent adjustments to goodwill.

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, 2008**	December 31, 2007
Customer-related and other intangibles		
Gross carrying amount	**$ 724**	$ 708
Accumulated amortization	**(312)**	(263)
Net carrying amount	**$ 412**	$ 445
Mortgage and other loan servicing rights		
Gross carrying amount	**$1,043**	$ 1,001
Accumulated amortization	**(351)**	(300)
Net carrying amount	**$ 692**	$ 701
Total	**$1,104**	$ 1,146

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

For customer-related intangibles, the estimated remaining useful lives range from less than one year to 14 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 five to 10 years in proportion to the estimated net servicing cash flows from the related loans.

A summary of the changes in goodwill by business segment for the six months ended June 30, 2008 follows:

Goodwill

In millions	December 31, 2007	Additions/ Adjustments	**June 30, 2008**
Retail Banking	$ 5,628	$ 353	**$5,981**
Corporate & Institutional Banking	1,491	75	**1,566**
Global Investment Servicing	1,229	(1)	**1,228**
BlackRock	57	(8)	**49**
Total	$ 8,405	$ 419	**$8,824**

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The changes in the carrying amount of goodwill and net other intangible assets for the six months ended June 30, 2008 are as follows:

Changes in Goodwill and Other Intangibles

In millions	Goodwill	Customer-Related	Servicing Rights
Balance at December 31, 2007	$ 8,405	$ 445	$ 701
Additions/adjustments:			
Sterling acquisition	589	16	4
Hilliard Lyons divestiture	(141)		
Yardville acquisition	(11)		
Mercantile acquisition	(11)		
Other acquisitions	1		(3)
Mortgage and other loan servicing rights			41
BlackRock	(8)		
Amortization		(49)	(51)
Balance at June 30, 2008	**$ 8,824**	**$ 412**	**$ 692**

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 $95 million for the six months ended June 30, 2008 and $88 million for the six months ended June 30, 2007. Comparable amounts for the three months ended June 30, 2008 and June 30, 2007 totaled $52 million and $45 million, respectively. We also generate servicing revenue from fee-based activities provided to others.

Amortization expense on intangible assets for the first half of 2008 was $100 million. Amortization expense on existing intangible assets for the remainder of 2008 and for 2009 through 2013 is estimated to be as follows:

- Remainder of 2008: $100 million,
- 2009: $164 million,
- 2010: $146 million,
- 2011: $135 million,
- 2012: $115 million, and
- 2013: $94 million.

NOTE 8 CAPITAL SECURITIES OF SUBSIDIARY TRUSTS

In February 2008, PNC Capital Trust E was formed and issued $450 million of 7.75% capital securities due March 15, 2068 that are redeemable on or after March 15, 2013 at par.

In April 2008, the following Sterling Trusts were added as part of the Sterling acquisition.

- Sterling Financial Statutory Trust II, formed in June 2003, issued $36 million of capital securities due June 26, 2033 at a fixed rate of 5.55%. The fixed rate remained in effect until June 26, 2008 at which time the securities began paying a floating rate of LIBOR plus 310 basis points. The rate in effect at June 30, 2008 was 5.88%. Sterling Financial Statutory Trust II securities are redeemable on or after June 26, 2008 at par.
- Sterling Financial Statutory Trust III, formed in December 2004, issued $15 million of capital securities due December 15, 2034 at a fixed rate of 6%. The fixed rate remains in effect until December 15, 2009 at which time the securities pay a floating rate of LIBOR plus 189 basis points. Sterling Financial Statutory Trust III securities are redeemable on or after December 15, 2009 at par.
- Sterling Financial Statutory Trust IV, formed in February 2005, issued $15 million of capital securities due March 15, 2035 at a fixed rate of 6.19%. The fixed rate remains in effect until March 15, 2010 at which time the securities pay a floating rate of LIBOR plus 187 basis points. Sterling Financial Statutory Trust IV securities are redeemable on or after March 15, 2010 at par.
- Sterling Financial Statutory Trust V, formed in March 2007, issued $21 million of capital securities due March 15, 2037 at a fixed rate of 7%. The fixed rate remained in effect until June 15, 2007 at which time the securities began paying a floating rate of LIBOR plus 165 basis points. The rate in effect at June 30, 2008 was 4.43%. Sterling Financial Statutory Trust V securities are redeemable on March 15, 2012 at par.

At June 30, 2008, our other capital securities of subsidiary trusts are as described in Note 12 Capital Securities of Subsidiary Trusts in our 2007 Form 10-K. All of these trusts, including PNC Capital Trust E and the Sterling Trusts described above, 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 PNC, as the direct parent of each Trust, when taken collectively, are the equivalent of a full and unconditional guarantee of the obligations of such Trust under the terms of the Capital Securities. Such guarantee is subordinate in right of payment in the same manner as other junior subordinated debt. There are certain restrictions on PNC's overall ability to obtain funds from its subsidiaries. For additional disclosure on these funding restrictions, including an explanation of dividend and intercompany loan limitations, see Note 22 Regulatory Matters in our 2007 Form 10-K.

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PNC is subject to restrictions on dividends and other provisions similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described in Note 3 Variable Interest Entities.

NOTE 9 CERTAIN EMPLOYEE BENEFIT AND STOCK-BASED COMPENSATION PLANS

Pension and PostRetirement Plans

As more fully described in our 2007 Form 10-K, we have a noncontributory, qualified defined benefit pension plan covering eligible employees. Benefits are derived from a cash balance formula based on compensation levels, age and length of service. Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants.

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

The components of our net periodic pension and post-retirement benefit cost for the second quarter and first half of 2008 and 2007 were as follows:

Three months ended June 30 In millions	Qualified Pension Plan 2008	Qualified Pension Plan 2007	Nonqualified Retirement Plans 2008	Nonqualified Retirement Plans 2007	Postretirement Benefits 2008	Postretirement Benefits 2007
Net periodic cost consists of:						
Service cost	**$10**	$10			**$1**	$1
Interest cost	**21**	20	**$2**	$2	**3**	4
Expected return on plan assets	**(40)**	(39)				
Amortization of prior service cost	**(1)**				**(2)**	(2)
Amortization of actuarial losses		1		1		
Net periodic cost (benefit)	**$(10)**	**$(8)**	**$2**	**$3**	**$2**	**$3**

Six months ended June 30 In millions	Qualified Pension Plan 2008	Qualified Pension Plan 2007	Nonqualified Retirement Plans 2008	Nonqualified Retirement Plans 2007	Postretirement Benefits 2008	Postretirement Benefits 2007
Net periodic cost consists of:						
Service cost	**$22**	$20	**$ 1**	$ 1	**$2**	$1
Interest cost	**43**	39	**3**	3	**7**	7
Expected return on plan assets	**(80)**	(76)				
Amortization of prior service cost	**(1)**				**(4)**	(3)
Amortization of actuarial losses		1	**1**	1		
Net periodic cost (benefit)	**$(16)**	$(16)	**$5**	$5	**$5**	$5

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, restricted share units, other share-based awards and dollar-denominated awards to executives and, other than incentive stock options, to non-employee directors. Certain Incentive Plan awards may be paid in stock, cash or a combination of stock and cash. We grant a substantial portion of our stock-based compensation awards during the first quarter of the year. As of June 30, 2008, no stock appreciation rights were outstanding. The Incentive Plans are more fully described in Note 18 Stock-Based Compensation Plans of our 2007 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 the 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 shares of common stock at market value on the exercise date. The exercise price may be paid in previously owned shares.

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 during the first twelve months subsequent to the grant, in accordance with the service period provisions of the options. Total compensation expense recognized related to stock options during the first six months of 2008 and 2007 was $10 million and $12 million, respectively.

Options Issued for Sterling Acquisition

On April 4, 2008, in connection with the closing of the Sterling acquisition, we issued 325,489 of PNC stock options upon conversion of all outstanding and unexercised Sterling options at that date. Of the total options issued, 159,676 were issued as nonqualified stock options, and the remaining 165,813 were issued as incentive stock options. These PNC options carry generally the same terms and conditions as the original Sterling options. Per the merger agreement, all outstanding options were deemed fully vested at the acquisition date. Accordingly, no ongoing stock option expense will be recognized for these options. The final purchase price consideration for the Sterling acquisition included approximately $3.3 million of value related to these options.

Option Pricing Assumptions
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 2008 and 2007 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.

Weighted average for the six months ended June 30	**2008**	2007
Risk-free interest rate	**2.8%**	4.8%
Dividend yield	**3.3%**	3.4%
Volatility	**18.1%**	19.2%
Expected life	**5.4 yrs.**	4.4 yrs.

The following table summarizes stock option information as of and for the six months ended June 30, 2008:

	Shares (thousands)	Weighted-Average Exercise Price
Outstanding at December 31, 2007	14,326	$ 62.15
Granted	2,011	57.82
Issued for Sterling acquisition	325	63.94
Exercised	(582)	51.65
Cancelled	(177)	52.43
Outstanding at June 30, 2008	**15,903**	**$ 62.13**
Exercisable at June 30, 2008	**12,079**	**$ 61.53**

The weighted-average grant-date fair value of options granted during the first six months of 2008 and 2007 was $7.51 and $11.76 per option, respectively. To determine stock-based compensation expense under SFAS 123R, the grant-date fair value is applied to the options granted with a reduction made for estimated forfeitures.

During the first six months of 2008 we issued approximately 533,000 shares from treasury stock in connection with stock option exercise activity. As with past exercise activity, we currently 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 12 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 incentive/performance unit share awards and restricted stock/unit awards during the first six months of 2008 was approximately $24 million compared with $21 million during the first six months of 2007.

The following table summarizes nonvested incentive/performance unit share awards and restricted stock/unit awards as of and for the six months ended June 30, 2008:

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, 2007	316	$ 66.31	1,869	$ 60.20
Granted	166	52.80	499	55.18
Vested			(612)	50.87
Forfeited			(8)	60.49
June 30, 2008	**482**	**$ 61.66**	**1,748**	**$ 62.04**

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, 2008, there was $53 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 10 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 swaps, caps, floors and futures derivative contracts to hedge bank notes, Federal Home Loan Bank borrowings, 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 Strategies
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 changes in future cash flows due to interest rate changes. We hedged 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. We subsequently reclassify any unrealized gains or losses related to these swap contracts from accumulated other comprehensive income (loss) into interest income in the same period or periods during which the hedged forecasted transaction affects earnings. Ineffectiveness of the strategies, if any, is recognized immediately in earnings.

During the next twelve months, we expect to reclassify to earnings $156 million of pretax net gains, or $101 million after-tax, on cash flow hedge derivatives currently reported in accumulated other comprehensive income (loss). This amount could differ from amounts actually recognized due to changes in interest rates and the addition of other hedges subsequent to June 30, 2008. These net gains 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, 2008 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.

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 net gain of $2 million for the first six months of 2008 and a net loss of $1 million for the first six months of 2007.

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 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 credit default swaps (“CDS”) to mitigate the risk of economic loss on a portion of our loan exposure. We also sell loss protection to mitigate the net premium cost and the impact of mark-to-market accounting on the CDS in cases where we buy protection to hedge the loan portfolio and to take proprietary trading positions. The fair values 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 as well as commercial mortgage loans held for sale is economically hedged with total rate of return swaps, pay-fixed interest rate swaps and forward sales agreements. These contracts mitigate the impact on earnings of exposure to a certain referenced rate. The fair value of loan commitments has been recorded pursuant to guidance in SAB 109.

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. 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. Nonperformance risk including credit risk is included in the determination of the estimated net fair value.

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 the 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, 2008, we held short-term investments, US government securities and mortgage-backed securities with a fair value of $381 million. We pledged short-term investments with a fair value of $230 million under these agreements.

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The total notional or contractual amounts, estimated net fair values and credit risk for derivatives at June 30, 2008 and December 31, 2007 follow:

In millions	June 30, 2008 Notional/ Contract amount	June 30, 2008 Estimated net fair value	June 30, 2008 Credit risk	December 31, 2007 Notional/ Contract amount	December 31, 2007 Estimated net fair value	December 31, 2007 Credit risk
ACCOUNTING HEDGES						
Fair value hedges	**$9,275**	**$279**	**$307**	$10,568	$190	$283
Cash flow hedges	**10,813**	**314**	**325**	7,856	325	325
Total	**$20,088**	**$593**	**$632**	$18,424	$515	$608
FREE-STANDING DERIVATIVES						
Interest rate contracts	**$136,148**	**$(102)**	**$1,042**	$170,889	$4	$1,224
Equity contracts	**1,258**	**(34)**	**99**	1,824	(69)	144
Foreign exchange contracts	**13,183**	**(3)**	**168**	15,741	13	153
Credit derivatives	**5,178**	**106**	**185**	5,823	42	96
Options	**27,282**	**23**	**255**	64,448	87	496
Risk participation agreements	**1,426**			1,183		
Commitments related to mortgage-related assets	**3,447**	**5**	**11**	3,190	10	15
Other (a)	**488**	**(82)**	**1**	642	(201)	
Total	**$188,410**	**$(87)**	**$1,761**	$263,740	$(114)	$2,128

(a) Relates to PNC's obligation to help fund certain BlackRock LTIP programs and to certain customer-related derivatives.

NOTE 11 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 2008	Three months ended June 30 2007	Six months ended June 30 2008	Six months ended June 30 2007
CALCULATION OF BASIC EARNINGS PER COMMON SHARE				
Net income applicable to basic earnings per common share (a)	**$505**	$423	**$882**	$882
Basic weighted-average common shares outstanding (*in thousands*)	**344,069**	342,315	**341,633**	325,341
Basic earnings per common share	**$1.47**	$1.24	**$2.58**	$2.71
(a) Preferred dividends declared were less than $.5 million for each period.				
CALCULATION OF DILUTED EARNINGS PER COMMON SHARE (b) (c)				
Net income	**$505**	$423	**$882**	$882
Less: BlackRock adjustment for common stock equivalents	**2**	2	**6**	4
Net income applicable to diluted earnings per common share	**$503**	$421	**$876**	$878
Basic weighted-average common shares outstanding (*in thousands*)	**344,069**	342,315	**341,633**	325,341
Conversion of preferred stock Series A and B	**63**	65	**63**	65
Conversion of preferred stock Series C and D	**505**	551	**512**	557
Conversion of debentures	**1**	2	**1**	2
Exercise of stock options	**1,136**	1,841	**1,074**	1,927
Incentive/performance unit share and restricted stock/unit awards	**1,137**	1,175	**1,230**	1,228
Diluted weighted-average common shares outstanding (*in thousands*)	**346,911**	345,949	**344,513**	329,120
Diluted earnings per common share	**$1.45**	$1.22	**$2.54**	$2.67
(b) Excludes stock options considered to be anti-dilutive *(in thousands)*	**6,329**	4,389	**6,676**	4,389
(c) Excludes exchangeable senior notes considered to be anti-dilutive *(in thousands)*		7,779		7,779

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NOTE 12 SHAREHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME

Activity in shareholders' equity for the first six months of 2008 follows. Our preferred stock outstanding as of June 30, 2008 totaled less than $.5 million and, therefore, is excluded from the table. See note (b) below regarding our May 2008 preferred stock issuance.

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, 2007	341	$1,764	$2,618	$11,497	$ (147)	$ (878)	$14,854
Net effect of adopting EITF 06-4				(12)			(12)
Net effect of adopting SFAS 157 and SFAS 159				17			17
Balance at January 1, 2008	341	$1,764	$2,618	$11,502	$ (147)	$ (878)	$14,859
Net income				882			882
Other comprehensive income (loss), net of tax							
Net unrealized securities losses					(1,119)		(1,119)
Net unrealized losses on cash flow hedge derivatives					(13)		(13)
Pension, other postretirement and postemployment benefit plan adjustments					55		55
Other (a)					(3)		(3)
Comprehensive income (loss)							(198)
Cash dividends declared							
Common ($1.29 per share)				(444)			(444)
Common stock activity-acquisition	4	23	289				312
Treasury stock activity	1		(36)			99	63
Preferred stock issuance (b)			492				492
Tax benefit of stock option plans			3				3
Stock options granted			10				10
Effect of BlackRock equity transactions			14				14
Restricted stock/unit and incentive/performance unit share transactions			(3)				(3)
Balance at June 30, 2008	**346**	**$1,787**	**$3,387**	**$11,940**	**$ (1,227)**	**$ (779)**	**$15,108**

Comprehensive income for the six months ended June 30, 2007 totaled $678 million.

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

Six months ended June 30, 2008 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	$(1,738)	$ 640	$(1,098)
Less: Net gains realized in net income (c)	33	(12)	21
Change in net unrealized securities losses	(1,771)	652	(1,119)
Change in net unrealized gains on cash flow hedge derivatives:			
Decrease in net unrealized gains on cash flow hedge derivatives	(13)	5	(8)
Less: Net gains realized in net income	7	(2)	5
Change in net unrealized gains on cash flow hedge derivatives	(20)	7	(13)
Change in pension, other postretirement and postemployment benefit plan adjustments	87	(32)	55
Change in other (a)	(8)	5	(3)
Change in other comprehensive income (loss)	$(1,712)	$ 632	$(1,080)

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

	June 30, 2008		December 31, 2007	
In millions	Pretax	After-tax	Pretax	After-tax
Net unrealized securities losses	**$(2,036)**	**$(1,286)**	$(265)	$(167)
Net unrealized gains on cash flow hedge derivatives	**257**	**162**	277	175
Pension, other postretirement and postemployment benefit plan adjustments	**(194)**	**(122)**	(281)	(177)
Other, net (a)	**43**	**19**	51	22
Accumulated other comprehensive loss	**$(1,930)**	**$(1,227)**	$(218)	$(147)

(a) Consists of foreign currency translation adjustments and deferred tax adjustments on BlackRock's other comprehensive income.
(b) During May 2008, PNC issued 50,000 shares of Series K preferred stock, par value $1 per share and liquidation value $10,000 per share.
(c) The pretax amount represents net unrealized losses at December 31, 2007 that were realized in 2008 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 2008.

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NOTE 13 SUMMARIZED FINANCIAL INFORMATION OF BLACKROCK

As required by SEC Regulation S-X, summarized consolidated financial information of BlackRock follows (in millions):

	June 30 2008	December 31 2007
Total assets	**$22,017**	$ 22,562
Total liabilities	**$ 9,343**	$ 10,387
Non-controlling interests	**544**	578
Stockholders' equity	**12,130**	11,597
Total liabilities, non-controlling interests and stockholders' equity	**$22,017**	$ 22,562

	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
Total revenue	**$1,387**	$1,097	**$2,687**	$2,102
Total expenses	**982**	815	**1,886**	1,548
Operating income	**405**	282	**801**	554
Non-operating income (expense)	**(3)**	214	**(22)**	372
Income before income taxes and non-controlling interests	**402**	496	**779**	926
Income taxes	**148**	125	**278**	235
Non-controlling interests	**(20)**	149	**(15)**	273
Net income	**$ 274**	$ 222	**$ 516**	$ 418

NOTE 14 LEGAL PROCEEDINGS

The disclosure below updates the description of legal proceedings in Note 23 Legal Proceedings in Part II, Item 8 of our 2007 Form 10-K and in Note 14 Legal Proceedings in Part I, Item 1 of our first quarter 2008 Quarterly Report on Form 10-Q.

Adelphia

In June 2008, in the lawsuit currently being prosecuted by the Adelphia Recovery Trust, the United States District Court for the Southern District of New York granted in part defendants' motion to dismiss. The court dismissed the principal bankruptcy law claims that had not previously been dismissed by the Bankruptcy Court, including claims alleging voidable preference payments, fraudulent transfers, and equitable disallowance. The effect of the June ruling is to dismiss from this lawsuit all claims against most of the defendants but leave pending against PNC and other original members of Adelphia loan syndicates and then-affiliated investment banks the other claims described in our 2007 Form 10-K. Counsel for a number of defendants have moved to enter final judgment on the dismissed claims to permit immediate appellate review of the issues resolved in June 2008 by the District Court and in June 2007 by the Bankruptcy Court. That motion is pending.

CBNV Mortgage Litigation

We have appealed to the North Carolina Court of Appeals the order of the General Court of Justice, Superior Court Division, for Wake County, North Carolina, granting plaintiffs' motion for summary judgment on their individual claims.

Sterling Financial Corporation Matters

Other Civil Litigation Relating to EFI In July 2008, we reached an agreement to settle the lawsuits brought by two of the banks that had purchased equipment loans from Equipment Finance LLC, which we refer to as EFI. The amounts involved in these settlements are not significant to PNC.

NOTE 15 COMMITMENTS AND GUARANTEES

EQUITY FUNDING AND OTHER COMMITMENTS

Our unfunded commitments at June 30, 2008 included private equity investments of $254 million and other investments of $74 million.

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, such as remarketing programs for customers' variable rate demand notes. Net outstanding standby letters of credit totaled $5.7 billion at June 30, 2008. If the customer fails to meet its financial or performance obligation to the third party under the terms of the contract or there is a need to support a remarketing program, 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, 2008 had terms ranging from less than one year to 21 years. The aggregate maximum amount of future payments PNC could be required to make under outstanding standby letters of credit and risk participations in standby letters of credit and bankers' acceptances was $8.0 billion at June 30, 2008, of which $2.5 billion support remarketing programs.

Assets valued as of June 30, 2008 of approximately $1.1 billion secured certain specifically identified standby letters of credit. Approximately $2.3 billion in recourse provisions from third parties was also available for this purpose as of June 30, 2008. 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 $80 million at June 30, 2008.

STANDBY BOND PURCHASE AGREEMENTS AND OTHER LIQUIDITY FACILITIES

We enter into standby bond purchase agreements to support municipal bond obligations. At June 30, 2008, the aggregate of our commitments under these facilities was $313 million. We also enter into certain other liquidity facilities to support individual pools of receivables acquired by commercial paper conduits including Market Street. At June 30, 2008, our total commitments under these facilities were $7.2 billion, of which $7.0 billion was related to Market Street.

INDEMNIFICATIONS

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

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

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

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

As further described in our 2007 Form 10-K, we enter into certain types of agreements that include provisions for indemnifying third parties. We also 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. In addition, 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 them.

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 $2 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 Sterling, 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 and Sterling) with respect to pending litigation or investigations during 2008. 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 facilitated by Global Investment Servicing 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, 2008, the total maximum potential exposure as a result of these indemnity obligations was $11.4 billion, although the collateral at the time exceeded that amount.

VISA INDEMNIFICATION

Our payment services business issues and acquires credit and debit card transactions through Visa U.S.A. Inc. card association or its affiliates (“Visa”).

As further described in our 2007 Form 10-K, in October 2007 Visa completed a restructuring and issued shares of Visa Inc. common stock to its financial institution members (“Visa Reorganization”) in contemplation of its initial public offering (“IPO”). As part of the Visa Reorganization, we received our proportionate share of a class of Visa Inc. common stock allocated to the US members. Prior to the IPO, the US members were obligated to indemnify Visa for judgments and settlements related to specified litigation. In accordance with GAAP, during the fourth quarter of 2007 we recorded a liability and pretax operating expense of $82 million representing our estimate of the fair value of our indemnification obligation for potential losses arising from this litigation.

Visa’s IPO occurred in March 2008. Visa redeemed 2.2 million of our investment in Visa Class B common shares for cash out of the proceeds of the IPO. Accordingly, we recognized a pretax gain of $95 million during the first quarter of 2008 in other noninterest income in connection with this redemption. In addition, Visa set aside $3 billion of the IPO proceeds in an escrow account for the benefit of the US member financial institutions to fund the expenses of the litigation as well as the members’ proportionate share of any judgments or settlements that may arise out of the litigation. Therefore, we reduced our indemnification liability proportionately based upon the escrowed amount via a credit to noninterest expense of $43 million pretax during the first quarter of 2008. At June 30, 2008, our remaining recorded Visa indemnification liability totaled $39 million.

RECOURSE AGREEMENT WITH GOVERNMENT AGENCIES

We are authorized to originate, underwrite, close and service commercial mortgage loans and then sell them to Fannie Mae under Fannie Mae’s DUS program. We have similar arrangements with Freddie Mac.

Under these programs, we assume up to one-third of the risk of loss on unpaid principal balances. At June 30, 2008, the maximum recourse liability was $3.7 billion. Accordingly, we maintain a reserve for such potential losses which approximates the fair value of this liability. At June 30, 2008, the unpaid principal balance outstanding of loans sold as a participant in these programs was $12.1 billion. The fair value of the guarantee, in the form of reserves for losses under these programs, totaled $41 million as of June 30, 2008 and is included in other liabilities on our Consolidated Balance Sheet. If payment is required under these programs, we would not have an interest in the collateral underlying the mortgage loans on which losses occurred, although the value of the collateral is taken into account in determining the amounts of such losses. The serviced loans are not included on our Consolidated Balance Sheet.

OTHER GUARANTEES

We write caps and floors for customers, risk management and proprietary trading purposes. At June 30, 2008, the fair value of the written caps and floors liability on our Consolidated Balance Sheet was $9 million. Our ultimate obligation under written options is based on future market conditions and is only quantifiable at settlement. We manage our market risk exposure from customer positions through transactions with third-party dealers.

We also enter into credit default swaps under which we buy loss protection from or sell loss protection to a counterparty for the occurrence of a credit event of a reference entity. The fair value of the contracts sold on our Consolidated Balance Sheet was a net liability of $73 million at June 30, 2008. 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 $1.6 billion at June 30, 2008.

We have entered into various contingent performance guarantees through credit risk participation arrangements with terms ranging from less than one year to 23 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 was approximately $768 million at June 30, 2008.

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 SEGMENT REPORTING

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

- Retail Banking,
- Corporate & Institutional Banking,
- BlackRock, and
- Global Investment Servicing, formerly PFPC

Results of individual businesses are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of our 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 operated on a stand-alone basis. As permitted under GAAP, we have aggregated the business results for certain similar operating segments for financial reporting purposes.

Information for the periods presented reflects the reclassification of results for Hilliard Lyons, including the first quarter 2008 gain on the sale of this business, from the Retail Banking business segment to “Other.”

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 servicing 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 domestic banks and to approximate market comparables for this business. The capital assigned for Global Investment Servicing reflects its legal entity shareholder’s equity.

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 business segment loan portfolios. Our allocation of the costs incurred by operations and other shared 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 in the business segment tables. “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 share distributions and obligations, earnings and gains or losses related to Hilliard Lyons, integration costs, asset and liability management activities including net securities gains or losses and certain trading activities, equity management activities, 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 for comparative purposes.

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 markets. Our customers are serviced through 1,153 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.

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. 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 largest publicly traded investment management firms in the United States with $1.428 trillion of assets under management at June 30, 2008. BlackRock manages assets on behalf of institutional and individual investors worldwide through a variety of fixed income, cash management, equity and balanced and alternative investment separate accounts and funds. In addition, BlackRock provides risk management, investment system outsourcing and financial advisory services globally to institutional investors. At June 30, 2008, PNC's ownership interest in BlackRock was approximately 33.3%.

Global Investment Servicing 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, subaccounting, and distribution. Financial advisor services include managed accounts and information management. This business segment serviced $2.6 trillion in total assets and 74 million shareholder accounts as of June 30, 2008 both domestically and internationally from locations in Ireland, Poland and Luxembourg.

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Results Of Businesses

Three months ended June 30 In millions	Retail Banking	Corporate & Institutional Banking	BlackRock	Global Investment Servicing	Other	Intercompany Eliminations	Consolidated
2008							
INCOME STATEMENT							
Net interest income (expense)	**$ 495**	**$ 246**		**$ (7)**	**$ 243**		**$ 977**
Noninterest income	**390**	**232**	**$ 90**	**244**	**114**	**$ (8)**	**1,062**
Total revenue	**885**	**478**	**90**	**237**	**357**	**(8)**	**2,039**
Provision for credit losses	**90**	**72**			**24**		**186**
Depreciation and amortization	**36**	**6**		**18**	**33**		**93**
Other noninterest expense	**533**	**204**		**170**	**127**	**(12)**	**1,022**
Earnings before income taxes	**226**	**196**	**90**	**49**	**173**	**4**	**738**
Income taxes	**86**	**62**	**21**	**17**	**46**	**1**	**233**
Earnings	**$ 140**	**$ 134**	**$ 69**	**$ 32**	**$ 127**	**$ 3**	**$ 505**
Inter-segment revenue	**$ 4**	**$ 3**	**$ 4**	**$ 5**	**$ (5)**	**$ (11)**	
AVERAGE ASSETS (a)	**$46,939**	**$ 35,892**	**$ 4,463**	**$ 2,606**	**$55,456**	**$ (3,964)**	**$ 141,392**
2007							
INCOME STATEMENT							
Net interest income (expense)	$ 532	$ 191		$ (8)	$ 23		$ 738
Noninterest income	388	187	$ 74	216	$ 117	$ (7)	975
Total revenue	920	378	74	208	140	(7)	1,713
Provision for credit losses	37	17					54
Depreciation and amortization	33	6		14	23		76
Other noninterest expense	496	186		144	143	(5)	964
Earnings (loss) before income taxes	354	169	74	50	(26)	(2)	619
Income taxes (benefit)	132	47	17	18	(20)	2	196
Earnings (loss)	$ 222	$ 122	$ 57	$ 32	$ (6)	$ (4)	$ 423
Inter-segment revenue	$ 6	$ 1	$ 4	$ 3	$ (4)	$ (10)	
AVERAGE ASSETS (a)	$44,274	$ 28,477	$ 4,048	$ 2,400	$47,867	$ (3,746)	$ 123,320

Six months ended June 30 In millions	Retail Banking	Corporate & Institutional Banking	BlackRock	Global Investment Servicing	Other	Intercompany Eliminations	Consolidated
2008							
INCOME STATEMENT							
Net interest income (expense)	**$ 991**	**$ 483**		**$ (17)**	**$ 374**		**$ 1,831**
Noninterest income	**851**	**233**	**$ 171**	**482**	**311**	**$ (19)**	**2,029**
Total revenue	**1,842**	**716**	**171**	**465**	**685**	**(19)**	**3,860**
Provision for credit losses	**194**	**121**			**22**		**337**
Depreciation and amortization	**67**	**12**		**36**	**63**		**178**
Other noninterest expense	**1,040**	**413**		**334**	**214**	**(22)**	**1,979**
Earnings before income taxes	**541**	**170**	**171**	**95**	**386**	**3**	**1,366**
Income taxes	**206**	**34**	**42**	**34**	**167**	**1**	**484**
Earnings	**$ 335**	**$ 136**	**$ 129**	**$ 61**	**$ 219**	**$ 2**	**$ 882**
Inter-segment revenue	**$ 9**	**$ 6**	**$ 8**	**$ 11**	**$ (9)**	**$ (25)**	
AVERAGE ASSETS (a)	**$46,206**	**$ 35,575**	**$ 4,463**	**$ 2,606**	**$56,030**	**$ (3,907)**	**$ 140,973**
2007							
INCOME STATEMENT							
Net interest income (expense)	$ 982	$ 371		$ (16)	$ 24		$ 1,361
Noninterest income	722	374	$ 140	424	323	$ (17)	1,966
Total revenue	1,704	745	140	408	347	(17)	3,327
Provision for credit losses	60	1			1		62
Depreciation and amortization	55	11		29	47		142
Other noninterest expense	923	374		282	275	(12)	1,842
Earnings (loss) before income taxes	666	359	140	97	24	(5)	1,281
Income taxes (benefit)	247	105	32	34	(24)	5	399
Earnings (loss)	$ 419	$ 254	$ 108	$ 63	$ 48	$ (10)	$ 882
Inter-segment revenue	$ 12	$ 4	$ 8	$ 7	$ (10)	$ (21)	
AVERAGE ASSETS (a)	$39,171	$ 27,471	$ 4,048	$ 2,400	$46,128	$ (3,803)	$ 115,415

(a) Period-end balances for BlackRock and Global Investment Servicing.

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 second quarter 2007 and first six months of 2007 BlackRock/MLIM transaction integration costs and second quarter 2008 and first six months of 2008 Albridge Solutions and Coates Analytics integration costs in “Other” in the Item 2 presentation, and classification differences related to Global Investment Servicing. Global Investment Servicing 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.

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STATISTICAL INFORMATION (Unaudited)

THE PNC FINANCIAL SERVICES GROUP, INC.

Average Consolidated Balance Sheet And Net Interest Analysis

Taxable-equivalent basis Dollars in millions	2008 Average Balances	2008 Interest Income/ Expense	2008 Average Yields/ Rates	2007 Average Balances	2007 Interest Income/ Expense	2007 Average Yields/ Rates
	Six months ended June 30					
Assets						
Interest-earning assets:						
Securities available for sale						
Residential mortgage-backed	**$ 20,660**	**$ 565**	**5.47%**	$ 18,245	$ 490	5.37%
Commercial mortgage-backed	**5,688**	**153**	**5.37**	3,492	97	5.56
Asset-backed	**3,106**	**79**	**5.09**	2,205	54	4.93
U.S. Treasury and government agencies	**68**	**2**	**5.36**	369	8	4.47
State and municipal	**592**	**14**	**4.62**	183	4	4.63
Other debt	**148**	**4**	**5.53**	56	3	9.21
Corporate stocks and other	**439**	**9**	**4.09**	365	9	4.89
Total securities available for sale	**30,701**	**826**	**5.38**	24,915	665	5.34
Loans, net of unearned income						
Commercial	**29,986**	**938**	**6.19**	23,246	853	7.30
Commercial real estate	**9,163**	**288**	**6.21**	7,540	293	7.72
Lease financing	**2,565**	**40**	**3.13**	2,550	36	2.81
Consumer	**19,727**	**572**	**5.83**	17,378	565	6.56
Residential mortgage	**9,302**	**281**	**6.04**	7,649	224	5.86
Other	**329**	**11**	**6.28**	469	16	6.87
Total loans, net of unearned income	**71,072**	**2,130**	**5.96**	58,832	1,987	6.75
Loans held for sale	**2,978**	**92**	**6.21**	2,782	84	6.12
Federal funds sold and resale agreements	**2,784**	**42**	**2.97**	1,962	49	4.99
Other	**4,726**	**125**	**5.31**	3,173	98	6.23
Total interest-earning assets/interest income	**112,261**	**3,215**	**5.71**	91,664	2,883	6.29
Noninterest-earning assets:						
Allowance for loan and lease losses	**(876)**			(652)		
Cash and due from banks	**2,876**			2,968		
Other	**26,712**			21,435		
Total assets	**$140,973**			$115,415		
Liabilities, Minority and Noncontrolling Interests, and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits						
Money market	**$ 26,474**	**302**	**2.28**	$ 23,245	413	3.57
Demand	**9,789**	**36**	**.75**	9,085	51	1.13
Savings	**2,719**	**4**	**.32**	2,621	6	.47
Retail certificates of deposit	**16,673**	**326**	**3.93**	16,637	386	4.68
Other time	**4,250**	**76**	**3.52**	1,888	49	5.12
Time deposits in foreign offices	**5,069**	**68**	**2.67**	3,677	95	5.17
Total interest-bearing deposits	**64,974**	**812**	**2.50**	57,153	1,000	3.52
Borrowed funds						
Federal funds purchased	**5,133**	**71**	**2.72**	5,322	141	5.25
Repurchase agreements	**2,399**	**32**	**2.65**	2,184	51	4.65
Federal Home Loan Bank borrowings	**8,918**	**163**	**3.62**	85	2	3.79
Bank notes and senior debt	**6,687**	**115**	**3.40**	4,936	132	5.34
Subordinated debt	**4,891**	**112**	**4.57**	4,418	134	6.06
Other	**3,550**	**60**	**3.38**	2,138	48	4.50
Total borrowed funds	**31,578**	**553**	**3.47**	19,083	508	5.30
Total interest-bearing liabilities/interest expense	**96,552**	**1,365**	**2.82**	76,236	1,508	3.96
Noninterest-bearing liabilities, minority and noncontrolling interests, and shareholders' equity:						
Demand and other noninterest-bearing deposits	**17,804**			16,821		
Allowance for unfunded loan commitments and letters of credit	**144**			124		
Accrued expenses and other liabilities	**10,050**			7,807		
Minority and noncontrolling interests in consolidated entities	**1,912**			1,132		
Shareholders' equity	**14,511**			13,295		
Total liabilities, minority and noncontrolling interests, and shareholders' equity	**$140,973**			$115,415		
Interest rate spread			**2.89**			2.33
Impact of noninterest-bearing sources			**.39**			.67
Net interest income/margin		**$ 1,850**	**3.28%**		$ 1,375	3.00%

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.

Average Consolidated Balance Sheet And Net Interest Analysis (Continued)

Second Quarter 2008			First Quarter 2008			Second Quarter 2007		
Average Balances	Interest Income/ Expense	Average Yields/ Rates	Average Balances	Interest Income/ Expense	Average Yields/ Rates	Average Balances	Interest Income/ Expense	Average Yields/ Rates
$20,813	$284	5.47%	$20,506	$281	5.47%	$19,280	$261	5.40%
5,838	79	5.42	5,538	74	5.32	3,646	54	5.90
3,363	42	4.96	2,849	37	5.25	2,531	28	4.50
47	1	4.20	90	1	5.97	344	4	4.77
773	7	3.39	411	7	6.95	203	2	4.39
211	3	5.32	84	1	6.06	33	1	14.38
385	5	5.23	494	4	3.20	383	5	4.85
31,430	421	5.35	29,972	405	5.41	26,420	355	5.37
30,825	466	5.99	29,147	472	6.40	25,845	478	7.31
9,340	138	5.86	8,986	150	6.59	8,320	168	7.98
2,646	23	3.45	2,484	17	2.79	2,566	12	1.87
20,558	284	5.56	18,897	288	6.12	17,886	296	6.64
9,193	139	6.03	9,411	142	6.05	8,527	127	5.95
266	4	5.24	391	7	6.99	411	7	6.97
72,828	1,054	5.76	69,316	1,076	6.18	63,555	1,088	6.81
2,350	41	7.12	3,607	51	5.62	2,611	39	6.11
2,528	17	2.65	3,040	25	3.25	1,832	23	5.02
4,068	54	5.33	5,384	71	5.30	3,606	57	6.28
113,204	1,587	5.59	111,319	1,628	5.83	98,024	1,562	6.35
(900)			(852)			(692)		
2,725			3,027			2,991		
26,363			27,061			22,997		
$141,392			$ 140,555			$ 123,320		
$27,543	135	1.95	$ 25,405	167	2.64	$ 23,979	213	3.55
9,997	15	.63	9,580	21	.87	9,494	26	1.08
2,813	2	.31	2,625	2	.33	2,988	3	.47
16,791	151	3.62	16,556	175	4.24	17,426	205	4.71
4,686	39	3.28	3,813	37	3.81	2,297	31	5.18
4,112	20	1.91	6,026	48	3.18	4,220	54	5.14
65,942	362	2.20	64,005	450	2.82	60,404	532	3.52
4,702	25	2.09	5,564	46	3.25	6,102	83	5.33
2,185	12	2.23	2,614	20	3.00	2,507	29	4.61
9,602	73	3.02	8,233	90	4.32	106	1	3.61
6,621	49	2.92	6,754	66	3.87	5,681	76	5.33
5,132	58	4.49	4,649	54	4.65	4,466	67	5.95
2,854	21	2.98	4,247	39	3.65	2,459	28	4.59
31,096	238	3.04	32,061	315	3.89	21,321	284	5.28
97,038	600	2.47	96,066	765	3.17	81,725	816	3.98
18,045			17,564			17,824		
152			135			121		
9,410			10,690			7,655		
2,008			1,817			1,367		
14,739			14,283			14,628		
$141,392			$ 140,555			$123,320		
		3.12			2.66			2.37
		.35			.43			.66
	$987	3.47%		$863	3.09%		$746	3.03%

Loan fees for the six months ended June 30, 2008 and June 30, 2007 were $25 million and $19 million, respectively. Loan fees for the three months ended June 30, 2008, March 31, 2008, and June 30, 2007 were $14 million, $11 million, and $10 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, 2008 and June 30, 2007 were $19 million and $14 million, respectively. The taxable-equivalent adjustments to interest income for the three months ended June 30, 2008, March 31, 2008, and June 30, 2007 were $10 million, $9 million, and $8 million, respectively.

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PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 14 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

There are no material changes from any of the risk factors previously disclosed in PNC's 2007 Form 10-K in response to Part I, Item 1A other than the changes previously reported in PNC's first quarter 2008 Form 10-Q in response to Part II, 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 2008 are included in the following table:

In thousands, except per share data

2008 period	Total shares purchased (a)	Average price paid per share	Total shares purchased as part of publicly announced programs (b)	Maximum number of shares that may yet be purchased under the programs (b)
April 1 – April 30	211	$ 68.37		24,710
May 1 – May 31	164	$ 69.18		24,710
June 1 – June 30	142	$ 60.46		24,710
Total	517	$ 66.46		

(a) Reflects PNC common stock purchased in connection with our various employee benefit plans. No shares were purchased under the program referred to in note (b) to this table during the second quarter of 2008.

(b) Our current stock repurchase program allows us to purchase up to 25 million shares on the open market or in privately negotiated transactions. This program was authorized on October 4, 2007 and 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

3.3	Amendment No. 1 to the Amended and Restated Articles of Incorporation of the Corporation with respect to the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series K dated May 15, 2008. Incorporated by reference to Exhibit 3.1 of PNC's Current Report on Form 8-K dated May 14, 2008, filed May 16, 2008.
3.4	Articles of Incorporation of the Corporation, restated as amended effective as of May 15, 2008.
4.16	Terms of the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series K. Incorporated by reference to Exhibit 3.1 of PNC's Current Report on Form 8-K dated May 14, 2008, filed May 16, 2008.
10.54	Form of employee stock option agreement with performance vesting schedule.
12.1	Computation of Ratio of Earnings to Fixed Charges.
12.2	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
31.1	Certification of Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

You can receive copies of these Exhibits electronically at the SEC's home page at www.sec.gov or by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, DC 20549 at prescribed rates. The Exhibits are also available as part of this Form 10-Q on or through PNC's corporate website at www.pnc.com/secfilings under "Form 10-Q." Shareholders and bondholders 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, 2008 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)

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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/secfilings. 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/corporategovernance. 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
2008 Quarter				
First	**$71.20**	**$53.10**	**$65.57**	**$ .63**
Second	**73.00**	**55.22**	**57.10**	**.66**
Total				**$ 1.29**
2007 Quarter				
First	$76.41	$68.60	$71.97	$ .55
Second	76.15	70.31	71.58	.63
Third	75.99	64.00	68.10	.63
Fourth	74.56	63.54	65.65	.63
Total				$ 2.44

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

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

REGISTRAR AND TRANSFER AGENT
Computershare Investor Services, LLC
250 Royall Street
Canton, MA 02021
800-982-7652

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

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

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

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

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

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

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

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

PREFERRED STOCK

1. *Issuance in series*. The shares of Preferred Stock may be issued from time to time in series. Each series shall be so designated as to distinguish the shares thereof from the shares of all other series. All shares of any particular series shall be identical except, if entitled to cumulative dividends, as to the date or dates from which dividends thereon shall be cumulative. The shares of any one series need not be identical or rank equally with the shares of any other series except as required by law or as provided hereby. The Board of Directors is expressly vested with authority to establish and designate any one or more series of Preferred Stock

and to fix and determine by resolution any designations, preferences, qualifications, privileges, limitations, restrictions or special or relative rights of additional series which are not fixed hereby, including the following:

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

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

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

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

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

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

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

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

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

2. *Dividends.* The holders of shares of each series of Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors, dividends at the rate which shall have been fixed hereby or by the Board of Directors as authorized hereby with respect to such series, and no more except as shall have been determined by the Board of Directors as authorized hereby. If dividends on a particular series shall have been determined hereby or by the Board of Directors as authorized hereby to be cumulative, no dividends shall be paid or set apart for payment or declared on the Common Stock or on any class or series of stock of the Corporation ranking as to dividends subordinate to such series (other than dividends payable in Common Stock or in any class or series of stock of the

Corporation ranking as to dividends and assets subordinate to such series) and no payment shall be made or set apart for the purchase, redemption or other acquisition for value of any shares of Common Stock or of any class or series of stock of the Corporation ranking as to dividends or assets subordinate to such series, until dividends (to the extent cumulative) for all past dividend periods on all outstanding shares of such series have been paid, or declared and set apart for payment, in full. In case dividends for any dividend period are not paid in full on all shares of Preferred Stock ranking equally as to dividends, all such shares shall participate ratably in the payment of dividends for such period in proportion to the full amounts of dividends to which they are respectively entitled.

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

4. *Voting rights*.

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

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

5. *Action by Corporation requiring approval of Preferred Stock.*The Corporation shall not, without the affirmative vote at a meeting, or the written consent with or without a meeting, of the holders of at least two-thirds of the then outstanding shares of Preferred Stock of all series

(a) create or increase the authorized number of shares of any class of stock ranking as to dividends or assets prior to the Preferred Stock; or

(b) change the preferences, qualifications, privileges, limitations, restrictions or special or relative rights granted to or imposed upon the shares of Preferred Stock in any material respect adverse to the holders thereof, provided that if any such change will affect any particular series materially and adversely as contrasted with the effect thereof upon any other series, no such change may be made without, in addition, such vote or consent of the holders of at least two-thirds of the then outstanding shares of the particular series which would be so affected.

6. *Redemption and acquisition.*

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

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

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

$1.80 CUMULATIVE CONVERTIBLE PREFERRED STOCK, SERIES A

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

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

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

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

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

12. *Conversion provisions.*

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

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

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

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

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

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

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

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

(3) If the Corporation shall issue to the holders of its Common Stock rights or warrants to subscribe for or purchase shares of its Common Stock at a price less than 90% of the Current Market Price (as defined below in this paragraph) of the Corporation's Common Stock at the record date fixed for the determination of the holders of Common Stock entitled to such rights or warrants, the conversion rate in effect immediately prior to said record date shall be increased, effective at the opening of business on the next following full business day, to an amount determined by multiplying such conversion rate by a fraction the numerator of which is the number of shares of Common Stock of the Corporation outstanding immediately prior to said record date plus the number of additional shares of its

Common Stock offered for subscription or purchase and the denominator of which is said number of shares outstanding immediately prior to said record date plus the number of shares of Common Stock of the Corporation which the aggregate subscription or purchase price of the total number of shares so offered would purchase at the Current Market Price of the Corporation's Common Stock at said record date. The term "Current Market Price" at said record date shall mean the average of the daily last reported sale prices per share of the Corporation's Common Stock on the principal stock exchange on which the Common Stock is then listed during the 20 consecutive full business days commencing with the 30th full business day before said record date, provided that if there was no reported sale on any such day or days there shall be substituted the average of the closing bid and asked quotations on that exchange on that day, and provided further that if the Common Stock was not listed on any stock exchange on any such day or days there shall be substituted the average of the lowest bid and the highest asked quotations in the over-the-counter market on that day.

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

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

(i) In case of any reclassification or change in the outstanding shares of Common Stock of the Corporation (except a split or combination of shares) or in case of any consolidation or merger to which the Corporation is a party (except a merger in which the Corporation is the surviving corporation and which does not result in any reclassification of or change in the outstanding Common Stock of the Corporation except a split or combination of shares) or in case of any sale or conveyance to another corporation of all or substantially all of the property of the Corporation, effective provision shall be made by the Corporation or by the successor or purchasing corporation (1) that the holder of each share of Series A Preferred Stock then outstanding shall thereafter have the right to convert such share into the kind and amount of stock and other securities and property receivable upon such reclassification, change, consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock of the Corporation into which such share of Series A Preferred Stock might have been converted immediately prior thereto, and (2) that there shall be subsequent adjustments of the conversion rate which shall be equivalent, as nearly as practicable, to the adjustments provided for in Section 12(f). The provisions of this Section 12(i) shall similarly apply to successive reclassifications, changes, consolidations, mergers, sales or conveyances.

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

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

$1.80 CUMULATIVE CONVERTIBLE PREFERRED STOCK, SERIES B

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

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

15. *Liquidation.* The amount payable upon shares of Series B Preferred Stock in the event of voluntary or involuntary liquidation of the Corporation, prior to any payment to the holders of Common Stock or of any class or series of stock of

the Corporation ranking as to assets subordinate to the Series B Preferred Stock, shall be $40.00 per share plus an amount equal to accrued and unpaid dividends thereon computed to the date on which payment thereof is made available, whether or not earned or declared.

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

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

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

19. *Conversion provisions.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

$1.60 CUMULATIVE CONVERTIBLE PREFERRED STOCK, SERIES C

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

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

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

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

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

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

27. *Conversion provisions.*

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

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

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

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

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

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

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

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

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

days there shall be substituted the average of the closing bid and asked quotations on that day obtained from the market specialist assigned to the Corporation (or a market maker in the case of the over-the-counter market).

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

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

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

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

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

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

$1.80 CUMULATIVE CONVERTIBLE PREFERRED STOCK, SERIES D

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

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

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

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

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

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

34. *Conversion provisions*.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

$2.60 CUMULATIVE NONVOTING PREFERRED STOCK, SERIES E

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

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

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

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

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

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

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

FIXED/ADJUSTABLE RATE NONCUMULATIVE PREFERRED STOCK, SERIES F

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

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

44. *Dividends*.

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

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

(c) Except as provided below in this subsection c of this Section 44, the "Applicable Rate" per annum for any dividend period beginning on or after September 30, 2001 shall be equal to .35% plus the Effective Rate (as hereinafter defined), but not less than 6.55% nor greater than 12.55% (without taking into account any adjustments as described in subsection (d) of this Section 44). The "Effective Rate" for any dividend period beginning on or after September 30, 2001 shall be equal to the highest of the Treasury Bill Rate, the Ten Year Constant Maturity Rate and the Thirty Year Constant Maturity Rate (each as hereinafter defined) for such dividend period. In the event that the Corporation determines in good faith that for any reason: (i) any one of the Treasury Bill Rate, the Ten Year Constant Maturity Rate or the Thirty Year Constant Maturity Rate cannot be determined for any dividend period, then the Effective Rate for such dividend period shall be equal to the higher of whichever two of such rates can be so determined; (ii) only one of the Treasury Bill Rate, the Ten Year Constant Maturity Rate or the

Thirty Year Constant Maturity Rate can be determined for any dividend period, then the Effective Rate for such dividend period shall be equal to whichever such rate can be so determined; or (iii) none of the Treasury Bill Rate, the Ten Year Constant Maturity Rate or the Thirty Year Constant Maturity Rate can be determined for any dividend period, then the Effective Rate for the preceding dividend period shall be continued for such dividend period.

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

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

The Treasury Bill Rate, the Ten Year Constant Maturity Rate and the Thirty Year Constant Maturity Rate shall each be rounded to the nearest five hundredths of a percent, with .025% being rounded upward.

The Applicable Rate with respect to each dividend period beginning on or after September 30, 2001 shall be calculated as promptly as practicable by the Corporation according to the appropriate method described in this subsection (c) of this Section 44. The Corporation shall cause notice of each Applicable Rate to be enclosed with the dividend payment checks next mailed to the holders of Series F Preferred Stock.

For the purposes of this subsection (c) of this Section 44, the following terms shall have the following meanings: (i) “Calendar Period” means a period of 14 calendar days; (ii) “Federal Reserve Board” means the Board of Governors of the Federal Reserve System or any successor agency; (iii) “Special Securities” means securities which can, at the option of the holder, be surrendered at face value in payment of any Federal estate tax or which provide tax benefits to the holder and are priced to reflect such tax benefits or which were originally issued at a deep or substantial discount; (iv) the term “Ten Year Average Yield” means the average yield to maturity for actively traded marketable U.S. Treasury fixed interest rate securities (adjusted to constant maturities of 10 years); and (v) “Thirty Year Average Yield” means the average yield to maturity for actively traded Treasury fixed interest rate securities (adjusted to constant maturities of 30 years).

(d) If one or more amendments to the Internal Revenue Code of 1986, as amended (the “Code”), are enacted that change the percentage of the dividends received deduction (70% as of October 4, 1996) as specified in Section 243(a)(1) of the Code or any successor provision (the “Dividends Received Percentage”), as applicable to the Series F Preferred Stock, the amount of each dividend payable per share of the Series F Preferred Stock for dividend payments made on or after the later of the date of enactment or the effective date of such change shall be adjusted by multiplying the amount of the dividend payable determined as described under subsection (a) of this Section 44 (before adjustment) by a factor, which shall be the number determined in accordance with the following formula (the “DRD Formula”), and rounding the result to the nearest cent:

$$\frac{1 - [.35(1-.70)]}{1 - [.35(1\text{-DRP})]}$$

For purposes of the DRD Formula. “DRP” means the Dividends Received Percentage applicable to the dividend in question. No amendment to the Code, other than a change in the dividends received deduction set forth in Section 243(a)(1) of the Code or any successor provision, as applicable to the Series F Preferred Stock, shall give rise to an adjustment. Notwithstanding the foregoing provisions of this subsection (d) of this Section 44, in the event that, with respect to any such amendment, the Corporation shall receive an unqualified opinion of nationally recognized independent tax counsel selected by the Corporation and approved by Cravath, Swaine & Moore (which approval shall not be unreasonably withheld) or a private letter ruling or similar form of authorization from the Internal Revenue Service to the effect that such an amendment would not apply to dividends payable on the Series F Preferred Stock, then any such amendment shall not result in the adjustment provided for pursuant to the DRD Formula. The opinion referenced in the previous sentence shall be based upon a specific provision in the legislation or upon a published pronouncement of the Internal Revenue Service addressing such legislation. The Corporation’s calculation of the dividends payable as so adjusted and as certified accurate as to calculation and reasonable as to method by the independent certified public accountants then regularly engaged by the Corporation, shall be final and not subject to review.

If any amendment to the Code which reduces the Dividends Received Percentage, as applicable to the Series F Preferred Stock, is enacted and becomes effective after a dividend payable on a Dividend Payment Date has been declared, the amount of dividend payable on such Dividend Payment Date shall not be increased; but instead, an amount, equal to the excess of (x) the product of the dividends paid by the Corporation on such Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the reduced Dividends Received Percentage) and (y) the dividends paid by the Corporation on such Dividend Payment Date, shall be payable to holders of record on the next succeeding Dividend Payment Date in addition to any other amounts payable on such date.

If prior to April 1, 1997, an amendment to the Code is enacted that reduces the Dividends Received Percentage, as applicable to the Series F Preferred Stock, and such reduction retroactively applies to a Dividend Payment Date as to which the Corporation previously paid dividends on the Series F Preferred Stock (each an “Affected Dividend Payment Date”), the Corporation shall pay (if declared) additional dividends (the “Additional Dividends”) on the next succeeding Dividend Payment Date (or if such amendment is enacted after the dividend payable on such Dividend Payment Date has been declared, on the second succeeding Dividend Payment Date following the date of enactment) to holders of record on such succeeding Dividend Payment Date in an amount equal to the excess of (x) the product of the dividends paid by the Corporation on each Affected Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the Dividends Received Percentage applicable to each Affected Dividend Payment Date) over (y) the dividends paid by the Corporation on each Affected Dividend Payment Date.

Additional Dividends shall not be paid in respect of the enactment of any amendment to the Code on or after April 1, 1997 which retroactively reduces the Dividends Received Percentage, or if prior to April 1, 1997, such amendment would not result in an adjustment due to the Corporation having received either an opinion of counsel or tax ruling referred to in the third preceding paragraph. The Corporation shall only make one payment of Additional Dividends.

In the event that the amount of dividend payable per share of the Series F Preferred Stock shall be adjusted pursuant to the DRD Formula and/or Additional Dividends are to be paid, the Corporation will cause notice of each such adjustment and, if applicable, any Additional Dividends, to be sent to the holders of the Series F Preferred Stock.

In the event that the Dividends Received Percentage, applicable to the Series F Preferred Stock, is reduced to 40% or less, the Corporation may at its option, redeem the Series F Preferred Stock as a whole, but not in part, as described in Section 46 below.

45. *Liquidation.* The amount payable upon shares of Series F Preferred Stock in the event of voluntary or involuntary liquidation of the Corporation, prior to any payment to the holders of Common Stock or of any class or series of stock of

the Corporation ranking as to assets subordinated to the Series F Preferred Stock, shall be $50.00 per share plus an amount equal to accrued and unpaid dividends, whether or not earned or declared, computed thereon from the immediately preceding Dividend Payment Date (but without cumulation for unpaid dividends for prior dividend periods on the Series F Preferred Stock) to the date on which payment thereof is made available.

46. *Redemption.*

(a) Prior to September 30, 2001, shares of Series F Preferred Stock shall not be redeemable, except under the circumstances described in subsection (b) of this Section 46. Shares of Series F Preferred Stock shall be redeemable by the Corporation, in whole or in part, at any time and from time to time on and after September 30, 2001 at $50.00 per share plus an amount equal to accrued and unpaid dividends, whether or not earned or declared, computed thereon from the immediately preceding Dividend Payment Date (but without cumulation for unpaid dividends for prior dividend periods on the Series F Preferred Stock) to the date fixed for redemption, including any changes in dividends payable due to changes in the Dividends Received Percentage and Additional Dividends, if any (each as defined in subsection (d) of Section 44).

(b) Notwithstanding anything to the contrary in subsection (a) of this Section 46, if the Dividends Received Percentage is equal to or less than 40% and, as a result, the amount of dividends on the Series F Preferred Stock on any Dividend Payment Date will be or is adjusted upwards as described in subsection (d) of Section 44 above, the Corporation, at its option, may redeem all, but not less than all, of the outstanding shares of Series F Preferred Stock; provided, however, that within 60 days of the date on which an amendment to the Code is enacted which reduces the Dividends Received Percentage to 40 percent or less, the Corporation sends notice to the holders of the Series F Preferred Stock of such redemption. Any redemption of Series F Preferred Stock in accordance with this Section 46(b) shall take place on the date specified in the notice, which shall not be less than 30 days nor more than 60 days from the date such notice is sent to holders of Series F Preferred Stock. Any redemption of Series F Preferred Stock in accordance with this Section 46(b) shall be on notice as aforesaid at the applicable redemption price set forth in the following table, in each case plus accrued and unpaid dividends computed thereon from the immediately preceding Dividend Payment Date (but without any cumulation for unpaid dividends for prior dividend periods on Series F Preferred Stock) to the date fixed for redemption, including any changes in dividends payable due to changes in the Dividends Received Percentage and Additional Dividends, if any, whether or not earned or declared.

Redemption Period	Redemption Price Per Share
October 9, 1996 through September 29, 1997	$ 52.50
September 30, 1997 through September 29, 1998	$ 52.00
September 30, 1998 through September 29, 1999	$ 51.50
September 30, 1999 through September 29, 2000	$ 51.00
September 30, 2000 through September 29, 2001	$ 50.50
On or after September 30, 2001	$ 50.00

(c) Holders of Series F Preferred Stock shall have no right to require the redemption of shares of Series F Preferred Stock.

47. *Voting Rights.* Holders of Series F Preferred Stock shall have no voting rights except as set forth in Section 4 and Section 5 of ARTICLE SEVENTH of the Corporation's Articles of Incorporation or as otherwise required from time to time by law.

48. *Conversion Rights.* Shares of Series F Preferred Stock shall not be convertible into shares of Common Stock or any other security of the Corporation.

JUNIOR PARTICIPATING PREFERRED STOCK, SERIES G

49. *Designation and Amount.* The shares of such series shall be designated as "Series G Junior Participating Preferred Stock" (the "Series G Preferred Stock") and the number of shares constituting the Series G Preferred Stock initially shall be 450,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; *provided*, that no decrease shall reduce the number of shares of Series G Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series G Preferred Stock.

50. *Dividends and Distributions.*

(a) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series G Preferred Stock with respect to dividends, the holders of shares of Series G Preferred Stock, in preference to the holders of Common Stock, par value $5.00 per share (the "Common Stock"), of the Corporation, and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series G Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $0.10 or (b) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series G Preferred Stock. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series G Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) The Corporation shall declare a dividend or distribution on the Series G Preferred Stock as provided in paragraph (A) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $0.10 per share on the Series G Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Series G Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series G Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series G Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series G Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

51. *Voting Rights.* The holders of shares of Series G Preferred Stock shall have the following voting rights:

(a) Subject to the provision for adjustment hereinafter set forth, each share of Series G Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series G Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) Except as otherwise provided herein, in any other Statement with Respect to Shares pursuant to Section 1522 of the Business Corporation Law or amendment to the Corporation's Amended and Restated Articles of Incorporation creating a series of Preferred Stock or any similar stock, or by law, the holders of shares of Series G Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

(c) Except as set forth herein, or as otherwise provided by law, holders of Series G Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

52. *Certain Restrictions.*

(a) Whenever quarterly dividends or other dividends or distributions payable on the Series G Preferred Stock as provided in Section 50 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series G Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series G Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series G Preferred Stock, except dividends paid ratably on the Series G Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series G Preferred Stock, provided that the Corporation may at anytime redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series G Preferred Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series G Preferred Stock, or any shares of stock ranking on a parity with the Series G Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 52, purchase or otherwise acquire such shares at such time and in such manner.

53. *Reacquired Shares.* Except as otherwise provided by action of the Board of Directors, any shares of Series G Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever (other than by conversion) shall not be retired or cancelled but shall become authorized but unissued shares of Preferred Stock and maybe reissued as part of the same or a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth herein, in the Amended and Restated Articles of Incorporation of the Corporation, or in any other Statement with Respect to Shares pursuant to Section 1522 of the Business Corporation Law creating a series of Preferred Stock or any similar stock or as otherwise required by law.

54. *Liquidation, Dissolution or Winding Up.* Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series G Preferred Stock unless, prior thereto, the holders of shares of Series G Preferred Stock shall have received $1.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series G Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount to be distributed per share to holders of shares of Common Stock, or (2) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series G Preferred Stock, except distributions made ratably on the Series

G Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series G Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

55. *Consolidation, Merger, etc.* In case the Corporation shall enter into any consolidation, merger, combination, division or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series G Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series G Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

56. *No Redemption.* The shares of Series G Preferred Stock shall not be redeemable.

57. *Rank.* The Series G Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets, junior to all series of any other class of the Corporation's Preferred Stock.

58. *Amendment.* If any shares of Series G Preferred Stock are then outstanding, the Amended and Restated Articles of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series G Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series G Preferred Stock, voting together as a single class.

7.00% NON-CUMULATIVE PREFERRED STOCK, SERIES H

59. *Designation.* A series of Preferred Stock designated "7.00% Non-cumulative Preferred Stock, Series H" (herein called "Series H Preferred Stock") shall be established, consisting of 7,500 shares, $1.00 par value per share and having a liquidation preference of $100,000 per share.

60. *Issuance upon Conditional Exchange.*

(a) The Series H Preferred Stock shall be issued by the Corporation upon the direction by the United States Office of the Comptroller of the Currency (the "OCC") to exchange all of the Series A Preferred Stock of PNC REIT Corp. (the "REIT Series A Preferred Stock"), on a share-for-share basis, for the Series H Preferred Stock (a "Conditional Exchange") in connection with the occurrence of one of the following: (i) PNC Bank, National Association ("PNC Bank") becomes "undercapitalized" under prompt corrective action regulations, (ii) PNC Bank is placed into conservatorship or receivership, or (iii) the OCC, in its sole discretion, anticipates PNC Bank becoming "undercapitalized" in the near term or takes supervisory action that limits the payment of dividends by PNC REIT Corp. (a "Supervisory Event"). Upon the occurrence of a Conditional Exchange, each share of REIT Series A Preferred Stock shall be exchanged for one share of Series H Preferred Stock in accordance with the terms and conditions described herein and in the Certificate of Incorporation of PNC REIT Corp.

(b) Upon the Conditional Exchange, each holder of REIT Series A Preferred Stock shall be unconditionally obligated to surrender to the Corporation any certificates representing each share of REIT Series A Preferred Stock held by such holder, and the Corporation shall be unconditionally obligated to issue to such holder, in exchange for each such share of REIT Series A Preferred Stock surrendered, a share of Series H Preferred Stock on a share-for-share basis.

(c) The Conditional Exchange shall occur as of 10:00 a.m. Eastern Time on the date for such exchange set forth in the applicable OCC directive, or, if such date is not set forth in the directive, as of 10:00 a.m. Eastern Time on the earliest possible date such exchange could occur consistent with the directive, as determined by the Corporation. As of the time of the Conditional Exchange, all of the REIT Series A Preferred Stock will be deemed cancelled and will cease to be outstanding without any further action on the part of PNC RETT Corp. (the "REIT"), the Corporation or any other person, all rights of the holders of the REIT Series A Preferred Stock as stockholders of the REIT shall cease, and such persons shall thereupon and thereafter be deemed to be and shall be for all purposes solely holders of Series H Preferred Stock. Until replacement certificates representing Series H Preferred Stock are delivered (or in the event such replacement certificates are not delivered), any certificates previously representing the REIT Series A Preferred Stock shall be deemed for all purposes to represent Series H Preferred Stock.

(d) Any REIT Series A Preferred Stock purchased or redeemed by the REIT in accordance with the Certificate of Incorporation of the REIT prior to the time of the Conditional Exchange shall not be subject to the Conditional Exchange. In the event of a Conditional Exchange, any declared and unpaid dividends on the REIT Series A Preferred Stock as of the time of the Conditional Exchange shall be deemed to be declared and unpaid dividends on the Series H Preferred Stock.

61. *Rank.* Series H Preferred Stock shall rank, as to dividends and assets, *pari passu* with the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock and senior to the Series G Preferred Stock.

62. *Dividends*.

(a) The dividend rate for the Series H Preferred Stock shall be 7.00% per share per annum of the initial liquidation preference of $100,000 per share, accruing from the date of its issuance to and including the last day of March, the last day of June, the last day of September or the last day of December, whichever occurs first after such issuance (such period being the "Initial Dividend Period") and then for each dividend payment period thereafter, commencing on April 1, July 1, October 1 or January 1, as the case maybe, of each year and ending on and including the day next preceding the first day of the next quarterly period (each such period, including the Initial Dividend Period, being a "Dividend Period"). Until no longer outstanding, the holders of the Series H Preferred Stock shall be entitled to receive such cash dividends, and no more, and the Corporation shall be bound to pay the same, but only as, if and when declared by the Board of Directors, on March 31, June 30, September 30 and December 31 of each year (each a "Dividend Payment Date") for the Dividend Period ending on such dates, respectively. If a Dividend Payment Date is not a business day, the dividends (if declared) shall be paid on the immediately preceding business day. The amount of dividends payable for the Initial Dividend Period or any period shorter than a full Dividend Period shall be computed on the basis of a 360-day year having 30-day months and the actual number of days elapsed in the period. Each such dividend shall be payable to holders of record of the Series H Preferred Stock as they appear on the stock books of the Corporation on the respective record dates fixed for such purpose by the Board of Directors in advance of payment of such dividend, which shall be the 15th calendar day of the last calendar month of the applicable Dividend Period. If any dividend record date is not a business day then the dividend record date for the applicable Dividend Period shall be the immediately preceding business day.

(b) Dividends on the Series H Preferred Stock shall not be cumulative and no rights shall accrue to the holders of the Series H Preferred Stock by reason of the fact that the Corporation may fail to declare or pay dividends on the Series H Preferred Stock in any amount in any year, whether or not the earnings of the Corporation in any year were sufficient to pay such dividends in whole or in part and whether or not dividends are declared and paid for any future Dividend Period, with respect to any series of the Preferred Stock or the Common Stock of the Corporation.

63. *Liquidation.* The amount payable on the Series H Preferred Stock in the event of any voluntary or involuntary liquidation, dissolution or winding-up of affairs of the Corporation shall be $100,000 per share, plus authorized, declared but unpaid dividends up to the date of such liquidation, dissolution or winding-up of affairs of the Corporation, and no more, before any distribution shall be made to the holders of any shares of common stock and all other classes and series of securities of the Corporation which rank junior to the Series H Preferred Stock as to dividends and distributions.

64. *Redemption.* On or after September 30, 2025, the Corporation may redeem the Series H Preferred Stock for cash, in whole or in part, at a price equal to $100,000 per share of Series H Preferred Stock, plus authorized, declared but unpaid dividends to the date fixed for redemption, without interest, on shares redeemed.

65. *Voting rights.* The holders of the Series H Preferred Stock shall not be entitled to vote on any matter, except as otherwise required by law.

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

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

FIXED-TO-FLOATING RATE NON-CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES I

69. *Designation*. A series of Preferred Stock designated “Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series I” (herein called “Series I Preferred Stock”) shall be established, consisting of 5,000 shares, $1.00 par value per share and having a liquidation preference of $100,000 per share.

70. *Issuance upon Conditional Exchange*.

(a) The shares of Series I Preferred Stock shall be issued only upon direction by the United States Office of the Comptroller of the Currency (together with any successor United States federal bank regulatory authority that is the primary supervisory agency for PNC Bank, the OCC) to exchange the Fixed-to-Floating Rate Non-cumulative Exchangeable Perpetual Trust Securities, liquidation preference $100,000 per security (the “Trust Securities”), of PNC Preferred Funding Trust II, a Delaware statutory trust, on a security-for-security basis, for the Series I Preferred Stock (a “Series I Conditional Exchange”), in connection with the occurrence of one of the following: (i) PNC Bank becomes “undercapitalized” under the OCC's "prompt corrective action" regulations, (ii) PNC Bank is placed into conservatorship or receivership or (iii) the OCC, in its sole discretion, anticipates PNC Bank becoming "undercapitalized" in the near term or takes supervisory action that limits the payment of dividends by PNC Bank (each of (i) through (iii), a "Series I Conditional Exchange Event").

(b) The Series I Conditional Exchange will occur as of 8:00 A.M. New York time, on the date for such exchange set forth in the applicable OCC directive, or, if such date is not set forth in the directive, as of 8:00 A.M., New York time, on the earliest possible date such exchange could occur consistent with the directive, as determined by the Corporation and as evidenced by the issuance by the Corporation of a press release prior to such time.

(c) The Corporation will mail notice of the issuance of an OCC directive after the occurrence of a Series I Conditional Exchange Event to each holder of Trust Securities within 30 days, and the Corporation will deliver (or cause to be delivered) to each such holder Series I Preferred Stock upon surrender of the Trust Securities.

71. *Ranking*. The shares of Series I Preferred Stock shall rank:

(a) senior, as to dividends or upon liquidation, dissolution and winding up, to the Common Stock, and senior, as to dividends or upon liquidation, dissolution and winding up, to Series G and all other classes and series of capital stock of the Corporation now or hereafter authorized, issued or outstanding that, by their terms, do not expressly provide that they rank *pari passu* with the Series I Preferred Stock as to dividends or upon liquidation, dissolution and winding up, as the case may be (collectively, "Series I Junior Securities"); and

(b) on a parity, as to dividends or upon liquidation, dissolution and winding up with the Series A, Series B, Series C, Series D, Series E, Series F and Series H, and with each class or series of preferred capital stock of the Corporation hereafter authorized, issued or outstanding which specify that they are *pari passu* with the Series I Preferred Stock (collectively, "Series I Parity Securities").

The Corporation may authorize and issue additional shares of Series I Junior Securities and Series I Parity Securities without the consent of the holders of the Series I Preferred Stock. The holders of shares of Series I Preferred Stock will have no preemptive rights with respect to any shares of the Corporation's capital stock or any of its other securities convertible into or carrying rights or options to purchase any such capital stock.

72. *Dividends*.

(a) Dividends on the Series I Preferred Stock, if, when and as declared by the Corporation's Board of Directors out of its legally available funds, will be payable on each Series I Dividend Payment Date on a non-cumulative basis at an annual rate of 6.113% to, but not including, March 15, 2012 (whether or not a

Business Day) if issued before March 15, 2012 and 3-Month USD LIBOR plus 1.2225% on March 15, 2012 and thereafter on the liquidation preference thereof, which is $100,000 per share, from and including the date of its issuance.

(b) Dividends on the Series I Preferred Stock, if, when and as declared by the Corporation's Board of Directors, will be payable on March 15th, June 15th, September 15th and December 15th of each year, or if any such day is not a Business Day, the next Business Day (each, a "Series I Dividend Payment Date"). If no shares of Series I Preferred Stock have been issued prior to March 15, 2012, a Series I Dividend Payment Date shall be deemed to have occurred on the date of issuance, if such issuance date is a distribution payment date with respect to the Trust Securities or, if such issuance date is not a distribution payment date with respect to the Trust Securities, on the immediately preceding distribution payment date with respect to the Trust Securities for purposes of determining the dividend rate.

(c) Each period from and including a Series I Dividend Payment Date (or the date of issuance of the Series I Preferred Stock) to but excluding the following Series I Dividend Payment Date is referred to herein as a "Series I Dividend Period," except that if the Series I Preferred Stock is outstanding on March 15, 2012, the Series I Dividend Period ending in March 2012 shall be to but not including March 15, 2012 (whether or not a Business Day) and the Series I Dividend Period ending in June 2012 shall commence on March 15, 2012 (whether or not a Business Day). Dividends payable on the Series I Preferred Stock will be computed on the basis of (x) for any Series I Dividend Periods ending prior to the Series I Dividend Payment Date in March 2012, twelve 30-day months, a 360-day year, and the actual number of days elapsed in the period, and (y) for any Series I Dividend Period thereafter, the actual number of days in the relevant period divided by 360. No interest will be paid on any dividend payment on the Series I Preferred Stock.

(d) The record date for the payment of dividends, if declared, will be the first day of the month in which the relevant Series I Dividend Payment Date occurs or, if any such day is not a Business Day, the first Business Day thereafter.

(e) Dividends on the Series I Preferred Stock are non-cumulative. If the Corporation's Board of Directors does not declare a dividend on the Series I Preferred Stock or declares less than a full dividend in respect of any Series I Dividend Period, the holders of the Series I Preferred Stock will have no right to receive any dividend or a full dividend, as the case may be, for the Series I Dividend Period, and the Corporation will have no obligation to pay a dividend or to pay full dividends for that Series I Dividend Period, whether or not the earnings of the Corporation were sufficient to pay such dividends in whole or in part and whether or not dividends are declared and paid for any future Series I Dividend Period with respect to the Series I Preferred Stock, the Corporation's common stock or any other class or series of the Corporation's preferred stock.

(f) If full dividends on the Series I Preferred Stock for the then current Series I Dividend Period shall not have been declared and paid when due, or declared and a sum sufficient for the payment thereof set apart for payment at the time due for payment, no dividends shall be declared or paid or set apart for payment and no other distribution shall be declared or made or set apart for payment upon the Common Stock or any other Series I Junior Securities (other than distributions payable in Common Stock or Series I Junior Securities), nor shall any Common Stock, any other Series I Junior Securities or any Series I Parity Securities be redeemed, purchased or otherwise acquired for any consideration (or any monies be paid to or made available to a sinking fund for such purpose) by the Corporation (except as a result of reclassification of Series I Junior Securities for or into other Series I Junior Securities, or by conversion into or exchange for other Series I Junior Securities).

(g) When dividends are not paid in full (or a sum sufficient for such full payment is not set apart) upon the Series I Preferred Stock or any Series I Parity Securities, all dividends declared upon the Series I Preferred Stock and the Series I Parity Securities shall be declared *pro rata* so that the amount of dividends declared per share on the Series I Preferred Stock and the Series I Parity Securities shall in all cases bear to each other the same ratio that full dividends per share on the Series I Preferred Stock for the then-current Series I Dividend Period (which shall not include any accumulation in respect of unpaid dividends for prior Series I Dividend Periods) and full dividends per share, including required or permitted accumulations, if any, on the Series I Parity Securities bear to each other.

(h) Holders of shares of the Series I Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock, in excess of full dividends, as herein provided. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the shares of the Series I Preferred Stock which may be in arrears.

73. *Liquidation*.

(a) In the event the Corporation voluntarily or involuntarily liquidates, dissolves or winds up, the holders of Series I Preferred Stock at the time outstanding will be entitled to receive liquidating distributions in the amount of $100,000 per share, plus an amount equal to declared but unpaid dividends for the current Series I Dividend Period to the date of liquidation, out of the Corporation’s assets legally available for distribution to its shareholders, before any distribution of assets is made to holders of the Corporation’s common stock or any Series I Junior Securities and subject to the rights of the holders of any Series I Parity Securities and the rights of its depositors and creditors.

(b) After payment of the full amount of the liquidating distributions to which they are entitled, the holders of the Series I Preferred Stock will have no right or claim to any of the Corporation’s remaining assets. In the event that, upon any such voluntary or involuntary liquidation, dissolution, or winding up, the Corporation’s available assets are insufficient to pay the amount of the liquidation distributions on all outstanding Series I Preferred Stock and the corresponding amounts payable on any Series I Parity Securities, then the holders of the Series I Preferred Stock and any Series I Parity Securities will share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

(c) Neither the voluntary sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of the Corporation, nor the merger or consolidation of the Corporation with or into any one or more other persons, shall be deemed to be a voluntary or involuntary liquidation, dissolution or winding up for the purposes of this Section 73(c), unless such voluntary sale, conveyance, exchange or transfer shall be in connection with a plan of liquidation, dissolution or winding up of the Corporation.

74. *Redemption*.

(a) Shares of Series I Preferred Stock are not redeemable at the option of the holders thereof. Shares of Series I Preferred Stock are redeemable:

(i) in whole but not in part, on any Series I Dividend Payment Date prior to the Series I Dividend Payment Date in March 2012 upon the occurrence of a Regulatory Capital Event or a Rating Agency Event, at a cash redemption price equal to the sum of: (A) the greater of: (1) $100,000 per share of Series I Preferred Stock or (2) the sum of present values of $100,000 per share of Series I Preferred Stock and all undeclared dividends for the Series I Dividend Periods from the redemption date to and including the Series I Dividend Payment Date in March 2012, discounted to the redemption date on a quarterly basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, as calculated by an Independent Investment Banker, *plus* 0.50%; *plus* (B) any declared and unpaid dividends to the redemption date;

(ii) in whole but not in part, on any Series I Dividend Payment Date prior to the Series I Dividend Payment Date in March 2012 for any reason other than a Regulatory Capital Event or a Rating Agency Event, at a cash redemption price equal to the sum of: (A) the greater of (1) $100,000 per share of Series I Preferred Stock or (2) the sum of present values of $100,000 per share of Series I Preferred Stock and all undeclared dividends for the Series I Dividend periods from the redemption date to and including the Series I Dividend Payment Date in March 2012, discounted to the redemption date on a quarterly basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, as calculated by an Independent Investment Banker, *plus* 0.25%; *plus* (B) any declared and unpaid dividends to the redemption date;

(iii) in whole, but not in part, on any Series I Dividend Payment Date after the Series I Dividend Payment Date in March 2012 that is not a Five

Year Date upon the occurrence of a Regulatory Capital Event, at a cash redemption price equal to $100,000 per share of Series I Preferred Stock, *plus* any declared and unpaid dividends to the redemption date;

(iv) in whole but not in part, on any Series I Dividend Payment Date after the Series I Dividend Payment Date in March 2012 that is not a Five Year Date for any reason other than a Regulatory Capital Event, at a cash redemption price equal to the sum of: (A) the greater of (1) $100,000 per share of Series I Preferred Stock or (2) the sum of present values of $100,000 per share of Series I Preferred Stock and all undeclared dividends for the Series I Dividend Periods from the redemption date to and including the next succeeding Five Year Date, discounted to the redemption date on a quarterly basis (assuming a 360-day year consisting of twelve 30-day months) at the 3-Month USD LIBOR rate applicable to the Series I Dividend Period immediately preceding such redemption date, as calculated by an Independent Investment Banker; *plus* (B) any declared and unpaid dividends to the redemption date; or

(v) in whole or in part, on each Series I Dividend Payment Date that is a Five Year Date, at a cash redemption price of $100,000 per share of Series I Preferred Stock, *plus* any declared and unpaid dividends to the redemption date, in each case, without accumulation of any undeclared dividends on the Series I Preferred Stock with respect to Series I Dividend Payment Dates prior to the redemption date.

(b) Capitalized terms used but not otherwise defined herein shall have the following meanings with respect to shares of Series I Preferred Stock:

(i) “Business Day” means any day other than a Saturday, Sunday or any other day on which the banks in New York, New York or Pittsburgh, Pennsylvania are generally required or authorized by law to be closed.

(ii) “Comparable Treasury Issue” means the United States Treasury security selected by the Independent Investment Banker as having a maturity comparable to the term remaining to the Series I Dividend Payment Date in March 2012 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of perpetual preferred securities having similar terms as the Series I Preferred Stock with respect to the payment of dividends and distributions of assets upon liquidation, dissolution or winding up of the issuer of such preferred stock.

(iii) “Comparable Treasury Price” means with respect to any redemption date for the shares of Series I Preferred Stock, the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Independent Investment Banker obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

(iv) “Five Year Date” means the Series I Dividend Payment Date in March 2012 and the Series I Dividend Payment Date in March of each fifth succeeding year.

(v) “Independent Investment Banker” means an independent investment banking institution of national standing appointed by the Corporation.

(vi) “LIBOR Business Day” means any day on which commercial banks are open for general business (including dealings in deposits in U.S. dollars) in London.

(vii) “LIBOR Determination Date” means, as to each Series I Dividend Period, the date that is two LIBOR Business Days prior to the first day of such Series I Dividend Period.

(viii) “Rating Agency” means, at any time, Standard & Poor’s Rating Services, a division of the McGraw Hill Companies, Inc., Moody’s Investor Services, Inc. and Fitch, Inc., but only in the case of each such agency if it is rating the relevant security, including the Series I Preferred Stock, at the time or, if none of them is providing a rating for the relevant security, including the Series I Preferred Stock, at such time, then any “nationally recognized statistical rating organization” as that phrase is defined for purposes of Rule 436(g)(2) under the Securities Act of 1933, as amended, which is rating such relevant security.

(ix) “Rating Agency Event” occurs when the Corporation reasonably determines that an amendment, clarification or change has occurred in the equity criteria for securities such as the Series I Preferred Stock of any Rating Agency that then publishes a rating for the Corporation which amendment, clarification or change results in a lower equity credit for the Corporation than the respective equity credit assigned by such Rating Agency to securities such as the Series I Preferred Stock on the date of issuance of the Trust Securities.

(x) “Reference Treasury Dealer” means each of three primary U.S. government securities dealers (each a “Primary Treasury Dealer”), as specified by the Corporation; provided that if any Primary Treasury Dealer as specified by the Corporation ceases to be a Primary Treasury Dealer, the Corporation will substitute for such Primary Treasury Dealer another Primary Treasury Dealer and if the Corporation fails to select a substitute within a reasonable period of time, then the substitute will be a Primary Treasury Dealer selected by the Independent Investment Banker after consultation with the Corporation.

(xi) “Reference Treasury Dealer Quotations” means, with respect to the Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed, in each case, as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

(xii) “Regulatory Capital Event” occurs when the Corporation determines, based upon receipt of an opinion of counsel, rendered by a law firm experienced in such matters, in form and substance reasonably satisfactory to the Corporation, which states that there is a significant risk that the Series I Preferred Stock will not be of a type that constitutes Tier 1 capital of the Corporation under the risk-based capital guidelines of the Federal Reserve Board applicable to bank holding companies (without giving effect to quantitative limits on the components of Tier 1 capital), as a result of (1) any amendment to, clarifications of, or change in applicable laws or related regulations, guidelines, policies or official interpretations thereof, or (2) any official administrative pronouncement or judicial decisions interpreting or applying such laws or related regulations, guidelines, policies or official interpretations thereof.

(xiii) “3-Month USD LIBOR” means, with respect to any Series I Dividend Period, a rate determined on the basis of the offered rates for three-month U.S. dollar deposits of not less than a principal amount equal to that which is representative for a single transaction in such market at such time, commencing on the first day of such Series I Dividend Period, which appears on Reuters Screen Page LIBOR 01 as of approximately 11:00 a.m., London time, on the LIBOR Determination Date for such Series I Dividend Period. If on any LIBOR Determination Date no rate appears on Reuters Screen Page LIBOR 01 as of approximately 11:00 a.m., London time, the Corporation will on such LIBOR Determination Date request four major reference banks in the London interbank market selected by the Corporation to provide the Corporation with a quotation of the rate at which three-month deposits in U.S. dollars, commencing on the first day of such Series I Dividend Period, are offered by them to prime banks in the London interbank market as of approximately 11:00 a.m., London time, on such LIBOR Determination Date and in a principal amount equal to that which is representative for a single transaction in such market at such time. If at least two such quotations are provided, 3-Month USD LIBOR for such Series I Dividend Period will be the arithmetic mean (rounded upward if necessary to the nearest .00001 of 1%) of such quotations as calculated by the Corporation. If fewer than two quotations are provided, 3-Month USD LIBOR for such Series I Dividend Period will be the arithmetic mean (rounded upward if necessary to the nearest .00001 of 1%) of the rates quoted as of approximately 11:00 a.m., New York time, on the first day of such Series I Dividend Period by three major banks in New York, New York selected by the Corporation for loans in U.S. dollars to leading European banks, for a three-month period commencing on the first day of such Series I Dividend Period and in a principal amount of not less than $1,000,000.

(xiv) "Treasury Rate" means the rate per year equal to the quarterly equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. The Treasury Rate will be calculated on the third Business Day preceding the redemption date.

(xv) "Reuters Screen Page LIBOR 01" means the display page of Reuters Screen designated as LIBOR 01 (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates comparable to 3-Month USD LIBOR).

(c) In the event the Corporation shall elect to redeem the shares of Series I Preferred Stock, the Corporation shall give notice to the holders of record not less than 30 nor more than 60 days prior to such redemption, by first class mail, postage prepaid, at their addresses as shown on the stock register of the Corporation, that the shares of Series I Preferred Stock are to be redeemed. Each such notice shall state: (i) the redemption date; (ii) the redemption price; (iii) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (iv) that dividends on the shares of Series I Preferred Stock will not be declared after the redemption date.

(d) Notice having been mailed as aforesaid, from and after the applicable redemption date (unless default shall be made by the Corporation in providing money for the payment of the redemption price), dividends on the shares of Series I Preferred Stock called for redemption will not be declared and shall cease to accrue after the redemption date, and said shares shall no longer be deemed to be outstanding, and all rights of the holders thereof as shareholders of the Corporation (except the right to receive from the Corporation the redemption price) shall cease. Upon surrender of the certificates for any shares so redeemed (properly endorsed or assigned for transfer, if the Board of Directors shall so require and the notice shall so state), such shares shall be redeemed by the Corporation at the redemption price aforesaid.

(e) Any shares of Series I Preferred Stock which shall at any time have been redeemed shall, after such redemption, be cancelled and may not be reissued.

(f) In the event that fewer than all outstanding shares of Series I Preferred Stock are to be redeemed, such shares shall be redeemed on a *pro rata* basis, by lot or by any other equitable means determined by the Corporation.

(g) The Series I Preferred Stock is not subject to any sinking fund or other obligation for its repurchase or retirement.

(h) The Series I Preferred Stock shall be perpetual unless redeemed by the Corporation in accordance with this Section 74.

75. *Voting rights*. Except as expressly required by law or as expressly stated in Section 4 hereunder, the holders of shares of Series I Preferred Stock shall have no voting power, and no right to vote on any matter at any time, either as a separate series or class or together with any other series or class of shares, and shall not be entitled to call a meeting of such holders for any purpose, nor shall they be entitled to participate in any meeting of the holders of the Common Stock.

76. *Conversion rights*. The holders of shares of Series I Preferred Stock shall not have any rights to convert such shares into shares of any other class or series of securities of the Corporation.

77. *Legend*. Shares of the Series I Preferred Stock will bear a legend substantially in the form of the following legend on the face thereof:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS OR ANY OTHER APPLICABLE SECURITIES LAW. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

FIXED-TO-FLOATING RATE NON-CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES J

78. *Designation*. A series of Preferred Stock designated "Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series J" (herein called "Series J Preferred Stock") shall be established, consisting of 3,750 shares, $1.00 par value per share and having a liquidation preference of $100,000 per share.

79. *Issuance upon Conditional Exchange*.

(a) The shares of Series J Preferred Stock shall be issued only upon direction by the OCC to exchange the Fixed-to-Floating Rate Non-cumulative Exchangeable Perpetual Trust Securities, liquidation preference $100,000 per security (the "Trust III Securities"), of PNC Preferred Funding Trust III, a Delaware statutory trust, on a security-for-security basis, for the Series J Preferred Stock (a "Series J Conditional Exchange"), in connection with the occurrence of one of the following: (i) PNC Bank becomes "undercapitalized" under the OCC's "prompt corrective action" regulations, (ii) PNC Bank is placed into conservatorship or receivership or (iii) the OCC, in its sole discretion, anticipates PNC Bank becoming "undercapitalized" in the near term or takes supervisory action that limits the payment of dividends by PNC Bank (each of (i) through (iii), a "Series J Conditional Exchange Event").

(b) The Series J Conditional Exchange will occur as of 8:00 A.M. New York time, on the date for such exchange set forth in the applicable OCC directive, or, if such date is not set forth in the directive, as of 8:00 A.M., New York time, on the earliest possible date such exchange could occur consistent with the directive, as determined by the Corporation and as evidenced by the issuance by the Corporation of a press release prior to such time.

(c) The Corporation will mail notice of the issuance of an OCC directive after the occurrence of a Series J Conditional Exchange Event to each holder of Trust III Securities within 30 days, and the Corporation will deliver (or cause to be delivered) to each such holder Series J Preferred Stock upon surrender of the Trust III Securities.

80. *Ranking*. The shares of Series J Preferred Stock shall rank:

(a) senior, as to dividends or upon liquidation, dissolution and winding up, to the Common Stock, and senior, as to dividends or upon liquidation, dissolution and winding up, to Series G and all other classes and series of capital stock of the Corporation now or hereafter authorized, issued or outstanding that, by their terms, do not expressly provide that they rank *pari passu* with the Series J Preferred Stock as to dividends or upon liquidation, dissolution and winding up, as the case may be (collectively, “Series J Junior Securities”); and

(b) on a parity, as to dividends or upon liquidation, dissolution and winding up with the Series A, Series B, Series C, Series D, Series E, Series F, Series H and Series I, and with each class or series of preferred capital stock of the Corporation hereafter authorized, issued or outstanding which specify that they are *pari passu* with the Series J Preferred Stock (collectively, “Series J Parity Securities”).

The Corporation may authorize and issue additional shares of Series J Junior Securities and Series J Parity Securities without the consent of the holders of the Series J Preferred Stock. The holders of shares of Series J Preferred Stock will have no preemptive rights with respect to any shares of the Corporation’s capital stock or any of its other securities convertible into or carrying rights or options to purchase any such capital stock.

81. *Dividends*.

(a) Dividends on the Series J Preferred Stock, if, when and as declared by the Corporation’s Board of Directors out of its legally available funds, will be payable on each Series J Dividend Payment Date on a non-cumulative basis at an annual rate of 8.700% to, but not including, March 15, 2013 (whether or not a Business Day) if issued before March 15, 2013 and 3-Month USD LIBOR plus 5.226% on March 15, 2013 and thereafter on the liquidation preference thereof, which is $100,000 per share, from and including the date of its issuance.

(b) Dividends on the Series J Preferred Stock, if, when and as declared by the Corporation's Board of Directors, will be payable on March 15th, June 15th, September 15th and December 15th of each year, or if any such day is not a Business Day, the next Business Day (each, a "Series J Dividend Payment Date"). If no shares of Series J Preferred Stock have been issued prior to March 15, 2013, a Series J Dividend Payment Date shall be deemed to have occurred on the date of issuance, if such issuance date is a distribution payment date with respect to the Trust III Securities or, if such issuance date is not a distribution payment date with respect to the Trust III Securities, on the immediately preceding distribution payment date with respect to the Trust III Securities for purposes of determining the dividend rate.

(c) Each period from and including a Series J Dividend Payment Date (or the date of issuance of the Series J Preferred Stock) to but excluding the following Series J Dividend Payment Date is referred to herein as a "Series J Dividend Period," except that if the Series J Preferred Stock is outstanding on March 15, 2013, the Series J Dividend Period ending in March 2013 shall be to but not including March 15, 2013 (whether or not a Business Day) and the Series J Dividend Period ending in June 2013 shall commence on March 15, 2013 (whether or not a Business Day). Dividends payable on the Series J Preferred Stock will be computed on the basis of (x) for any Series J Dividend Periods ending prior to the Series J Dividend Payment Date in March 2013, twelve 30-day months, a 360-day year, and the actual number of days elapsed in the period, and (y) for any Series J Dividend Period thereafter, the actual number of days in the relevant period divided by 360. No interest will be paid on any dividend payment on the Series J Preferred Stock.

(d) The record date for the payment of dividends, if declared, will be the first day of the month in which the relevant Series J Dividend Payment Date occurs or, if any such day is not a Business Day, the first Business Day thereafter.

(e) Dividends on the Series J Preferred Stock are non-cumulative. If the Corporation's Board of Directors does not declare a dividend on the Series J Preferred Stock or declares less than a full dividend in respect of any Series J Dividend Period, the holders of the Series J Preferred Stock will have no right to receive any dividend or a full dividend, as the case may be, for the Series J Dividend Period, and the Corporation will have no obligation to pay a dividend or to pay full dividends for that Series J Dividend Period, whether or not the earnings of the Corporation were sufficient to pay such dividends in whole or in part and whether or not dividends are declared and paid for any future Series J Dividend Period with respect to the Series J Preferred Stock, the Corporation's common stock or any other class or series of the Corporation's preferred stock.

(f) If full dividends on the Series J Preferred Stock for the then current Series J Dividend Period shall not have been declared and paid when due, or declared and a sum sufficient for the payment thereof set apart for payment at the time due for payment, no dividends shall be declared or paid or set apart for payment, and no other distribution shall be declared or made or set apart for payment upon, the Common Stock or any other Series J Junior Securities (other than distributions payable in Common Stock or Series J Junior Securities), nor shall any Common Stock, any other Series J Junior Securities or any Series J Parity Securities be redeemed, purchased or otherwise acquired for any consideration (or any monies be paid to or made available to a sinking fund for such purpose) by the Corporation (except as a result of reclassification of Series J Junior Securities for or into other Series J Junior Securities, or by conversion into or exchange for other Series J Junior Securities).

(g) When dividends are not paid in full (or a sum sufficient for such full payment is not set apart) upon the Series J Preferred Stock or any Series J Parity Securities, all dividends declared upon the Series J Preferred Stock and the Series J Parity Securities shall be declared *pro rata* so that the amount of dividends declared per share on the Series J Preferred Stock and the Series J Parity Securities shall in all cases bear to each other the same ratio that full dividends per share on the Series J Preferred Stock for the then-current Series J Dividend Period (which shall not include any accumulation in respect of unpaid dividends for prior Series J Dividend Periods) and full dividends per share, including required or permitted accumulations, if any, on the Series J Parity Securities bear to each other.

(h) Holders of shares of the Series J Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock, in excess of full dividends, as herein provided. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the shares of the Series J Preferred Stock which may be in arrears.

82. *Liquidation*.

(a) In the event the Corporation voluntarily or involuntarily liquidates, dissolves or winds up, the holders of Series J Preferred Stock at the time outstanding will be entitled to receive liquidating distributions in the amount of $100,000 per share, plus an amount equal to declared but unpaid dividends for the current Series J Dividend Period to the date of liquidation, out of the Corporation’s assets legally available for distribution to its shareholders, before any distribution of assets is made to holders of the Corporation’s common stock or any Series J Junior Securities and subject to the rights of the holders of any Series J Parity Securities and the rights of its depositors and creditors.

(b) After payment of the full amount of the liquidating distributions to which they are entitled, the holders of the Series J Preferred Stock will have no right or claim to any of the Corporation’s remaining assets. In the event that, upon any such voluntary or involuntary liquidation, dissolution, or winding up, the Corporation’s available assets are insufficient to pay the amount of the liquidation distributions on all outstanding Series J Preferred Stock and the corresponding amounts payable on any Series J Parity Securities, then the holders of the Series J

Preferred Stock and any Series J Parity Securities will share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

(c) Neither the voluntary sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of the Corporation, nor the merger or consolidation of the Corporation with or into any one or more other persons, shall be deemed to be a voluntary or involuntary liquidation, dissolution or winding up for the purposes of this Section 82(c), unless such voluntary sale, conveyance, exchange or transfer shall be in connection with a plan of liquidation, dissolution or winding up of the Corporation.

83. *Redemption*.

(a) Shares of Series J Preferred Stock are not redeemable at the option of the holders thereof. Shares of Series J Preferred Stock are redeemable:

(i) in whole but not in part, on any Series J Dividend Payment Date prior to the Series J Dividend Payment Date in March 2013 upon the occurrence of a Regulatory Capital Event or a Rating Agency Event, at a cash redemption price equal to the sum of: (A) the greater of: (1) $100,000 per share of Series J Preferred Stock or (2) the sum of present values of (x) $100,000 per share of Series J Preferred Stock and (y) all undeclared dividends for the Series J Dividend Periods from the redemption date to and including the Series J Dividend Payment Date in March 2013, in each case, discounted to the redemption date on a quarterly basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, as calculated by an Independent Investment Banker, *plus* 1.25%; *plus* (B) any declared and unpaid dividends to the redemption date;

(ii) in whole but not in part, on any Series J Dividend Payment Date prior to the Series J Dividend Payment Date in March 2013 for any reason other than a Regulatory Capital Event or a Rating Agency Event, at a cash redemption price equal to the sum of: (A) the greater of (1) $100,000 per share of Series J Preferred Stock or (2) the sum of present values of (x) $100,000 per share of Series J Preferred Stock and (y) all undeclared dividends for the Series J Dividend periods from the redemption date to and including the Series J Dividend Payment Date in March 2013, in each case, discounted to the redemption date on a quarterly basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, as calculated by an Independent Investment Banker, *plus* 0.90%; *plus* (B) any declared and unpaid dividends to the redemption date;

(iii) in whole, but not in part, on any Series J Dividend Payment Date after the Series J Dividend Payment Date in March 2013 that is not a Five Year Date upon the occurrence of a Regulatory Capital Event, at a cash redemption price equal to $100,000 per share of Series J Preferred Stock, *plus* any declared and unpaid dividends to the redemption date;

(iv) in whole but not in part, on any Series J Dividend Payment Date after the Series J Dividend Payment Date in March 2013 that is not a Five Year Date for any reason other than a Regulatory Capital Event, at a cash redemption price equal to the sum of: (A) the greater of (1) $100,000 per share of Series J Preferred Stock or (2) the sum of present values of (x) $100,000 per share of Series J Preferred Stock and (y) all undeclared dividends for the Series J Dividend Periods from the redemption date to and including the next succeeding Five Year Date, in each case, discounted to the redemption date on a quarterly basis (assuming a 360-day year consisting of twelve 30-day months) at the 3-Month USD LIBOR rate applicable to the Series J Dividend Period immediately preceding such redemption date, as calculated by an Independent Investment Banker; *plus* (B) any declared and unpaid dividends to the redemption date; or

(v) in whole or in part, on each Series J Dividend Payment Date that is a Five Year Date, at a cash redemption price of $100,000 per share of Series J Preferred Stock, *plus* any declared and unpaid dividends to the redemption date, in the case of each of clauses (i) through (v), without accumulation of any undeclared dividends on the Series J Preferred Stock with respect to Series J Dividend Payment Dates prior to the redemption date.

(b) Capitalized terms used but not otherwise defined herein shall have the following meanings with respect to shares of Series J Preferred Stock:

(i) "Business Day" means any day other than a Saturday, Sunday or any other day on which the banks in New York, New York or Pittsburgh, Pennsylvania are generally required or authorized by law to be closed.

(ii) "Comparable Treasury Issue" means the United States Treasury security selected by the Independent Investment Banker as having a maturity comparable to the term remaining to the Series J Dividend Payment Date in March 2013 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of perpetual preferred securities having similar terms as the Series J Preferred Stock with respect to the payment of dividends and distributions of assets upon liquidation, dissolution or winding up of the issuer of such preferred stock.

(iii) "Comparable Treasury Price" means with respect to any redemption date for the shares of Series J Preferred Stock, the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Independent Investment Banker obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

(iv) “Five Year Date” means the Series J Dividend Payment Date in March 2013 and the Series J Dividend Payment Date in March of each fifth succeeding year.

(v) “Independent Investment Banker” means an independent investment banking institution of national standing appointed by the Corporation.

(vi) “LIBOR Business Day” means any day on which commercial banks are open for general business (including dealings in deposits in U.S. dollars) in London.

(vii) “LIBOR Determination Date” means, as to each Series J Dividend Period, the date that is two LIBOR Business Days prior to the first day of such Series J Dividend Period.

(viii) “Rating Agency” means, at any time, Standard & Poor’s Rating Services, a division of the McGraw Hill Companies, Inc., Moody’s Investor Services, Inc. and Fitch, Inc., but only in the case of each such agency if it is rating the relevant security, including the Series J Preferred Stock, at the time or, if none of them is providing a rating for the relevant security, including the Series J Preferred Stock, at such time, then any “nationally recognized statistical rating organization” as that phrase is defined for purposes of Rule 436(g)(2) under the Securities Act of 1933, as amended, which is rating such relevant security.

(ix) “Rating Agency Event” occurs when the Corporation reasonably determines that an amendment, clarification or change has occurred in the equity criteria for securities such as the Series J Preferred Stock of any Rating Agency that then publishes a rating for the Corporation which amendment, clarification or change results in a lower equity credit for the Corporation than the respective equity credit assigned by such Rating Agency to securities such as the Series J Preferred Stock on the date of issuance of the Trust III Securities.

(x) “Reference Treasury Dealer” means each of three primary U.S. government securities dealers (each a “Primary Treasury Dealer”), as specified by the Corporation; provided that if any Primary Treasury Dealer as specified by the Corporation ceases to be a Primary Treasury Dealer, the Corporation will substitute for such Primary Treasury Dealer another Primary Treasury Dealer and if the Corporation fails to select a substitute within a reasonable period of time, then the substitute will be a Primary Treasury Dealer selected by the Independent Investment Banker after consultation with the Corporation.

(xi) “Reference Treasury Dealer Quotations” means, with respect to the Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed, in each case, as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

(xii) “Regulatory Capital Event” occurs when the Corporation determines, based upon receipt of an opinion of counsel, rendered by a law firm experienced in such matters, in form and substance reasonably satisfactory to the Corporation, which states that there is a significant risk that the Series J Preferred Stock will not be of a type that constitutes Tier 1 capital of the Corporation under the risk-based capital guidelines of the Federal Reserve Board applicable to bank holding companies (without giving effect to quantitative limits on the components of Tier 1 capital), as a result of (1) any amendment to, clarifications of, or change in applicable laws or related regulations, guidelines, policies or official interpretations thereof, or (2) any official administrative pronouncement or judicial decisions interpreting or applying such laws or related regulations, guidelines, policies or official interpretations thereof.

(xiii) “3-Month USD LIBOR” means, with respect to any Series J Dividend Period, a rate determined on the basis of the offered rates for three-month U.S. dollar deposits of not less than a principal amount equal to that which is representative for a single transaction in such market at such time, commencing on the first day of such Series J Dividend Period, which appears on Reuters Screen Page LIBOR 01 as of approximately 11:00 a.m., London time, on the LIBOR Determination Date for such Series J Dividend Period. If on any LIBOR Determination Date no rate appears on Reuters Screen Page LIBOR 01 as of approximately 11:00 a.m., London time, the Corporation will on such LIBOR Determination Date request four major reference banks in the London interbank market selected by the Corporation to provide the Corporation with a quotation of the rate at which three-month deposits in U.S. dollars, commencing on the first day of such Series J Dividend Period, are offered by them to prime banks in the London interbank market as of approximately 11:00 a.m., London time, on such LIBOR Determination Date and in a principal amount equal to that which is representative for a single transaction in such market at such time. If at least two such quotations are provided, 3-Month USD LIBOR for such Series J Dividend Period will be the arithmetic mean (rounded upward if necessary to the nearest .00001 of 1%) of such quotations as calculated by the Corporation. If fewer than two quotations are provided, 3-Month USD LIBOR for such Series J Dividend Period will be the arithmetic mean (rounded upward if necessary to the nearest .00001 of 1%) of the rates quoted as of approximately 11:00 a.m., New York time, on the first day of such Series J Dividend Period by three major banks in New York, New York selected by the Corporation for loans in U.S. dollars to leading European banks, for a three-month period commencing on the first day of such Series J Dividend Period and in a principal amount of not less than $1,000,000.

(xiv) "Treasury Rate" means the rate per year equal to the quarterly equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. The Treasury Rate will be calculated on the third Business Day preceding the redemption date.

(xv) "Reuters Screen Page LIBOR 01" means the display page of Reuters Screen designated as LIBOR 01 (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates comparable to 3-Month USD LIBOR).

(c) In the event the Corporation shall elect to redeem the shares of Series J Preferred Stock, the Corporation shall give notice to the holders of record not less than 30 nor more than 60 days prior to such redemption, by first class mail, postage prepaid, at their addresses as shown on the stock register of the Corporation, that the shares of Series J Preferred Stock are to be redeemed. Each such notice shall state: (i) the redemption date; (ii) the redemption price; (iii) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (iv) that dividends on the shares of Series J Preferred Stock will not be declared after the redemption date.

(d) Notice having been mailed as aforesaid, from and after the applicable redemption date (unless default shall be made by the Corporation in providing money for the payment of the redemption price), dividends on the shares of Series J Preferred Stock called for redemption will not be declared and shall cease to accrue after the redemption date, and said shares shall no longer be deemed to be outstanding, and all rights of the holders thereof as shareholders of the Corporation (except the right to receive from the Corporation the redemption price) shall cease. Upon surrender of the certificates for any shares so redeemed (properly endorsed or assigned for transfer, if the Board of Directors shall so require and the notice shall so state), such shares shall be redeemed by the Corporation at the redemption price aforesaid.

(e) Any shares of Series J Preferred Stock which shall at any time have been redeemed shall, after such redemption, be cancelled and may not be reissued.

(f) In the event that fewer than all outstanding shares of Series J Preferred Stock are to be redeemed, such shares shall be redeemed on a *pro rata* basis, by lot or by any other equitable means determined by the Corporation.

(g) The Series J Preferred Stock is not subject to any sinking fund or other obligation for its repurchase or retirement.

(h) The Series J Preferred Stock shall be perpetual unless redeemed by the Corporation in accordance with this Section 83.

84. *Voting rights*. Except as expressly required by law or as expressly stated in Section 4 hereunder, the holders of shares of Series J Preferred Stock shall have no voting power, and no right to vote on any matter at any time, either as a separate series or class or together with any other series or class of shares, and shall not be entitled to call a meeting of such holders for any purpose, nor shall they be entitled to participate in any meeting of the holders of the Common Stock.

85. *Conversion rights*. The holders of shares of Series J Preferred Stock shall not have any rights to convert such shares into shares of any other class or series of securities of the Corporation.

86. *Legend*. Shares of the Series J Preferred Stock will bear a legend substantially in the form of the following legend on the face thereof:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAWS OR ANY OTHER APPLICABLE SECURITIES LAW. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

FIXED-TO-FLOATING NON-CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES K

87. *Designation*. A series of Preferred Stock designated the “Fixed-to-Floating Non-Cumulative Perpetual Preferred Stock, Series K” (hereinafter called “Series K Preferred Stock”) shall be established consisting of 50,000 shares, $1.00 par value per share and having a liquidation preference of $10,000 per share. The number of shares constituting Series K Preferred Stock may be increased from time to time in accordance with law up to the maximum number of shares of Preferred Stock authorized to be issued under the Amended and Restated Articles of Incorporation of the Corporation, as amended, less all shares at the time authorized of any other series of Preferred Stock. Shares of Series K Preferred Stock will be dated the date of issue.

88. *Ranking*. The shares of Series K Preferred Stock shall rank:

(a) senior, as to dividends or upon liquidation, dissolution and winding up, to the common stock, and senior, as to dividends or upon liquidation, dissolution and winding up, to Series G and all other classes and series of capital stock of the Corporation now or hereafter authorized, issued or outstanding that, by their terms, do not expressly provide that they rank *pari passu* with the Series K Preferred Stock as to dividends or upon liquidation, dissolution and winding up, as the case may be (collectively, “Series K Junior Securities”); and

(b) on a parity, as to dividends or upon liquidation, dissolution and winding up with the Series A, Series B, Series C, Series D, Series E, Series F, Series H, Series I and Series J and with each class or series of preferred capital stock of the Corporation hereafter authorized, issued or outstanding which specify that they are *pari passu* with the Series K Preferred Stock (collectively, "Series K Parity Securities").

The Corporation may authorize and issue additional shares of Series K Junior Securities and Series K Parity Securities without the consent of the holders of the Series K Preferred Stock. The holders of shares of Series K Preferred Stock will have no preemptive rights with respect to any shares of the Corporation's capital stock or any of its other securities convertible into or carrying rights or options to purchase any such capital stock.

89. *Dividends*.

(a) Dividends on shares of Series K Preferred Stock are not mandatory. Holders of Series K Preferred Stock will be entitled to receive, when, as and if declared by the Board of Directors or a duly authorized committee of the Board, out of assets legally available for the payment of dividends under Pennsylvania law, non-cumulative cash dividends based on the liquidation preference at a rate equal to (1) 8.25% for each Series K Dividend Period from the original issue date of the Series K Preferred Stock, but excluding, May 21, 2013 (the "Fixed Rate Period"), and (2) a per annum rate equal to three-month LIBOR plus 4.22%, for each Series K Dividend Period from May 21, 2013 through the redemption date of the Series K Preferred Stock, if any (the "Floating Rate Period"). In the event that the Corporation issues additional shares of the Series K Preferred Stock after the original issue date, dividends on such shares will accrue from the original issue date of such additional shares.

(b) If declared by the Board of Directors or a duly authorized committee of the Board, during the Fixed Rate Period, dividends will be payable on the Series K Preferred Stock semi-annually, in arrears, on May 21 and November 21 of each year, beginning on November 21, 2008. If declared by the Board or a duly authorized committee of the Board, during the Floating Rate Period, dividends will be payable on the Series K Preferred Stock quarterly, in arrears, on August 21, November 21, February 21 and May 21 of each year, beginning on May 21, 2013.

(c) Dividends will be payable to holders of record of Series K Preferred Stock as they appear on the Corporation's books on the applicable record date, which shall be the last Business Day of the calendar month immediately preceding the month during which the Series K Dividend Payment Date falls.

(d) A "Series K Dividend Period" is the period from and including a Series K Dividend Payment Date to but excluding the next Series K Dividend Payment

Date, except that the initial Series K Dividend Period will commence on and include the original issue date of Series K Preferred Stock. Dividends payable on Series K Preferred Stock for the Fixed Rate Period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends payable on the Series K Preferred Stock for the Floating Rate Period will be computed based on the actual number of days in a dividend period and a 360-day year. Dollar amounts resulting from that calculation will be rounded to the nearest cent, with one-half cent being rounded upwards. Dividends on the Series K Preferred Stock will cease to accrue on the redemption date, if any, unless the Corporation defaults in the payment of the redemption price of the Series K Preferred Stock called for redemption. If any date on which dividends would otherwise be payable is not a Business Day, then the Series K Dividend Payment Date will be the next succeeding Business Day.

(e) The dividend rate for each dividend period in the Floating Rate Period will be determined by the calculation agent using three-month LIBOR as in effect on the second London banking day prior to the beginning of the Series K Dividend Period, which date is the "dividend determination date" for the Series K Dividend Period. The calculation agent then will add three-month LIBOR as determined on the dividend determination date and the applicable spread. Absent manifest error, the calculation agent's determination of the dividend rate for a dividend period for the Series K Preferred Stock will be binding and conclusive on you, the transfer agent, and us. A "London banking day" is any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market. The term "three-month LIBOR" means the London interbank offered rate for deposits in U.S. dollars having an index maturity of three months in amounts of at least $1,000,000, as that rate appears on Reuters screen page "LIBOR01" at approximately 11:00 a.m., London time, on the relevant dividend determination date. If no offered rate appears on Reuters screen page "LIBOR01" on the relevant dividend determination date at approximately 11:00 a.m., London time, then the calculation agent, after consultation with the Corporation, will select four major banks in the London interbank market and will request each of their principal London offices to provide a quotation of the rate at which three-month deposits in U.S. dollars in amounts of at least $1,000,000 are offered by it to prime banks in the London interbank market, on that date and at that time, that is representative of single transactions at that time. If at least two quotations are provided, three-month LIBOR will be the arithmetic average (rounded upward if necessary to the nearest .00001 of 1%) of the quotations provided. Otherwise, the calculation agent will select three major banks in New York City and will request each of them to provide a quotation of the rate offered by it at approximately 11:00 a.m., New York City time, on the dividend determination date for loans in U.S. dollars to leading European banks having an index maturity of three months for the applicable Series K Dividend Period in an amount of at least $1,000,000 that is representative of single transactions at that time. If three quotations are provided, three-month LIBOR will be the arithmetic average (rounded upward if necessary to the nearest .00001 of 1%) of the quotations provided. Otherwise, three-month LIBOR for the next dividend period will be equal to three-month LIBOR in effect for the then-current dividend period.

(f) Dividends on the Series K Preferred Stock are non-cumulative. If the Corporation's Board of Directors does not declare a dividend on the Series K Preferred Stock or declares less than a full dividend in respect of any Series K Dividend Period, the holders of the Series K Preferred Stock will have no right to receive any dividend or a full dividend, as the case may be, for the corresponding Series K Dividend Period, and the Corporation will have no obligation to pay a dividend or to pay full dividends for that Series K Dividend Period, whether or not the earnings of the Corporation were sufficient to pay such dividends in whole or in part and whether or not dividends are declared and paid for any future Series K Dividend Period with respect to the Series K Preferred Stock, the Corporation's common stock or any other class or series of the Corporation's preferred stock.

(g) So long as any share of Series K Preferred Stock remains outstanding, (1) no dividend shall be declared or paid or set aside for payment and no distribution shall be declared or made or set aside for payment on any Series K Junior Securities (other than (i) a dividend payable solely in Series K Junior Securities or (ii) any dividend in connection with the implementation of a shareholders' rights plan, or the redemption or repurchase of any rights under such plan), (2) no shares of Series K Junior Securities shall be repurchased, redeemed or otherwise acquired for consideration by the Corporation, directly or indirectly (other than (i) as a result of a reclassification of Series K Junior Securities for or into other Series K Junior Securities, (ii) the exchange or conversion of one share of Series K Junior Securities for or into another share of Series K Junior Securities, (iii) through the use of the proceeds of a substantially contemporaneous sale of other shares of Series K Junior Securities, (iv) purchases, redemptions or other acquisitions of shares of Series K Junior Securities in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers, directors or consultants, (v) purchases of shares of Series K Junior Securities pursuant to a contractually binding requirement to buy Series K Junior Securities existing prior to the preceding Series K Dividend Period, including under a contractually binding stock repurchase plan or (vi) the purchase of fractional interests in shares of Series K Junior Securities pursuant to the conversion or exchange of such stock or the security being converted or exchanged) nor shall any monies be paid to or made available for a sinking fund for the redemption of any such securities by the Corporation and (3) no shares of Series K Parity Securities shall be repurchased, redeemed or otherwise acquired for consideration by the Corporation otherwise than pursuant to *pro rata* offers to purchase all, or a*pro rata* portion, of Series K Preferred Stock and such Series K Parity Securities except by conversion into or exchange for Series K Junior Securities, during a Series K Dividend Period, unless, in each case, the full dividends for the preceding Series K Dividend Period on all outstanding shares of Series K Preferred Stock have been declared and paid or declared and a sum sufficient for the payment thereof has been set aside.

(h) When dividends are not paid in full upon the shares of Series K Preferred Stock and any Series K Parity Securities, all dividends declared upon shares of Series K Preferred Stock and any Series K Parity Securities will be declared on a proportional basis so that the amount of dividends declared per share will bear to each other the same ratio that accrued dividends for the then-current Series K Dividend Period per share on Series K Preferred Stock, and accrued dividends, including any accumulations, on any Series K Parity Securities, bear to each other.

(i) Subject to the foregoing, and not otherwise, dividends (payable in cash, stock or otherwise), as may be determined by the Corporation's Board of Directors or a duly authorized committee of the Board, may be declared and paid on the common stock and any other stock ranking equally with or junior to Series K Preferred Stock from time to time out of any assets legally available for such payment, and the holders of Series K Preferred Stock shall not be entitled to participate in any such dividend.

90. *Liquidation*.

(a) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, holders of Series K Preferred Stock are entitled to receive out of assets of the Corporation available for distribution to stockholders, after satisfaction of liabilities to creditors and subject to the rights of holders of any securities ranking senior to Series K Preferred Stock, before any distribution of assets is made to holders of Common Stock or any Series K Junior Securities, a liquidating distribution in the amount of the liquidation preference of $10,000 per share plus declared and unpaid dividends, without accumulation of any undeclared dividends. Holders of Series K Preferred Stock will not be entitled to any other amounts from the Corporation after they have received their full liquidating distribution.

(b) In any such distribution, if the assets of the Corporation are not sufficient to pay the liquidation preferences plus declared and unpaid dividends in full to all holders of Series K Preferred Stock and all holders of any Series K Parity Securities, the amounts paid to the holders of Series K Preferred Stock and to the holders of all Series K Parity Securities will be paid *pro rata* in accordance with the respective aggregate liquidating distribution owed to those holders. If the liquidation preference plus declared and unpaid dividends has been paid in full to all holders of Series K Preferred Stock and any Series K Parity Securities, the holders of the Corporation's Series K Junior Securities shall be entitled to receive all remaining assets of the Corporation according to their respective rights and preferences.

(c) For purposes of this section, the merger or consolidation of the Corporation with any other entity, including a merger or consolidation in which the holders of Series K Preferred Stock receive cash, securities or property for their shares, or the sale, lease or exchange of all or substantially all of the assets of the Corporation for cash, securities or other property, shall not constitute a liquidation, dissolution or winding up of the Corporation.

91. *Redemption*.

(a) Series K Preferred Stock is not subject to any mandatory redemption, sinking fund or other similar provisions. Series K Preferred Stock is not redeemable prior to May 21, 2013. On and after that date, Series K Preferred Stock will be redeemable at the option of the Corporation, in whole or in part, at a redemption price equal to $10,000 per share, plus any declared and unpaid dividends, without accumulation of any undeclared dividends. Holders of Series K Preferred Stock will have no right to require the redemption or repurchase of Series K Preferred Stock.

(b) If shares of Series K Preferred Stock are to be redeemed, the notice of redemption shall be given by first class mail to the holders of record of Series K Preferred Stock to be redeemed, mailed not less than 30 days nor more than 60 days prior to the date fixed for redemption thereof (provided that, if the depositary shares representing Series K Preferred Stock are held in book-entry form through The Depository Trust Company, or "DTC", the Corporation may give such notice in any manner permitted by DTC). Each notice of redemption will include a statement setting forth: (i) the redemption date, (ii) the number of shares of Series K Preferred Stock to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder, (iii) the redemption price, (iv) the place or places where the certificates evidencing shares of Series K Preferred Stock are to be surrendered for payment of the redemption price and (v) that dividends on the shares to be redeemed will cease to accrue on the redemption date. If notice of redemption of any shares of Series K Preferred Stock has been duly given and if the funds necessary for such redemption have been set aside by the Corporation for the benefit of the holders of any shares of Series K Preferred Stock so called for redemption, then, on and after the redemption date, dividends will cease to accrue on such shares of Series K Preferred Stock, such shares of Series K Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price, plus any declared and unpaid dividends.

(c) In case of any redemption of only part of the shares of Series K Preferred Stock at the time outstanding, the shares to be redeemed shall be selected either *pro rata*, by lot or in such other manner as the Corporation may determine to be equitable.

92. *Voting Rights*.

(a) Except as provided below, as expressly required by law or as expressly stated in Section 4 hereunder, the holders of shares of Series K Preferred Stock shall have no voting power, and no right to vote on any matter at any time, either as a separate series or class or together with any other series or class of shares, and shall not be entitled to call a meeting of such holders for any purpose, nor shall they be entitled to participate in any meeting of the holders of the Common Stock.

(b) So long as any shares of Series K Preferred Stock remain outstanding, the affirmative vote or consent of the holders of at least two-thirds of all of the shares of Series K Preferred Stock at the time outstanding, voting separately as a class, shall be required to: (1) authorize or increase the authorized amount of, or to issue or authorize any obligation or security convertible into or evidencing the right to purchase, any class or series of stock ranking senior to Series K Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up of the Corporation; (2) amend the provisions of the Corporation's Amended and Restated Articles of Incorporation so as to materially and adversely affect the powers, preferences, privileges or rights of Series K Preferred Stock, taken as a whole; provided, however, that any increase in the amount of the authorized or issued shares of Series K Preferred Stock or authorized preferred stock or the creation and issuance, or an increase in the authorized or issued amount, of other series of preferred stock ranking equally with or junior to Series K Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) or the distribution of assets upon liquidation, dissolution or winding up of the Corporation will not be deemed to adversely affect the powers, preferences, privileges or rights of Series K Preferred Stock; and (3) consolidate with or merge into any other corporation unless the shares of Series K Preferred Stock outstanding at the time of such consolidation or merger or sale are converted into or exchanged for preference securities having such rights, privileges and voting powers, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers of Series K Preferred Stock, taken as a whole. The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series K Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been set aside by the Corporation for the benefit of the holders of Series K Preferred Stock to effect such redemption.

93. *Conversion rights.* The holders of shares of Series K Preferred Stock shall not have any rights to convert such shares into shares of any other class or series of securities of the Corporation.

94. *Certificates*. The Corporation may at its option issue shares of Series K Preferred Stock without certificates.

COMMON STOCK

95. Each holder of record of Common Stock shall have the right to one vote for each share of Common Stock standing in his name on the books of the Corporation.

PROVISIONS APPLICABLE TO ALL CLASSES OF CAPITAL STOCK

96. No holder of any class of capital stock of the Corporation shall be entitled to cumulate his votes for the election of directors.

97. No holder of any class of capital stock of the Corporation shall have preemptive rights, and the Corporation shall have the right to issue and to sell to any person or persons any shares of its capital stock or any option rights or any securities having conversion or option rights, without first offering such shares, rights or securities to any holders of any class of capital stock of the Corporation.

EXHIBIT 10.54

FORM OF EMPLOYEE STOCK OPTION AGREEMENT
WITH PERFORMANCE VESTING SCHEDULE

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

NONSTATUTORY STOCK OPTION AGREEMENT

OPTIONEE:	[Name]
GRANT DATE:	____, 20__
OPTION PRICE:	$__________ per share
COVERED SHARES:	[Shares]

1. Definitions; Grant of Option. Certain terms used in this Nonstatutory Stock Option Agreement (the "Agreement") are defined in Annex A hereto (which is incorporated herein as part of the Agreement) or elsewhere in the Agreement, and such definitions will apply except where the context otherwise indicates.

Pursuant to The PNC Financial Services Group, Inc. 2006 Incentive Award Plan (the "Plan") and subject to the terms of the Agreement, PNC hereby grants to Optionee an Option to purchase from PNC that number of shares of PNC common stock specified above as the "Covered Shares," exercisable at the Option Price.

In the Agreement, "PNC" means The PNC Financial Services Group, Inc. and "Corporation" means PNC and its Consolidated Subsidiaries. Headings used in the Agreement are for convenience only and are not part of the Agreement.

2. Terms of the Option.

2.1 Type of Option. The Option is intended to be a Nonstatutory Stock Option.

2.2 Option Period. Except as otherwise set forth in Section 2.3, the Option is exercisable in whole or in part as to any Covered Shares as to which it is outstanding and has become exercisable ("vested") at any time and from time to time through the Expiration Date as defined in Section A.18 of Annex A hereto, including the early termination provisions set forth in said definition.

To the extent that the Option or relevant portion thereof is then outstanding and the Expiration Date has not yet occurred, the Option will vest as to Covered Shares as set forth in this Section 2.2.

(a) Unless the Option has become fully vested pursuant to another subsection of this Section 2.2, the Option will become exercisable ("vest") as follows:

(1) The Option will vest on the first date on which the Performance Condition is met where the Time Condition has been met on or prior to such date. Unless otherwise provided in another subsection of this Section 2.2: (i) the "Time Condition" will be satisfied on the 3rd anniversary of the Grant Date; and (ii) the "Performance Condition" will be met on any date when the reported closing price on the New York Stock Exchange (or such successor reporting system as PNC may select) of a share of PNC common stock at least equals 120% of the Option Price for that date and for the 4 immediately preceding trading days, as adjusted pursuant to Section 3, if applicable. The Performance Condition may not be met prior to satisfaction of the Time Condition, although it may be met simultaneously with satisfaction of the Time Condition.

(2) If not already vested at the time of Retirement of the Optionee or of termination of employment of the Optionee by the Corporation by reason of Total and Permanent Disability and not for Cause, the Option will vest thereafter in accordance with the other provisions of this Section 2.2 as if the Optionee had continued as an employee of the Corporation, if, and only if, prior to Optionee's Termination Date, the Committee (or its delegate) in its sole discretion determines that the Option will continue in effect, be eligible for subsequent vesting and not expire on Optionee's Termination Date in accordance with Section A.18 of Annex A hereto. In such case, the Option will continue in effect in accordance with all provisions of this Agreement other than those providing for an early Expiration Date due to termination of employment.

(3) If the Option is outstanding immediately prior to the time a Change in Control occurs, the Option will vest as to all then outstanding Covered Shares as to which it has not otherwise vested, effective as of the day immediately prior to the occurrence of the Change in Control, *provided that*, at the time the Change in Control occurs, Optionee is either (i) an employee of the Corporation or (ii) a former employee of the Corporation whose unvested Option, or portion thereof, is then outstanding and continues to qualify for vesting pursuant to the terms of another subsection of this Section 2.2, and *provided further that* the Time Condition has been satisfied on or prior to the date of such Change in Control (either pursuant to Section 2.2(a)(1)(i) or pursuant to subsection (A) of this Section 2.2(a)(3)) and the Performance Condition is met simultaneously with such Change in Control event as set forth in subsection (B) of this Section 2.2(a)(3).

(A) If (i) a Change in Control occurs prior to the 3rd anniversary of the Grant Date and (ii) the holders of voting securities of PNC outstanding immediately prior to the Change in Control hold, upon completion of the Change in Control, voting securities representing 50% or less of the voting power in the election of directors (or members of an equivalent governing body) of the resulting or successor entity (regardless of whether such entity is PNC or an acquiring entity, including the ultimate parent entity of PNC or an entity into which PNC is merged or consolidated) and (iii) the Option is outstanding immediately prior to the time the Change in Control occurs, then for purposes of eligibility for vesting pursuant to this Section 2.2(a)(3), the Time Condition will be deemed to be satisfied effective as of the day immediately prior to the occurrence of the Change in Control.

(B) If the Option is outstanding immediately prior to the time a Change in Control occurs, then for purposes of eligibility for vesting pursuant to this Section 2.2(a)(3), the Performance Condition will be deemed to be met simultaneously with the Change in Control event if either: (i) the reported closing price on the New York Stock Exchange (or such successor reporting system as PNC may select) of a share of PNC common stock at least equals 120% of the Option Price for the date of such Change in Control event or, if such event does not occur on a trading day or if PNC common stock is no longer trading on the date of or following the Change in Control event, for the immediately preceding trading day and, in either case, for the 4 trading days immediately preceding such trading day; or (ii) in the case of a Change in Control as defined in Section A.5(b) of Annex A hereto only, if the value of the consideration being received in the Change in Control transaction in exchange for each share of PNC common stock at least equals 120% of the Option Price.

(4) If the Option is outstanding immediately prior to the time of Optionee's termination of employment but has not yet vested and if Optionee's employment with the Corporation is terminated (other than by reason of Optionee's death) by the Corporation without Cause or by Optionee with Good Reason and such termination of employment occurs within the period beginning on the date of a Change in Control and ending on the date that is two years after the date of the Change in Control, then the Time Condition, if not already satisfied, will be deemed to be satisfied for purposes of this Section 2.2 as of Optionee's Termination Date and the Option will be eligible for subsequent vesting in accordance with the other provisions of this Section 2.2 if the Performance Condition is met prior to the time the Option expires in accordance with Section A.18 of Annex A hereto.

(5) If Optionee's employment with the Corporation is terminated (other than by reason of Optionee's death) by the Corporation without Cause or by Optionee with Good Reason after the occurrence of a CIC Triggering Event but prior to the occurrence of a subsequent Change in Control or of a CIC Failure with

respect to the CIC Triggering Event and if the Option is outstanding but has not yet vested pursuant to any other subsection of this Section 2.2 at the time Optionee's Termination Date occurs, then the Option will vest as to all outstanding Covered Shares as to which it has not otherwise vested if the Performance Condition is met on Optionee's Termination Date in accordance with Section 2.2(a)(1)(ii). If the Performance Condition is met on Optionee's Termination Date as set forth in the preceding sentence, then the Time Condition will also be deemed to be met on Optionee's Termination Date and the Option will vest as to all outstanding Covered Shares as to which it has not otherwise vested commencing on Optionee's Termination Date.

(b) Intentionally omitted

(c) If Optionee's employment with the Corporation is terminated by reason of Optionee's death, the Option will immediately vest as to all outstanding Covered Shares as to which it has not otherwise vested, and the Option may be exercised by Optionee's properly designated beneficiary, by the person or persons entitled to do so under Optionee's will, or by the person or persons entitled to do so under the applicable laws of descent and distribution.

(d) Intentionally omitted

(e) Intentionally omitted

(f) The Committee or its delegate may in their sole discretion, but need not, accelerate the vesting date of all or any portion of the Option subject, if applicable, to such limitations as may be set forth in the Plan.

If Optionee 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 Optionee does not continue to be employed by PNC or a Consolidated Subsidiary, then for purposes of the Agreement, Optionee's employment with the Corporation terminates effective at the time this occurs.

2.3 Formal Allegations of Detrimental Conduct. If any criminal charges are brought against Optionee alleging the commission of a felony that relates to or arises out of Optionee's employment or other service relationship with the Corporation in an indictment or in other analogous formal charges commencing judicial criminal proceedings, the Committee may determine to suspend the exercisability of the Option, to the extent that the Option is then outstanding and exercisable, or to require the escrow of the proceeds of any exercise of the Option. Any such suspension or escrow is subject to the following restrictions:

(a) It may last only until the earliest to occur of the following:

(i) resolution of the criminal proceedings in a manner that constitutes Detrimental Conduct;

(ii) resolution of the criminal proceeding in one of the following ways: (A) the charges as they relate to such alleged felony have been dismissed (with or without prejudice), (B) Optionee has been acquitted of such alleged felony, or (C) a criminal proceeding relating to such alleged felony has been completed without resolution (for example, as a result of a mistrial) and the relevant time period for recommencing criminal proceedings relating to such alleged felony has expired without any such recommencement; and

(iii) termination of the suspension or escrow in the discretion of the Committee; and

(b) It may be imposed only if the Committee makes reasonable provision for the retention or realization of the value of the Option to Optionee as if no suspension or escrow had been imposed upon any termination of the suspension or escrow under clauses (a)(ii) or (iii) above.

2.4 Nontransferability; Designation of Beneficiary; Payment to Legal Representative.

(a) The Option is not transferable or assignable by Optionee.

(b) During Optionee's lifetime, the Option may be exercised only by Optionee or, in the event of Optionee's legal incapacity, by his or her legal representative, as determined in good faith by PNC.

(c) During Optionee's lifetime, Optionee may file with PNC, at such address and in such manner as PNC may from time to time direct, on a form to be provided by PNC on request, a designation of a beneficiary or beneficiaries (a "properly designated beneficiary") to hold and exercise Optionee's stock options, to the extent outstanding and exercisable, in accordance with their respective stock option agreements and the Plan in the event of Optionee's death.

(d) If Optionee dies prior to the full exercise or expiration of the Option and has not filed a designation of beneficiary form as specified above, the Option will be held and may be exercised by the person or persons entitled to do so under Optionee's will or under the applicable laws of descent and distribution, as to which PNC will be entitled to rely in good faith on instructions from Optionee's executor, administrator, or other legal representative.

(e) Any delivery of shares or other payment made or action taken hereunder by PNC in good faith to or on the instructions of Optionee's executor, administrator, or other legal representative shall extinguish all right to payment hereunder.

3. Capital Adjustments. Except as otherwise provided in Section A.18 of Annex A hereto, upon the occurrence of 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")), the Committee shall make those adjustments, if any, in the number, class or kind of Covered Shares as to which the Option is outstanding and has not yet been exercised and in the Option Price that it deems appropriate in its discretion to reflect the Corporate Transaction(s) such that the rights of Optionee are neither enlarged nor diminished as a result of such Corporate Transaction or Transactions, including without limitation cancellation of the Option immediately prior to the effective time of the Corporate Transaction and payment, in cash, in consideration therefor, of an amount equal to the product of (a) the excess, if any, of the per share value of the consideration payable to a PNC common shareholder in connection with such Corporate Transaction over the Option Price and (b) the total number of Covered Shares subject to the Option that were outstanding and unexercised immediately prior to the effective time of the Corporate Transaction.

If, immediately following a Corporate Transaction, the Performance Condition has not yet been met but the Option does not expire, either because the Corporate Transaction is not a Change in Control or, if it is a Change in Control, because the circumstances are such that it does not expire by application of Section A.18(e) of Annex A hereto, then the Committee shall make such adjustments to the Performance Condition as are necessary to make sure that the Performance Condition is determined by reference to the common stock (or equivalent securities) of a continuing entity, either PNC or the resulting or surviving entity in the Corporate Transaction, and that the performance threshold necessary to meet the Performance Condition requires performance of the referenced securities of PNC or such other resulting or surviving entity following the Corporate Transaction essentially equivalent to the performance of PNC common stock following the date of the Corporate Transaction that would be have been necessary to meet the Performance Condition if the Corporate Transaction had not occurred.

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 the holder of the Option.

No fractional shares will be issued on exercise of the Option. PNC shall determine the manner in which any fractional shares will be treated.

4. Exercise of Option.

4.1 Notice and Effective Date. The Option may be exercised, in whole or in part, by delivering to PNC written notice of such exercise, in such form as PNC may from time to time prescribe, and by paying in full the aggregate Option Price with respect to that portion of the Option being exercised and satisfying any amounts required to be withheld pursuant to applicable tax laws in connection with such exercise.

In addition, notwithstanding Sections 4.2 and 4.3, Optionee may elect to complete his or her Option exercise through a brokerage service/margin account pursuant to the broker-assisted cashless option exercise procedure under Regulation T of the Board of Governors of the Federal Reserve System and in such manner as may be permitted by PNC from time to time consistent with said Regulation T.

The effective date of such exercise will be the Exercise Date. Until PNC notifies Optionee to the contrary, the form attached to the Agreement as Annex B shall be used to exercise the Option and the form attached to the Agreement as Annex C shall be used to make tax payment elections.

In the event that the Option is exercised, pursuant to Section 2.4, by any person or persons other than Optionee, such notice of exercise must be accompanied by appropriate proof of the derivative right of such person or persons to exercise the Option.

4.2 <u>Payment of Option Price</u>. Upon exercise of the Option, in whole or in part, Optionee may pay the aggregate Option Price (a) in cash or (b) if and to the extent then permitted by PNC, using whole shares of PNC common stock (either by physical delivery to PNC of certificates for the shares or through PNC's share attestation procedure) having an aggregate Fair Market Value on the Exercise Date not exceeding that portion of the aggregate Option Price being paid using such shares, or through a combination of cash and shares of PNC common stock; *provided*, *however*, that shares of PNC common stock used to pay all or any portion of the aggregate Option Price may not be subject to any contractual restriction, pledge or other encumbrance and must be shares that have been owned by Optionee for at least six (6) months prior to the Exercise Date and, in the case of restricted stock, for which it has been at least six (6) months since the restrictions lapsed, or, in either case, for such other period as may be specified or permitted by PNC.

4.3 <u>Payment of Taxes</u>. Optionee may elect to satisfy any or all applicable federal, state, or local tax liabilities incurred in connection with exercise of the Option (a) by payment of cash, (b) if and to the extent then permitted by PNC and subject to such terms and conditions as PNC may from time to time establish, through the retention by PNC of sufficient whole shares of PNC common stock otherwise issuable upon such exercise to satisfy the minimum amount of taxes required to be withheld in connection with such exercise, or (c) if and to the extent then permitted by PNC and subject to such terms and conditions as PNC may from time to time establish, using whole shares of PNC common stock (either by physical delivery to PNC of certificates for the shares or through PNC's share attestation procedure) that are not subject to any contractual restriction, pledge or other encumbrance and that have been owned by Optionee for at least six (6) months prior to the Exercise Date and, in the case of restricted stock, for which it has been at least six (6) months since the restrictions lapsed, or, in either case, for such other period as may be specified or permitted by PNC.

For purposes of this Section 4.3, shares of PNC common stock that are used to satisfy applicable taxes will be valued at their Fair Market Value on the date the tax withholding obligation arises. In no event will the Fair Market Value of the shares of PNC common stock otherwise issuable upon exercise of the Option but retained pursuant to Section 4.3(b) exceed the minimum amount of taxes required to be withheld in connection with the Option exercise.

4.4 <u>Effect</u>. The exercise, in whole or in part, of the Option will cause a reduction in the number of unexercised Covered Shares as to which the Option is outstanding equal to the number of shares of PNC common stock with respect to which the Option is exercised.

5. <u>Restrictions on Exercise and on Shares Issued on Exercise</u>. Notwithstanding any other provision of the Agreement, the Option may not be exercised at any time that PNC does not have in effect a registration statement under the Securities Act of 1933 as amended relating to the offer of shares of PNC common stock under the Plan unless PNC agrees to permit such exercise. Upon the issuance of any shares of PNC common stock pursuant to exercise of the Option at a time when such a registration statement is not in effect, Optionee will, upon the request of PNC, agree in writing that Optionee is acquiring such shares for

investment only and not with a view to resale and that Optionee will not sell, pledge, or otherwise dispose of such shares unless and until (a) PNC is furnished with an opinion of counsel to the effect that registration of such shares pursuant to the Securities Act of 1933 as amended is not required by that Act or by rules and regulations promulgated thereunder, (b) the staff of the SEC has issued a no-action letter with respect to such disposition, or (c) such registration or notification as is, in the opinion of counsel for PNC, required for the lawful disposition of such shares has been filed and has become effective; *provided*, *however*, that PNC is not obligated hereby to file any such registration or notification. PNC may place a legend embodying such restrictions on the certificate(s) evidencing such shares.

6. Rights as Shareholder. Optionee will have no rights as a shareholder with respect to any Covered Shares until the Exercise Date and then only with respect to those shares of PNC common stock issued upon such exercise of the Option and not retained as provided in Section 4.3.

7. Employment. Neither the granting of the Option evidenced by the Agreement nor any term or provision of the Agreement will constitute or be evidence of any understanding, expressed or implied, on the part of PNC or any subsidiary to employ Optionee for any period.

8. Subject to the Plan. The Option evidenced by the Agreement and the exercise thereof are subject to the terms and conditions of the Plan, which is incorporated by reference herein and made a part hereof, but the terms of the Plan will not be considered an enlargement of any benefits under the Agreement. In addition, the Option is subject to any rules and regulations promulgated by or under the authority of the Committee.

9. Optionee Covenants.

9.1 General. Optionee and PNC acknowledge and agree that Optionee has received adequate consideration with respect to enforcement of the provisions of Sections 9 and 10 hereof by virtue of receiving this Option, which gives Optionee an opportunity potentially to benefit from an increase in the future value of PNC common stock (regardless of whether any such benefit is ultimately realized); 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 Optionee from earning a living.

9.2 Non-Solicitation; No-Hire. Optionee agrees to comply with the provisions of subsections (a) and (b) of this Section 9.2 while employed by the Corporation and for a period of twelve (12) months after Optionee's Termination Date regardless of the reason for such termination of employment.

(a) Non-Solicitation. Optionee shall not, directly or indirectly, either for Optionee'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 Optionee 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. Optionee shall not, directly or indirectly, either for Optionee'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 Optionee assist any other Person in such activities.

Notwithstanding the above, if Optionee's employment with the Corporation is terminated by the Corporation without Cause or by Optionee with Good Reason and such Termination Date occurs during a Coverage Period (either as Coverage Period is defined in Section A.13 of Annex A hereto or, if Optionee was a party to a CIC Severance Agreement that was in effect at the time of such termination of employment, as Coverage Period is defined in such CIC Severance Agreement, if longer), then commencing immediately after such Termination Date, the provisions of subsections (a) and (b) of this Section 9.2 shall no longer apply and shall be replaced with the following subsection (c):

(c) No-Hire. Optionee agrees that Optionee 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.

9.3 Confidentiality. During Optionee's employment with the Corporation, and thereafter regardless of the reason for termination of such employment, Optionee 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 Optionee, 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.

9.4 Ownership of Inventions. Optionee 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 Optionee during the term of Optionee'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"). Optionee agrees to assign and hereby does assign to PNC or its designee all of Optionee's right, title and interest, including copyrights and patent rights, in and to all Developments. Optionee 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 9.4 shall be performed by Optionee without further compensation and shall continue beyond the Termination Date.

10. Enforcement Provisions. Optionee understands and agrees to the following provisions regarding enforcement of the Agreement.

10.1 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, Optionee 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.

10.2 Equitable Remedies. A breach of the provisions of any of Sections 9.2, 9.3 or 9.4 will cause the Corporation irreparable harm, and the Corporation will therefore be entitled to issuance of immediate, as well as permanent, injunctive relief restraining Optionee, and each and every person and entity acting in concert or participating with Optionee, from initiation and/or continuation of such breach.

10.3 Tolling Period. If it becomes necessary or desirable for the Corporation to seek compliance with the provisions of Section 9.2 by legal proceedings, the period during which Optionee 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.

10.4 No Waiver. Failure of PNC to demand strict compliance with any of the terms, covenants or conditions of the Agreement shall not be deemed a waiver of such term, covenant or condition, nor shall 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.

10.5 Severability. The restrictions and obligations imposed by Sections 9.2, 9.3 and 9.4 are separate and severable, and it is the intent of Optionee 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 shall remain valid and binding upon Optionee.

10.6 Reform. In the event any of Sections 9.2, 9.3 and 9.4 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 Optionee and PNC that said court reduce and reform the provisions thereof so as to apply the greatest limitations considered enforceable by the court.

10.7 Waiver of Jury Trial. Each of Optionee 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 9.2, 9.3 and 9.4.

10.8 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 Optionee, Optionee agrees to reimburse PNC for any amounts Optionee may be required to reimburse the Corporation 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 Optionee reimburse PNC or its subsidiaries for such amounts pursuant to Section 304 of the Sarbanes-Oxley Act of 2002.

10.9. Compliance with Internal Revenue Code Section 409A. It is the intention of the parties that the Option 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, Optionee agrees that PNC may, without the consent of Optionee, modify the Agreement and the Option 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.

11. Effective Date. If Optionee does not accept the grant of the Option by executing and delivering a copy of the Agreement to PNC, without altering or changing the terms of the Agreement in any way, within thirty (30) days of receipt by Optionee of a copy of the Agreement, PNC may, in its sole discretion, withdraw its offer and cancel the Option and the Agreement at any time prior to Optionee's delivery to PNC of a copy of the Agreement executed by Optionee.

Otherwise, upon execution and delivery of the Agreement by both PNC and Optionee, the Option and the Agreement are effective as of the Grant Date.

IN WITNESS WHEREOF, PNC has caused the Agreement to be signed on its behalf effective 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 as of the Grant Date

____

Optionee

Annex A - Certain Definitions
Annex B - Notice of Exercise
Annex C - Tax Payment Election Form

ANNEX A
CERTAIN DEFINITIONS

* * *

A.1 “Agreement” means the Nonstatutory Stock Option Agreement between PNC and Optionee evidencing the grant of the Option to Optionee pursuant to the Plan.

A.2 “Board” means the Board of Directors of PNC.

A.3 “Cause.”

(a) <u>“Cause” during a Coverage Period</u>. If the termination of Optionee’s employment with the Corporation occurs during a Coverage Period, then, for purposes of the Agreement, “Cause” means:

(i) the willful and continued failure of Optionee to substantially perform Optionee’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 Optionee by the Board or the CEO that specifically identifies the manner in which the Board or the CEO believes that Optionee has not substantially performed Optionee’s duties; or

(ii) the willful engaging by Optionee 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 Optionee, shall be considered willful unless it is done, or omitted to be done, by Optionee in bad faith and without reasonable belief that Optionee’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 Optionee’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 Optionee in good faith and in the best interests of the Corporation.

The cessation of employment of Optionee will be deemed to be a termination of Optionee’s employment with the Corporation for Cause for purposes of the Agreement only if and when there shall have been delivered to Optionee, as part of the notice of Optionee’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, Optionee is guilty of conduct described in clause (i) or (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 Optionee, together with written notice that PNC believes that Optionee is guilty of conduct described in clause (i) or (ii) above and, in either case, specifying the particulars thereof in detail, and (2) Optionee is given an opportunity, together with counsel, to be heard before the Board.

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

(i) the willful and continued failure of Optionee to substantially perform Optionee’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 Optionee by PNC that specifically identifies the manner in which it is believed that Optionee has not substantially performed Optionee’s duties;

(ii) a material breach by Optionee of (1) any code of conduct of PNC or one of its subsidiaries 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 Optionee against PNC or one of its subsidiaries or any client or customer of PNC or a subsidiary;

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

(v) entry of any order against Optionee, 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 Optionee's employment or other service relationship with the Corporation.

The cessation of employment of Optionee will be deemed to have been a termination of Optionee'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 Optionee is the CEO, the Board) determines that Optionee 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 Optionee and, if so, determines that the termination of Optionee's employment with the Corporation will be deemed to have been for Cause.

A.4 "CEO" means the chief executive officer of PNC.

A.5 "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 shall be deemed to have occurred if:

(a) any Person, excluding employee benefit 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 shall 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.

A.6 "CIC Failure" means the following:

(a) with respect to a CIC Triggering Event described in Section A.8(a), PNC's shareholders vote against the transaction approved by the Board or the agreement to consummate the transaction is terminated; or

(b) with respect to a CIC Triggering Event described in Section A.8(b), the proxy contest fails to replace or remove a majority of the members of the Board.

A.7 "CIC Severance Agreement" means the written agreement, if any, between Optionee and PNC providing, among other things, for certain change in control severance benefits.

A.8 "CIC Triggering Event" means the occurrence of either of the following:

(a) the Board or PNC's shareholders approve a transaction described in Subsection (b) of the definition of Change in Control contained in Section A.5; or

(b) the commencement of a proxy contest in which any Person seeks to replace or remove a majority of the members of the Board.

A.9 "Committee" means the Personnel and Compensation Committee of the Board or such person or persons as may be designated or appointed by that committee as its delegate or designee.

A.10 "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 of its subsidiaries (1) engaged in business activities similar to some or all of the business activities of PNC or any subsidiary as of Optionee's Termination Date or (2) engaged in business activities that Optionee knows PNC or any subsidiary intends to enter within the first twelve (12) months after Optionee's Termination Date or, if later and if applicable, after the date specified in clause (ii) of Section A.15(a), in either case whether Optionee is acting as agent, consultant, independent contractor, employee, officer, director, investor, partner, shareholder, proprietor or in any other individual or representative capacity therein.

A.11 "Consolidated Subsidiary" means a corporation, bank, partnership, business trust, limited liability company or other form of business organization that (1) is a consolidated subsidiary of PNC under generally accepted accounting principles and (2) satisfies the definition of "service recipient" under Section 409A of the Internal Revenue Code.

A.12 “Corporation” means PNC and its Consolidated Subsidiaries.

A.13 “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 two (2) years after the date of the Change in Control; *provided*, *however*, that in the event that a Coverage Period commences on the date of a CIC Triggering Event, such Coverage Period will terminate upon the earlier to occur of (x) the date of a CIC Failure and (y) the date that is two (2) years after the date of the Change in Control triggered by the CIC Triggering Event. After the termination of any Coverage Period, another Coverage Period will commence upon the earlier to occur of clauses (a)(i) and (a)(ii) in the preceding sentence.

A.14 “Covered Shares” means the number of shares of PNC common stock that Optionee has the option to purchase from PNC pursuant to the Option.

A.15 “Detrimental Conduct” means, for purposes of the Agreement:

(a) Optionee 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 Optionee’s Termination Date and extending through (and including) the first (1^{st}) anniversary of the later of (i) Optionee’s Termination Date and, if different, (ii) the first date after Optionee’s Termination Date as of which Optionee ceases to be engaged by the Corporation in any capacity for which Optionee 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 Optionee against PNC or one of its subsidiaries or any client or customer of PNC or one of its subsidiaries; or

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

Optionee will be deemed to have engaged in Detrimental Conduct for purposes of the Agreement only if and when the Committee (if Optionee 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 Optionee was not such an executive officer), whichever is applicable, determines that Optionee 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 Optionee, and, if so, determines that Optionee will be deemed to have engaged in Detrimental Conduct.

A.16 “Exchange Act” means the Securities Exchange Act of 1934 as amended, and the rules and regulations promulgated thereunder.

A.17 “Exercise Date” means the date (which must be a business day for PNC Bank, National Association) on which PNC receives written notice, in such form as PNC may from time to time prescribe, of the exercise, in whole or in part, of the Option pursuant to the terms of the Agreement, subject to receipt by PNC of full payment of the aggregate Option Price, calculation by PNC of the applicable withholding taxes, and receipt by PNC of payment for any taxes required to be withheld in connection with such exercise as provided in Sections 4.1, 4.2 and 4.3 of the Agreement.

A.18 “Expiration Date.”

(a) Expiration Date. Expiration Date means the date on which the Option expires, which will be the tenth (10^{th}) anniversary of the Grant Date unless the Option expires earlier pursuant to any of the provisions set forth in Sections A.18(b) through A.18(f) (with the Option expiring on the first date determined under any of such sections);

provided, however, if there is a Change in Control, then notwithstanding Sections A.18(c), A.18(d), and A.18 (f) other than A.18(f)(3), to the extent that the Option is outstanding and vested or vests at the time the Change in Control occurs, the Option will not expire at the earliest before the close of business on the ninetieth (90^{th}) day after the occurrence of the Change in Control (or the tenth (10^{th}) anniversary of the Grant Date if earlier), *provided that* either (1) Optionee is an employee of the Corporation at the time the Change in Control occurs and Optionee’s employment with the Corporation is not terminated for Cause or (2) Optionee is a former employee of the Corporation whose Option, or portion thereof, is outstanding at the time the Change in Control occurs by virtue of the application of one or more of the exceptions set forth in Section A.18(c) and at least one of such exceptions is still applicable at the time the Change in Control occurs.

In no event will the Option remain outstanding beyond the tenth (10^{th}) anniversary of the Grant Date.

(b) Termination for Cause. Upon a termination of Optionee’s employment with the Corporation for Cause, unless the Committee determines otherwise, the Option will expire at the close of business on Optionee’s Termination Date with respect to all Covered Shares, whether or not vested and whether or not Optionee is eligible to Retire or Optionee’s employment also terminates for another reason.

(c) Ceasing to be an Employee other than by Termination for Cause If Optionee ceases to be an employee of the Corporation other than by termination of Optionee’s employment for Cause, then unless the Committee determines otherwise, the Option will expire at the close of business on Optionee’s Termination Date with respect to all Covered Shares, whether or not vested, except to the extent that the provisions set forth in subsection (1), (2), (3), (4) or (5) of this Section A.18(c) apply to Optionee’s circumstances and such applicable subsection specifies a later expiration date for all or a portion of the Option. If more than one of such exceptions is applicable to the Option or a portion thereof, then the Option or such portion of the Option will expire in accordance with the provisions of the subsection that specifies the latest expiration date.

(1) *Retirement*. Subject to Sections A.18(c)(6) and A.18(d), if the termination of Optionee’s employment with the Corporation meets the definition of Retirement, then the Option will expire on the tenth (10^{th}) anniversary of the Grant Date with respect to any Covered Shares as to which the Option is vested on the Retirement date or thereafter vests pursuant to Section 2.2 of the Agreement.

(2) *Death*. If Optionee’s employment with the Corporation is terminated by reason of Optionee’s death, then the Option will expire on the tenth (10^{th}) anniversary of the Grant Date.

(3) *Termination during a Coverage Period without Cause or with Good Reason* Except as otherwise provided in Section A.18(f), if Optionee’s employment with the Corporation is terminated (other than by reason of Optionee’s death) during a Coverage Period by the Corporation without Cause or by Optionee with Good Reason, then the Option will expire on the third (3^{rd}) anniversary of such Termination Date (but in no event later than on the tenth (10^{th}) anniversary of the Grant Date).

(4) *Total and Permanent Disability*. Subject to Sections A.18(c)(6) and A.18(d), if Optionee's employment is terminated by the Corporation by reason of Total and Permanent Disability, then the Option will expire on the third (3rd) anniversary of such Termination Date (but in no event later than on the tenth (10th) anniversary of the Grant Date).

(5) *DEAP or Agreement or Arrangement in lieu of or in addition to DEAP*. In the event that (a) Optionee's employment with the Corporation is terminated by the Corporation, and Optionee is offered and has entered into the standard Waiver and Release Agreement with PNC or one of its subsidiaries under an applicable PNC or subsidiary Displaced Employee Assistance Plan, or any successor plan by whatever name known ("DEAP"), or Optionee is offered and has entered into a similar waiver and release agreement between PNC or one of its subsidiaries and Optionee pursuant to the terms of an agreement or arrangement entered into by PNC or a subsidiary and Optionee in lieu of or in addition to the DEAP, and (b) Optionee has not revoked such waiver and release agreement, and (c) the time for revocation of such waiver and release agreement by Optionee has lapsed, then the Option will expire at the close of business on the ninetieth (90th) day after Optionee's Termination Date (but in no event later than on the tenth (10th) anniversary of the Grant Date) with respect to any Covered Shares as to which the Option has already become vested; *provided*, *however*, that if Optionee returns to employment with the Corporation no later than said ninetieth (90th) day, then for purposes of the Agreement, the entire Option, whether vested or unvested, will be treated as if the termination of Optionee's employment with the Corporation had not occurred.

If the vested portion of the Option (or the entire Option if fully vested) will expire on Optionee's Termination Date unless the conditions set forth in this Section A.18(c)(5) are met, then such vested Option or portion thereof will not terminate on the Termination Date, but Optionee will not be able to exercise the Option after such Termination Date unless and until all of the conditions set forth in this Section A.18(c)(5) have been met and the Option will terminate on the ninetieth (90th) day after Optionee's Termination Date (but in no event later than on the tenth (10th) anniversary of the Grant Date).

(6) Unvested Options Upon Retirement or Disability. If not already vested at the time of Retirement of the Optionee or of termination of employment of the Optionee by the Corporation by reason of Total and Permanent Disability and not for Cause, and if the Committee does not exercise its discretion under Section 2.2(a)(2) of the Agreement to determine that the Option will continue in effect, be eligible for subsequent vesting and not expire on Optionee's Termination Date, then the Option will expire on the Termination Date without regard for the other provisions of this Section A.18.

(d) Detrimental Conduct. If the Option would otherwise remain outstanding after Optionee's Termination Date with respect to any of the Covered Shares pursuant to one or more of the exceptions set forth in the subsections of Section A.18(c), then notwithstanding the provisions of such exception or exceptions, the Option will expire on the date that PNC determines that Optionee has engaged in Detrimental Conduct, if earlier than the date on which the Option would otherwise expire; *provided*, *however*, that:

(1) no determination that Optionee has engaged in Detrimental Conduct may be made on or after the date of Optionee's death, and Detrimental Conduct will not apply to conduct by or activities of beneficiaries or other successors to the Option in the event of Optionee's death;

(2) in the event that Optionee's employment with the Corporation is terminated (other than by reason of Optionee's death) during a Coverage Period by the Corporation without Cause or by Optionee with Good Reason, no determination that Optionee has engaged in Detrimental Conduct for purposes of the Agreement may be made on or after such Termination Date; and

(3) no determination that Optionee has engaged in Detrimental Conduct may be made after the occurrence of a Change in Control.

(e) Change in Control. If the Option has not previously vested and does not vest upon the completion of a Change in Control, the Option will expire on the Change in Control unless the holders of voting securities of PNC outstanding immediately prior to the Change in Control hold, upon completion of the Change in Control, voting securities representing more than 50% of the voting power in the election of directors (or members of an equivalent governing body) of the resulting or successor entity (regardless of whether such entity is PNC or an acquiring entity, including the ultimate parent entity of PNC or an entity into which PNC is merged or consolidated). If the Option does not expire on the Change in Control, it will continue in effect in accordance with its terms.

(f) CIC Triggering Event. If, after the occurrence of a CIC Triggering Event but prior to the occurrence of a subsequent Change in Control or of a CIC Failure with respect to the CIC Triggering Event, Optionee's employment is terminated by the Corporation without Cause or by the Optionee with Good Reason, the Option will expire immediately unless it was previously vested or vested simultaneously with Optionee's termination of employment under the provisions of Section 2.2(a)(5) of the Agreement or an exception other than Section A.18(c)(3) is applicable to the Option pursuant to Section A.18(c) and that exception provides for a later expiration date. If the Option was previously vested or vests simultaneously with Optionee's termination of employment under the provisions of Section 2.2(a)(5) of the Agreement, it will expire thereafter on the first to occur of the following (unless an exception other than Section A.18(c)(3) is applicable to the Option pursuant to Section A.18(c) and that exception provides for a later expiration date): (1) the date of a CIC Failure with respect to the CIC Triggering Event; (2) the first anniversary of the CIC Triggering Event without completion of a Change in Control; (3) the Change in Control date if (i) a Change in Control occurs prior to the first anniversary of the CIC Triggering Event, (ii) the Option is vested at the time the Change in Control occurs solely by reason of the operation of Section 2.2(a)(5) of the Agreement, and (iii) the holders of voting securities of PNC outstanding immediately prior to the Change in Control hold, upon completion of the Change in Control, voting securities representing 50% or less of the voting power in the election of directors (or members of an equivalent governing body) of the resulting or successor entity (regardless of whether such entity is PNC or an acquiring entity, including the ultimate parent entity of PNC or an entity into which PNC is merged or consolidated); and (4) the date determined in accordance with Section A.18(c)(3) if a Change in Control occurs prior to the first anniversary of the CIC Triggering Event and Section A.18(f)(3) is not applicable.

A.19 "Fair Market Value" as it relates to a share of PNC common stock as of any given date means the average of the reported high and low trading prices on the New York Stock Exchange (or such successor reporting system as PNC may select) for a share of PNC common stock on such date, or, if no PNC common stock trades have been reported on such exchange for that day, the average of such prices on the next preceding day and the next following day for which there were reported trades.

A.20 "GAAP" or "generally accepted accounting principles" means accounting principles generally accepted in the United States of America.

A.21 "Good Reason" means:

(a) the assignment to Optionee of any duties inconsistent in any respect with Optionee'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 that 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 Optionee;

(b) a reduction by the Corporation in Optionee'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 Optionee to be based at any office or location that is more than fifty (50) miles from Optionee'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 in which Optionee participates immediately prior to either the CIC Triggering Event or the Change in Control that is material to Optionee's total compensation, unless a substantially equivalent arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or (ii) to continue Optionee's participation in such plan (or in such substitute or alternative plan) on a basis at least as favorable, both in terms of the amount of benefits provided and the level of Optionee'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 Optionee with benefits substantially similar to those received by Optionee under any of the Corporation's pension (including, but not limited to, tax-qualified plans), life insurance, health, accident, disability or other welfare plans in which Optionee was participating, at costs substantially similar to those paid by Optionee, immediately prior to the CIC Triggering Event or the Change in Control.

A.22 "Grant Date" means the date set forth as the Grant Date on page 1 of the Agreement and is the date as of which the Option is authorized to be granted by the Committee in accordance with the Plan.

A.23 "Internal Revenue Code" means the Internal Revenue Code of 1986 as amended, and the rules and regulations promulgated thereunder.

A.24 "Option" means the option to purchase shares of PNC common stock granted to Optionee under the Plan in Section 1 of the Agreement in accordance with the terms of Article 6 of the Plan.

A.25 "Option Period" means the period during which the Option may be exercised, as set forth in Section 2.2 of the Agreement.

A.26 "Option Price" means the dollar amount per share of PNC common stock at which the Option may be exercised. The Option Price is set forth on page 1 of the Agreement.

A.27 "Optionee" means the person to whom the Option is granted and is identified as Optionee on page 1 of the Agreement.

A.28 "Person" has the meaning given in Section 3(a)(9) of the Exchange Act and also includes any syndicate or group deemed to be a person under Section 13(d)(3) of the Exchange Act.

A.29 "Plan" means The PNC Financial Services Group, Inc. 2006 Incentive Award Plan.

A.30 "PNC" means The PNC Financial Services Group, Inc.

A.31 "Retire" or "Retirement" means, for purposes of this Option and all PNC stock options held by Optionee, whether granted under the Plan or under an earlier PNC plan, termination of Optionee's employment with the Corporation (a) at any time on or after the first day of the first month coincident with or next following the date on which Optionee attains age fifty-five (55) and completes five (5) years of service (where a year of service is determined in the same manner as the determination of a year 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 Optionee's death or by the Corporation for Cause or, unless the Committee determines otherwise, termination in connection with a divestiture of assets or a divestiture of one or more subsidiaries.

A.32 "Retiree" means an Optionee who has Retired.

A.33 "SEC" means the U.S. Securities and Exchange Commission.

A.34 "Share" means a share of authorized but unissued PNC common stock or a reacquired share of PNC common stock, including shares purchased by PNC on the open market for purposes of the Plan or otherwise.

A.35 "Termination Date" means Optionee's last date of employment with the Corporation. If Optionee 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 Optionee does not continue to be employed by PNC or a Consolidated Subsidiary, then for purposes of the Agreement, Optionee's employment with the Corporation terminates effective at the time this occurs.

A.36 "Total and Permanent Disability" means, unless the Committee determines otherwise, Optionee's disability as determined to be total and permanent by the Corporation for purposes of the Agreement.

EXHIBIT 12.1

The PNC Financial Services Group, Inc. and Subsidiaries
Computation of Ratio of Earnings
to Fixed Charges (1)

Dollars in millions	Six Months Ended June 30, 2008	Year Ended December 31 2007	2006	2005	2004	2003
Earnings						
Pretax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees	$ 1,179	$1,806	$3,913	$1,962	$1,745	$1,600
Add:						
Distributed income of equity investees	76	124	20			
Fixed charges excluding interest on deposits	588	1,267	841	662	357	346
Less:						
Minority interest in pretax income of subsidiaries that have not incurred fixed charges	60	101	33	20	10	32
Earnings excluding interest on deposits	1,783	3,096	4,741	2,604	2,092	1,914
Interest on deposits	812	2,053	1,590	981	484	457
Total earnings	$ 2,595	$5,149	$6,331	$3,585	$2,576	$2,371
Fixed charges						
Interest on borrowed funds	$ 553	$1,197	$ 777	$ 599	$ 298	$ 258
Interest component of rentals	35	69	64	63	58	59
Amortization of notes and debentures		1			1	1
Distributions on mandatorily redeemable capital securities of subsidiary trusts						28
Fixed charges excluding interest on deposits	588	1,267	841	662	357	346
Interest on deposits	812	2,053	1,590	981	484	457
Total fixed charges	$ 1,400	$3,320	$2,431	$1,643	$ 841	$ 803
Ratio of earnings to fixed charges						
Excluding interest on deposits	3.03x	2.44x	5.64x	3.93x	5.86x	5.53x
Including interest on deposits	1.85	1.55	2.60	2.18	3.06	2.95

(1) As defined in Item 503(d) of Regulation S-K.

The PNC Financial Services Group, Inc. and Subsidiaries
Computation of Ratio of Earnings
to Fixed Charges and Preferred Stock Dividends (1)

Dollars in millions	Six Months Ended June 30, 2008	Year Ended December 31 2007	2006	2005	2004	2003
Earnings						
Pretax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees	$ 1,179	$1,806	$3,913	$1,962	$1,745	$1,600
Add:						
Distributed income of equity investees	76	124	20			
Fixed charges and preferred stock dividends excluding interest on deposits	588	1,268	842	663	358	347
Less:						
Minority interest in pretax income of subsidiaries that have not incurred fixed charges	60	101	33	20	10	32
Preferred stock dividend requirements		1	1	1	1	1
Earnings excluding interest on deposits	1,783	3,096	4,741	2,604	2,092	1,914
Interest on deposits	812	2,053	1,590	981	484	457
Total earnings	$ 2,595	$5,149	$6,331	$3,585	$2,576	$2,371
Fixed charges and preferred stock dividends						
Interest on borrowed funds	$ 553	$1,197	$ 777	$ 599	$ 298	$ 258
Interest component of rentals	35	69	64	63	58	59
Amortization of notes and debentures		1			1	1
Distributions on mandatorily redeemable capital securities of subsidiary trusts						28
Preferred stock dividend requirements		1	1	1	1	1
Fixed charges and preferred stock dividends excluding interest on deposits	588	1,268	842	663	358	347
Interest on deposits	812	2,053	1,590	981	484	457
Total fixed charges and preferred stock dividends	$ 1,400	$3,321	$2,432	$1,644	$ 842	$ 804
Ratio of earnings to fixed charges and preferred stock dividends						
Excluding interest on deposits	3.03x	2.44x	5.63x	3.93x	5.84x	5.52x
Including interest on deposits	1.85	1.55	2.60	2.18	3.06	2.95

(1) As defined in Item 503(d) of Regulation S-K.

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James E. Rohr, certify that:

I have reviewed this report on Form 10-Q for the quarter ended June 30, 2008 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, 2008

/s/ James E. Rohr

James E. Rohr
Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Richard J. Johnson, certify that:

I have reviewed this report on Form 10-Q for the quarter ended June 30, 2008 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, 2008

/s/ Richard J. Johnson

Richard J. Johnson
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION BY CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q for the quarter ended June 30, 2008 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, 2008

EXHIBIT 32.2

CERTIFICATION BY CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q for the quarter ended June 30, 2008 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, 2008