PNC FINANCIAL SERVICES GROUP INC
Form S-4/A
January 10, 2007
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As filed with the Securities and Exchange Commission on January 10, 2007

Registration No. 333-139050

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

Form S-4

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

THE PNC FINANCIAL SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	6712	25-1435979
(State or other jurisdiction of incorporation)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

One PNC Plaza

249 Fifth Avenue

Pittsburgh, Pennsylvania 15222-2707

(412) 762-2000

(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant s Principal Executive Offices)

Richard J. Johnson

Chief Financial Officer

One PNC Plaza

249 Fifth Avenue

Pittsburgh, Pennsylvania 15222-2707

(412) 762-2000

(Name, Address, including Zip Code, and Telephone Number, including Area Code, of Agent for Service)

With copies to:

George R. Bason, Jr., Esq. **John H. Butler, Esq.** **Davis Polk & Wardwell** **450 Lexington Avenue** **New York, New York 10017** **(212) 450-3800**	**John L. Unger** **Executive Vice President, General Counsel and Secretary** **Mercantile Bankshares Corporation** **2 Hopkins Plaza** **Baltimore, Maryland 21201** **(410) 237-5900**	**Edward D. Herlihy, Esq.** **Nicholas G. Demmo, Esq.** **Wachtell, Lipton, Rosen & Katz** **51 West 52nd Street** **New York, New York 10019** **(212) 403-1000**

Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after this Registration Statement becomes effective and upon completion of the merger described in the enclosed document.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, as amended, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this proxy statement/prospectus is not complete and may be changed. We may not sell the securities offered by this proxy statement/prospectus until the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where an offer or solicitation is not permitted.

PRELIMINARY SUBJECT TO COMPLETION DATED JANUARY 10, 2007

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

Dear Stockholder:

On October 8, 2006, Mercantile Bankshares Corporation entered into an agreement and plan of merger with The PNC Financial Services Group, Inc. pursuant to which Mercantile will merge with and into PNC, with PNC as the surviving corporation in the merger. You are invited to attend a special meeting of the stockholders of Mercantile on [ ] at [ ] a.m., local time, at [ ] to vote on approval of the merger. We are sending you this proxy statement/prospectus to ask you to vote on the approval of the merger at the special meeting.

If the merger is completed, Mercantile stockholders will receive a combination of PNC common stock and cash in exchange for their Mercantile common stock. Each share of Mercantile common stock will be converted into the right to receive 0.4184 of a share of PNC common stock and $16.45 in cash, without interest. The value of the stock portion of the merger consideration will fluctuate with the market price of PNC common stock. The following table shows the closing sale prices of PNC common stock as reported on the New York Stock Exchange and of Mercantile common stock as reported on the NASDAQ on October 6, 2006, the last trading day before we announced the merger, and on [ ], the last practicable trading day before the distribution of this document. This table also shows the implied value of the merger consideration proposed for each share of Mercantile common stock, which we calculated by multiplying the closing price of PNC common stock on those dates by 0.4184, the exchange ratio, and adding $16.45.

	PNC Common Stock	Mercantile Common Stock	Implied Value per Share of Mercantile Common Stock
At 10/06/06	$ 73.60	$ 36.78	$ 47.24
At [ ]	$ [ ]	$ [ ]	$ [ ]

The market prices of both PNC common stock and Mercantile common stock will fluctuate before the merger. You should obtain current stock price quotations for PNC common stock and Mercantile common stock. PNC common stock is quoted on the NYSE under the symbol PNC. Mercantile common stock is quoted on the NASDAQ under the symbol MRBK.

We expect that the merger will generally be tax-free to you as to shares of PNC common stock you receive in the merger and generally taxable to you as to the cash you receive.

We cannot complete the merger unless Mercantile s common stockholders approve it. In order for the merger to be approved, the holders of at least two-thirds of Mercantile s outstanding shares must vote in favor of the merger. Regardless of whether you plan to attend the special stockholders meeting, please take the time to vote your shares in accordance with the instructions contained in this document. Your vote is important. Failing to vote will have the same effect as voting against the merger. The Mercantile board of directors recommends that Mercantile stockholders vote FOR approval of the merger.

This document describes the special meeting, the merger, the documents related to the merger and other related matters. Please carefully read this entire document, including Risk Factors beginning on page 14, for a discussion of the risks relating to the proposed merger. You also can obtain information about our companies from documents that each of us has filed with the Securities and Exchange Commission.

Edward J. Kelly, III

Chairman, President, and CEO

Mercantile Bankshares Corporation

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the PNC common stock to be issued under this document or determined if this document is accurate or adequate. Any representation to the contrary is a criminal offense.

The date of this document is [ ], and it is first being mailed or otherwise delivered to Mercantile stockholders on or about [ ].

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MERCANTILE BANKSHARES CORPORATION

2 Hopkins Plaza

Baltimore, Maryland 21201

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

Mercantile Bankshares Corporation will hold a special meeting of stockholders at [ ] at [ ], local time, on [ ], 2007 to consider and vote upon the following proposals:

- to approve the merger of Mercantile Bankshares Corporation with and into The PNC Financial Services Group, Inc., on the terms set forth in the Agreement and Plan of Merger, dated as of October 8, 2006, by and between The PNC Financial Services Group, Inc. and Mercantile Bankshares Corporation, as it may be amended from time to time; and

- to approve the adjournment of the special meeting, if necessary, to solicit additional proxies, in the event that there are not sufficient votes at the time of the special meeting to approve the proposal to approve the merger.

The Mercantile board of directors has fixed the close of business on [ ] as the record date for the special meeting. Only Mercantile stockholders of record at that time are entitled to notice of, and to vote at, the special meeting, or any adjournment or postponement of the special meeting.

In order for the merger to be approved, the holders of at least two-thirds of the Mercantile shares outstanding and entitled to vote thereon must vote in favor of approval of the merger.

Regardless of whether you plan to attend the special meeting, please submit your proxy with voting instructions. Please vote as soon as possible. If you hold stock in your name as a stockholder of record, please complete, sign, date and return the accompanying proxy card in the enclosed self-addressed, stamped envelope. You may also authorize a proxy to vote your shares by either visiting the website or calling the toll-free number shown on your proxy card. If you hold your stock in street name through a bank or broker, please direct your bank or broker to vote in accordance with the instructions you have received from your bank or broker. This will not prevent you from voting in person, but it will help to secure a quorum and avoid added solicitation costs. Any holder of Mercantile common stock who is present at the special meeting may vote in person instead of by proxy, thereby canceling any previous proxy. In any event, a proxy may be revoked in writing at any time before its exercise at the special meeting in the manner described in the accompanying document.

The Mercantile board of directors has approved the merger and the merger agreement and recommends that Mercantile stockholders vote FOR approval of the merger.

BY ORDER OF THE BOARD OF DIRECTORS,

John L. Unger

Secretary

[ ], 2007

YOUR VOTE IS IMPORTANT. PLEASE VOTE YOUR SHARES PROMPTLY, REGARDLESS OF WHETHER YOU PLAN TO ATTEND THE SPECIAL MEETING. YOU CAN FIND INSTRUCTIONS FOR VOTING ON THE ENCLOSED PROXY CARD.

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REFERENCES TO ADDITIONAL INFORMATION

This document incorporates important business and financial information about PNC and Mercantile from documents that are not included in or delivered with this document. You can obtain documents incorporated by reference in this document, other than certain exhibits to those documents, by requesting them in writing or by telephone from the appropriate company at the following addresses:

The PNC Financial Services Group, Inc.
One PNC Plaza
249 Fifth Avenue
Pittsburgh, Pennsylvania 15222-2707
Attention: Investor Relations
(412) 762-2000

Mercantile Bankshares Corporation
2 Hopkins Plaza, P.O. Box 1477
Baltimore, Maryland 21203
Attention: David E. Borowy, Investor Relations
(410) 347-8361

You will not be charged for any of these documents that you request. Mercantile stockholders requesting documents should do so by [ ] in order to receive them before the special meeting.

See Where You Can Find More Information on page 77.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING

The questions and answers below highlight only selected procedural information from this document. They do not contain all of the information that may be important to you. You should read carefully the entire document and the additional documents incorporated by reference into this document to fully understand the voting procedures for the special meeting.

Q: What is the proposed transaction for which I am being asked to vote?

A: You are being asked to approve the merger of Mercantile with and into PNC, on the terms set forth in the Agreement and Plan of Merger, dated as of October 8, 2006, by and between The PNC Financial Services Group, Inc. and Mercantile Bankshares Corporation.

Q: What will I receive in the merger?

A: If the merger is completed, each share of Mercantile common stock that you own will be converted into the right to receive 0.4184 of a share of PNC common stock and $16.45 in cash, without interest.

Q: What do I need to do now?

A: After you have carefully read this document and have decided how you wish to vote your shares, please vote your shares promptly. If you hold stock in your name as a stockholder of record, you must complete, sign, date and mail your proxy card in the enclosed postage paid return envelope as soon as possible. You may also authorize a proxy to vote your shares by telephone or through the Internet as instructed on the proxy card. If you hold your stock in street name through a bank or broker, you must direct your bank or broker to vote in accordance with the instructions you have received from your bank or broker. Submitting your proxy card, authorizing a proxy by telephone or through the Internet, or directing your bank or broker to vote your shares will ensure that your shares are represented and voted at the special meeting.

Q: Why is my vote important?

A: Your failure to vote, by proxy or in person, will have the same effect as a vote against the merger. The merger must be approved by the holders of two-thirds of the outstanding shares of Mercantile common stock entitled to vote at the special meeting. **The Mercantile board of directors recommends that you vote FOR approval of the merger.**

Q: If my shares of common stock are held in street name by my broker, will my broker automatically vote my shares for me?

A: No. Your broker cannot vote your shares without instructions from you. You should instruct your broker as to how to vote your shares, following the directions your broker provides to you. Please check the voting form used by your broker.

Q: What if I fail to instruct my broker?

A: If you do not provide your broker with instructions, your broker generally will not be permitted to vote your shares on the merger proposal being presented at the special meeting. Because the approval of the merger requires the affirmative vote of the holders of two-thirds of the outstanding shares of Mercantile common stock, a failure to provide your broker instructions will have the same effect as a vote against the merger.

Q: Can I attend the special meeting and vote my shares in person?

A: Yes. All stockholders, including stockholders of record and stockholders who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the special meeting. Holders of record of Mercantile common stock can vote in person at the special meeting. If you are not a stockholder of record, you must obtain a proxy, executed in your favor, from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the special meeting. If you plan to attend the special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership and you must bring a form of personal photo identification with you in order to be admitted. We reserve the right to refuse admittance to anyone without proper proof of share ownership and without proper photo identification.

Q: Can I change my vote?

A: Yes. You may revoke any proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, or by submitting another proxy via the Internet or by telephone, (2) delivering a written revocation letter to the Secretary of Mercantile, or (3) attending the special meeting in person, notifying the Secretary and voting by ballot at the special meeting. The Mercantile Secretary s mailing address is 2 Hopkins Plaza, Baltimore, Maryland 21201.

Any stockholder entitled to vote in person at the special meeting may vote in person regardless of whether a proxy has been previously given, and such vote will revoke any previous proxy but the mere presence (without notifying the Secretary of Mercantile) of a stockholder at the special meeting will not constitute revocation of a previously given proxy.

Q: If I am a Mercantile stockholder, should I send in my Mercantile stock certificates now?

A: No. You should not send in your Mercantile stock certificates at this time. After the merger, the exchange agent will send you instructions for exchanging Mercantile stock certificates for the merger consideration. Unless Mercantile stockholders specifically request to receive PNC stock certificates, the shares of PNC stock they receive in the merger will be issued in book-entry form.

Q: When do you expect to complete the merger?

A: We expect to complete the merger in the first quarter of 2007. However, we cannot assure you when or if the merger will occur. We must first obtain the approval of Mercantile stockholders at the special meeting and the necessary regulatory approvals.

Q: Whom should I call with questions?

A: Mercantile stockholders should call The Altman Group, Mercantile s proxy solicitor, at (212) 681-9600 with any questions about the merger and related transactions.

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SUMMARY

This summary highlights material information from this document. It does not contain all of the information that is important to you. We urge you to carefully read the entire document and the other documents to which we refer in order to fully understand the merger and the related transactions. See Where You Can Find More Information on page 77. Each item in this summary refers to the page of this document on which that subject is discussed in more detail.

The Merger and the Merger Consideration (page 19)

We are proposing the merger of Mercantile with and into PNC. PNC will survive the merger. If the merger is completed, you will have the right to receive 0.4184 of a share of PNC common stock and $16.45 in cash, without interest, for each share of Mercantile common stock you hold immediately prior to the merger. PNC will not issue any fractional shares of PNC common stock in the merger. Mercantile stockholders who would otherwise be entitled to a fractional share of PNC common stock will instead receive an additional amount in cash based on the average closing sale prices of PNC common stock for the five trading days immediately prior to the date on which the merger is completed.

Example: If you hold 110 shares of Mercantile common stock, you will have a right to receive 46 shares of PNC common stock, $1809.50 in cash and an additional cash payment instead of the 0.024 shares of PNC common stock that you otherwise would have received (i.e., 110 shares x 0.4184 = 46.024 shares).

What Holders of Mercantile Stock Options and Other Equity-Based Awards Will Receive (page 40)

Upon completion of the merger:

- Each outstanding option to purchase shares of Mercantile common stock, whether vested or not, will be cancelled in exchange for the right to receive a lump sum cash payment equal to the product of (i) the number of shares of Mercantile common stock subject to the outstanding portion of the option and (ii) the excess of the all cash consideration over the exercise price per share of the option. The all cash consideration will equal the sum of (a) $16.45 and (b) the product of 0.4184 multiplied by the average of the closing sale prices of PNC common stock for the five trading days immediately preceding the date of completion of the merger. The lump sum cash payment will be subject to applicable tax withholding.

- Each outstanding restricted share and restricted stock unit of Mercantile common stock, whether vested or not, will be cancelled and converted into the right to receive, without restrictions, the merger consideration, which is (a) 0.4184 of a share of PNC common stock and (b) cash equal to $16.45. PNC will be entitled to deduct applicable tax withholding.

- Each phantom stock unit with respect to Mercantile common stock will cease to represent rights with respect to Mercantile common stock and will be converted into, at the option of Mercantile, the all cash consideration or the merger consideration or phantom stock units with respect to an equivalent number of shares of PNC common stock. If the latter option is selected, the number of phantom stock units with respect to PNC common stock would equal the number of shares of Mercantile common stock subject to such phantom stock units multiplied by the sum of (a) $16.45 divided by the average of the closing sale prices of PNC common stock for the five trading days immediately preceding the date of completion of the merger and (b) 0.4184.

The Merger Will Generally Be Tax-Free to Mercantile Stockholders Except to the Extent of the Cash They Receive (page 51)

PNC and Mercantile have structured the merger to qualify as a reorganization for United States federal income tax purposes, and it is a condition to their respective obligations to complete the merger that each of PNC and Mercantile receive a legal opinion to that effect. Accordingly, the merger will generally be tax-free to you, except to the extent of the cash you receive in the merger. The amount of gain that you recognize in the merger will generally be limited to the lesser of the amount of gain that you realize and the amount of cash that you receive in the merger (except for any cash you receive instead of fractional shares). The amount of gain that you realize is generally equal to the excess, if any, of the sum of the cash and the fair market value of the PNC common stock that you receive over your tax basis in the Mercantile common stock you surrender in the merger.

The United States federal income tax consequences described above may not apply to all holders of Mercantile common stock. Your tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your tax advisor for a full understanding of the particular tax consequences of the merger to you.

Comparative Market Prices and Share Information (pages 75 and 12)

PNC common stock is quoted on the NYSE under the symbol PNC. Mercantile common stock is quoted on the NASDAQ under the symbol MRBK. The following table shows the closing sale prices of PNC common stock and Mercantile common stock as reported on the NYSE and the NASDAQ on October 6, 2006, the last trading day before we announced the merger, and on [ ], the last practicable trading day before the distribution of this document. This table also shows the implied value of the merger consideration proposed for each share of Mercantile common stock, which we calculated by multiplying the closing price of PNC common stock on those dates by 0.4184, the exchange ratio, and adding $16.45, the cash portion of the merger consideration.

	PNC Common Stock	Mercantile Common Stock	Implied Value of One Share of Mercantile Common Stock
At October 6, 2006	$ 73.60	$ 36.78	$ 47.24
At [ ]	$ [ ]	$ [ ]	$ [ ]

The market price of PNC common stock and Mercantile common stock will fluctuate prior to the merger. You should obtain current market quotations for the shares.

Sandler O Neill & Partners, L.P. Has Provided an Opinion to the Mercantile Board of Directors Regarding the Merger Consideration (page 23)

Sandler O Neill & Partners, L.P. delivered its opinion to Mercantile s board of directors that as of October 8, 2006 and based upon and subject to the factors and assumptions set forth in the opinion, the merger consideration to be received by holders of the outstanding shares of the common stock of Mercantile under the agreement and plan of merger was fair from a financial point of view.

The full text of the written opinion of Sandler O Neill, dated October 8, 2006, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex B to this proxy statement/prospectus. Mercantile s shareholders are encouraged to read the opinion in its entirety. Sandler O Neill provided its opinion for the information and assistance of the Mercantile board of directors in connection with its consideration of the transaction. The Sandler O Neill opinion is not a recommendation as to how any holder of Mercantile common stock should vote with respect to the transaction.

The Mercantile Board of Directors Recommends that Mercantile Stockholders Vote FOR Approval of the Merger (page 21)

The Mercantile board of directors believes that the merger is in the best interests of Mercantile and its stockholders and has approved the merger and the merger agreement. The Mercantile board of directors recommends that Mercantile stockholders vote FOR approval of the merger.

Mercantile s Directors and Officers Have Financial Interests in the Merger That May Differ From Your Interests (page 35)

In considering the information contained in this document, you should be aware that Mercantile s executive officers and directors have financial interests in the merger that may be different from, or in addition to, the interests of Mercantile stockholders. These additional interests of Mercantile s executive officers and directors may create potential conflicts of interest and cause some of these persons to view the proposed transaction differently than you may view it as a stockholder.

Mercantile s board of directors was aware of these interests and took them into account in its decision to approve and adopt the merger agreement. For information concerning these interests, please see the discussion under the caption Mercantile s Directors and Officers Have Financial Interests in the Merger.

Holders of Mercantile Common Stock Do Not Have Appraisal Rights (page 33)

Appraisal rights are statutory rights that allow stockholders to dissent from specified extraordinary transactions, such as a merger, and to demand that the corporation pay the fair value of their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to stockholders in connection with the extraordinary transaction. Appraisal rights are not available in all circumstances, and exceptions to these rights are provided under the Maryland General Corporation Law. Because Mercantile common stock is listed on the NASDAQ, the holders of Mercantile common stock are not entitled to appraisal rights in the merger.

Conditions That Must Be Satisfied or Waived for the Merger to Occur (page 48)

Currently, we expect to complete the merger in the first quarter of 2007. As more fully described in this document and in the merger agreement, the completion of the merger depends on a number of conditions being satisfied or, where legally permissible, waived. These conditions include, among others, approval by Mercantile stockholders, the receipt of all required regulatory approvals (such as approval by the Board of Governors of the Federal Reserve System and financial regulators in Delaware, Maryland and Virginia) without a condition or a restriction that would have a material adverse effect measured relative to Mercantile, and the receipt of legal opinions by each company regarding the tax treatment of the merger.

We cannot be certain when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed.

Termination of the Merger Agreement (page 49)

We may mutually agree to terminate the merger agreement before completing the merger, even after stockholder approval, as long as the termination is approved by each of our boards of directors. In addition, either of us may decide to terminate the merger agreement, even after stockholder approval, if a governmental entity issues a non-appealable final order prohibiting the merger, if a governmental entity which must grant a regulatory approval as a condition to the merger denies such approval of the merger and such denial has become final and non-appealable, or if the other party breaches the merger agreement in a way that would entitle the party seeking to terminate the agreement not to consummate the merger, subject to the right of the breaching party to cure the breach within 45 days following written notice (unless it is not possible due to the nature or timing of the breach for the breaching party to cure the breach). Either of us may terminate the merger agreement if the merger has not been completed by October 8, 2007, unless the reason the merger has not been completed by that date is a breach of the merger agreement by the company seeking to terminate the merger agreement.

PNC may terminate the merger agreement if the Mercantile board of directors (1) fails to recommend that Mercantile stockholders approve the merger, (2) withdraws or modifies its recommendation (or proposes to do so) in a manner adverse to PNC, (3) recommends an alternative business combination proposal in a manner adverse to PNC, or (4) resolves to do any of the foregoing. PNC may also terminate the merger agreement if Mercantile intentionally breaches its obligation to call and hold a stockholder meeting to consider the merger or its obligation to not solicit competing acquisition proposals.

Termination Fee (page 49)

In the event that PNC terminates the merger agreement because

- the Mercantile board of directors (1) fails to recommend that Mercantile stockholders approve the merger, (2) withdraws or modifies its recommendation (or proposes to do so) in a manner adverse to PNC, (3) recommends an alternative business combination proposal, or (4) resolves to do any of the foregoing, or

- Mercantile intentionally breaches its obligation to call and hold a stockholder meeting to consider the merger or its obligation to not solicit competing acquisition proposals,

Mercantile will pay PNC a $225 million termination fee.

In addition, we have agreed that if certain events occur relating to a competing business combination proposal and thereafter the merger agreement is terminated by either Mercantile or PNC:

- if Mercantile consummates an alternative transaction within 12 months of termination of the merger agreement, Mercantile will pay PNC a $225 million termination fee.

- if Mercantile enters into a definitive acquisition agreement with regards to an alternative transaction within 12 months of termination of the merger agreement, Mercantile will pay PNC a $75 million termination fee. If Mercantile consummates an alternative transaction with a party or affiliate of a party to such an acquisition agreement within 18 months of termination of the merger agreement, then Mercantile will pay PNC an additional $150 million fee.

Regulatory Approvals Required for the Merger (page 33)

Mercantile and PNC have agreed to use their reasonable best efforts to obtain all regulatory approvals required to complete the transactions contemplated by the merger agreement. These approvals include approval from the Federal Reserve Board and other state regulatory authorities, including the Delaware State Bank Commissioner, the Commissioner of Financial Regulation of the Maryland Department of Labor, Licensing and Regulation and the Bureau of Financial Institutions of the Virginia State Corporation Commission. PNC and Mercantile have completed, or will complete, the filing of applications and notifications to obtain the required regulatory approvals. In obtaining the required regulatory approvals, PNC is not required to agree to any restriction or condition that would have a material adverse effect on Mercantile or PNC, measured on a scale relative to Mercantile.

Although we do not know of any reason why we cannot obtain these regulatory approvals in a timely manner, we cannot be certain when or if we will obtain them.

The Board of Directors of PNC following Completion of the Merger (page 33)

PNC has agreed in connection with the merger to appoint two individuals mutually agreed upon by PNC and Mercantile to the PNC board of directors effective as of the completion of the merger.

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The Rights of Mercantile Stockholders will be Governed by Pennsylvania Law and the PNC Articles of Incorporation and Bylaws after the Merger (page 15)

The rights of Mercantile stockholders will change as a result of the merger due to differences in PNC s and Mercantile s governing documents and due to the fact that the companies are incorporated in different states (Mercantile in Maryland and PNC in Pennsylvania). Page 65 of this document contains a description of stockholder rights under each of the PNC and Mercantile governing documents and applicable state law, and describes the material differences between them.

Mercantile will Hold its Special Meeting on [ ] (page 16)

The special meeting will be held on [ ], at [ ] a.m., local time, at [ ]. At the special meeting, Mercantile stockholders will be asked to:

- approve the merger; and
- approve the adjournment of the special meeting, if necessary, to solicit additional proxies, in the event that there are not sufficient votes at the time of the special meeting to approve the merger.

Record Date. Only holders of record of Mercantile common stock at the close of business on [ ] will be entitled to vote at the special meeting. Each share of Mercantile common stock is entitled to one vote. As of the record date of [ ], there were [ ] shares of Mercantile common stock entitled to vote at the special meeting.

Required Vote. To approve the merger, the holders of at least two-thirds of the outstanding shares of Mercantile common stock entitled to vote must vote in favor of approving the merger. Because approval is based on the affirmative vote of at least two-thirds of shares outstanding, a Mercantile stockholder s failure to vote or an abstention will have the same effect as a vote against the merger.

As of the record date, directors and executive officers of Mercantile and their affiliates had the right to vote [ ] shares of Mercantile common stock, or [ ]% of the outstanding Mercantile common stock entitled to be voted at the special meeting. At that date, directors and executive officers of PNC and their affiliates had the right to vote [ ] shares of Mercantile common stock entitled to be voted at the special meeting, or [ ]% of the outstanding Mercantile common stock. We currently expect that each of these individuals will vote his or her shares of Mercantile common stock in favor of the proposals to be presented at the special meeting.

Information about the Companies (page 54)

The PNC Financial Services Group, Inc.

The PNC Financial Services Group, Inc. is a Pennsylvania corporation, a bank holding company and a financial holding company under U.S. federal law. PNC is one of the largest diversified financial services companies in the United States based on assets, operating businesses engaged in retail banking, corporate and institutional banking, asset management and global fund processing services. PNC provides many of its products and services nationally and others in PNC s primary geographic markets located in Pennsylvania; New Jersey; the greater Washington, DC area, including Maryland and Virginia; Ohio; Kentucky; and Delaware. PNC also provides certain global fund processing services internationally. PNC stock (NYSE: PNC) is listed on the New York Stock Exchange. As of September 30, 2006, PNC had total consolidated assets of approximately $98.4 billion, total consolidated deposits of approximately $64.6 billion and total consolidated stockholders equity of approximately $10.8 billion. The principal executive offices of PNC are located at One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707, and its telephone number is (412) 762-2000.

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Mercantile Bankshares Corporation

Mercantile Bankshares Corporation is a Maryland corporation and a regional multibank holding company and a financial holding company headquartered in Baltimore, Maryland. It is comprised of 11 banks and a mortgage banking company. Eight banks are headquartered in Maryland, two are in Virginia and one is in Delaware. Mercantile s largest bank, Mercantile-Safe Deposit and Trust Company, represents approximately 45% of Mercantile s total assets and operates 40 offices in Maryland, 13 in Virginia, two in Washington, D.C. and one in Pennsylvania as of December 31, 2005. Nearly all of Mercantile s wealth management operations and specialized corporate banking services are provided by Mercantile-Safe Deposit and Trust Company. Through its affiliated banks, Mercantile provides a full range of banking services, including mortgage, trust and investment services, designed to meet the financial needs of its customers. Mercantile Bankshares Corporation stock (NASDAQ: MRBK) is listed on The NASDAQ Global Select Market. As of September 30, 2006, Mercantile had total consolidated assets of approximately $17.6 billion, including total consolidated deposits of approximately $12.8 billion, and total consolidated stockholders equity of approximately $2.4 billion. The principal executive offices of Mercantile are located at 2 Hopkins Plaza, Baltimore, Maryland 21201 and its telephone number is (410) 237-5900.

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SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF PNC

Set forth below are highlights from PNC s consolidated financial data as of and for the years ended December 31, 2001 through 2005 and as of and for the nine months ended September 30, 2005 and 2006. The results of operations for the nine months ended September 30, 2006 are not necessarily indicative of the results of operations for the full year or any other interim period. PNC management prepared the unaudited information on the same basis as it prepared PNC s audited consolidated financial statements. In the opinion of PNC management, this information reflects all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of this data for those dates. You should read this information in conjunction with PNC s consolidated financial statements and related notes included in PNC s Annual Report on Form 10-K for the year ended December 31, 2005, and PNC s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, which are incorporated by reference in this document and from which this information is derived. See Where You Can Find More Information on page 77.

PNC Summary of Consolidated Financial Data

	Nine months ended September 30,		Year ended December 31,				
	2006(a)	2005	2005	2004	2003	2002	2001(b)
Earnings (in millions)							
Net interest income	$ 1,679	$ 1,599	$ 2,154	$ 1,969	$ 1,996	$ 2,197	$ 2,262
Provision for (recoveries of) credit losses	82	(3)	21	52	177	309	903
Noninterest income	5,358	3,019	4,173	3,572	3,263	3,197	2,652
Noninterest expense	3,498	3,199	4,344	3,744	3,482	3,227	3,414
Income from continuing operations before minority and noncontrolling interests and income taxes	3,457	1,422	1,962	1,745	1,600	1,858	597
Minority and noncontrolling interests in income of consolidated entities	23	29	33	10	32	37	33
Income taxes	1,215	423	604	538	539	621	187
Income from continuing operations	2,219	970	1,325	1,197	1,029	1,200	377
(Loss) Income from discontinued operations, net of tax						(16)	5
Income before cumulative effect of accounting change	2,219	970	1,325	1,197	1,029	1,184	382
Cumulative effect of accounting change, net of tax					(28)		(5)
Net income	$ 2,219	$ 970	$ 1,325	$ 1,197	$ 1,001	$ 1,184	$ 377
Per common share data							
Basic earnings (loss)							
Continuing operations	$ 7.60	$ 3.40	$ 4.63	$ 4.25	$ 3.68	$ 4.23	$ 1.27
Discontinued operations						(0.05)	0.02
Before cumulative effect of accounting change	7.60	3.40	4.63	4.25	3.68	4.18	1.29
Cumulative effect of accounting change					(0.10)		(0.02)
Net income	$ 7.60	$ 3.40	$ 4.63	$ 4.25	$ 3.58	$ 4.18	$ 1.27

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	Nine months ended September 30, 2006(a)	2005	Year ended December 31, 2005	2004	2003	2002	2001(b)
Diluted earnings (loss)							
Continuing operations	$ 7.46	$ 3.35	$ 4.55	$ 4.21	$ 3.65	$ 4.20	$ 1.26
Discontinued operations						(0.05)	0.02
Before cumulative effect of accounting change	7.46	3.35	4.55	4.21	3.65	4.15	1.28
Cumulative effect of accounting change					(0.10)		(0.02)
Net income	$ 7.46	$ 3.35	$ 4.55	$ 4.21	$ 3.55	$ 4.15	$ 1.26
Period end balances (in millions)							
Total assets	$ 98,436	$ 93,241	$ 91,954	$ 79,723	$ 68,168	$ 66,377	$ 69,638
Total deposits	64,572	60,214	60,275	53,269	45,241	44,982	47,304
Total borrowed funds	14,695	18,374	16,897	11,964	11,453	9,116	12,090
Total shareholders equity	10,758	8,317	8,563	7,473	6,645	6,859	5,823

(a) Noninterest income for the nine months ended September 30, 2006 included the pretax impact of the following: gain on the BlackRock/MLIM transaction of $2.1 billion; securities portfolio rebalancing loss of $196 million; and mortgage loan portfolio repositioning loss of $48 million.

Noninterest expense for the nine months ended September 30, 2006 included the pretax impact of BlackRock/MLIM transaction integration costs of $91 million.

The aggregate after-tax impact of these items increased net income for the nine months ended September 30, 2006 by $1.1 billion. On a per share basis, the aggregate after-tax impact of these items increased net income by $3.75 per basic common share or $3.69 per diluted common share.

(b) Results for 2001 reflected the cost of actions taken during the year to accelerate the repositioning of PNC s institutional lending business and other strategic initiatives. These charges totaled $1.2 billion pre-tax and reduced 2001 net income by $768 million or $2.65 per diluted share.

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SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF MERCANTILE

Set forth below are highlights from Mercantile s audited consolidated financial data as of and for the years ended December 31, 2001 through 2005 and Mercantile s unaudited consolidated financial data as of and for the nine months ended September 30, 2005 and 2006. The results of operations for the nine months ended September 30, 2006 and 2005 are not necessarily indicative of the results of operations for the full year or any other interim period. The unaudited information was prepared on the same basis as Mercantile s audited consolidated financial statements. In the opinion of Mercantile management, this information reflects all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of this data for those dates. You should read this information in conjunction with Mercantile s consolidated financial statements and related notes included in Mercantile s Annual Report on Form 10-K for the year ended December 31, 2005, and Mercantile s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, which are incorporated by reference in this document and from which this information is derived. See Where You Can Find More Information on page 77.

Mercantile Summary of Consolidated Financial Data

	Nine months ended September 30,		Year ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
Earnings (in millions)							
Net interest income	$ 486	$ 455	$ 617	$ 545	$ 472	$ 441	$ 417
Provision for credit losses	0	2	2	7	12	16	13
Noninterest income	185	181	243	214	184	144	146
Noninterest expense	329	312	420	392	337	273	264
Income before income taxes	342	322	438	360	307	296	286
Income taxes	127	120	162	131	110	106	105
Net income	$ 215	$ 202	$ 276	$ 229	$ 197	$ 190	$ 181
Per common share data							
Basic net income	$ 1.74	$ 1.67	$ 2.28	$ 1.93	$ 1.80	$ 1.82	$ 1.71
Diluted net income	$ 1.73	$ 1.65	$ 2.26	$ 1.92	$ 1.79	$ 1.81	$ 1.70
Period end balances (in millions)							
Total assets	$ 17,575	$ 16,403	$ 16,422	$ 14,426	$ 13,695	$ 10,790	$ 9,929
Total deposits	12,775	12,040	12,077	10,799	10,263	8,261	7,447
Total borrowed funds	2,219	2,047	1,980	1,579	1,457	1,111	1,123
Total shareholders equity	2,393	2,151	2,915	1,918	1,841	1,324	1,230

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COMPARATIVE PER SHARE DATA

The following table sets forth for PNC common stock and Mercantile common stock certain historical, pro forma and pro forma-equivalent per share financial information. The pro forma and pro forma-equivalent per share information gives effect to the merger as if the merger had been effective on the dates presented, in the case of the book value data, and as if the merger had become effective on January 1, 2005, in the case of the net income and dividends declared data. The pro forma data in the tables assume that the merger is accounted for using the purchase method of accounting and represents a current estimate based on available information of the combined company s results of operations. The pro forma financial adjustments record the assets and liabilities of Mercantile at their estimated fair values and are subject to adjustment as additional information becomes available and as additional analyses are performed. See Accounting Treatment on page 50. The information in the following table is based on, and should be read together with, the historical financial information that we have presented in our prior filings with the Securities and Exchange Commission, which we refer to as the SEC. See Where You Can Find More Information on page 77.

We anticipate that the merger will provide the combined company with financial benefits that include reduced operating expenses and revenue enhancement opportunities. The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the impact of possible revenue enhancements, expense efficiencies, asset dispositions and share repurchases, among other factors, that may result as a consequence of the merger and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had our companies been combined during these periods. The Comparative Per Share Data Table for the nine months ended September 30, 2006 and the year ended December 31, 2005 combines the historical income per share data of PNC and its subsidiaries and Mercantile and its subsidiaries giving effect to the merger as if the merger had become effective on January 1, 2005, using the purchase method of accounting. Upon completion of the merger, the operating results of Mercantile will be reflected in the consolidated financial statements of PNC on a prospective basis.

	PNC Historical	Mercantile Historical	Pro Forma Combined	Pro Forma Equivalent Mercantile Share
Net income for the twelve months ended December 31, 2005:				
Basic	$ 4.63	$ 2.28	$ 4.42	$ 1.85
Diluted	4.55	2.26	4.36	1.82
Net income for the nine months ended September 30, 2006:				
Basic (1)	7.60	1.74	6.84	2.86
Diluted (1)	7.46	1.73	6.73	2.82
Dividends Declared:				
For the year ended December 31, 2005	2.00	0.99	2.00	0.84
For the nine months ended September 30, 2006	1.60	0.82	1.60	0.67
Book Value:				
As of December 31, 2005	29.21	17.81	35.67	14.92
As of September 30, 2006	36.60	19.07	41.92	17.54

(1) See note (a) on page 10.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document contains or incorporates by reference a number of forward-looking statements, including statements about the financial conditions, results of operations, earnings outlook and prospects of PNC, Mercantile and the potential combined company and may include statements for the period following the completion of the merger. Forward-looking statements are typically identified by words such as plan, believe, expect, anticipate, intend, outlook, estimate, forecast, project and other similar words and expressions.

The forward-looking statements involve certain risks and uncertainties. The ability of either PNC or Mercantile to predict results or the actual effects of its plans and strategies, or those of the combined company, is subject to inherent uncertainty. Factors that may cause actual results or earnings to differ materially from such forward-looking statements include those set forth below under Risk Factors, as well as, among others, the following:

- those discussed and identified in public filings with the SEC made by PNC or Mercantile;
- completion of the merger is dependent on, among other things, receipt of stockholder and regulatory approvals, the timing of which cannot be predicted with precision and which may not be received at all;
- the merger may be more expensive to complete than anticipated, including as a result of unexpected factors or events;
- the integration of Mercantile s business and operations with those of PNC may take longer than anticipated, may be more costly than anticipated and may have unanticipated adverse results relating to Mercantile s or PNC s existing businesses; and
- the anticipated cost savings and other synergies of the merger may take longer to be realized or may not be achieved in their entirety, and attrition in key client, partner and other relationships relating to the merger may be greater than expected.

Because these forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this document or the date of any document incorporated by reference in this document.

All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this document and attributable to PNC or Mercantile or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this document. Except to the extent required by applicable law or regulation, PNC and Mercantile undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

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RISK FACTORS

In addition to general investment risks and the other information contained in or incorporated by reference into this document, including the matters under the caption Cautionary Statement Regarding Forward-Looking Statements and the matters discussed under the caption Risk Factors included in the Annual Reports on Form 10-K filed by each of PNC and Mercantile for the year ended December 31, 2005 as updated by subsequently filed Forms 10-Q and 10-K, you should carefully consider the following factors in deciding whether to vote for adoption of the merger agreement.

Because the Market Price of PNC Common Stock Will Fluctuate, Mercantile Stockholders Cannot Be Sure of the Trading Price of the Merger Consideration They Will Receive.

Upon completion of the merger, each share of Mercantile common stock will be converted into merger consideration consisting of 0.4184 of a share of PNC common stock and $16.45 in cash. The market value of the stock portion of the merger consideration may vary from the closing price of PNC common stock on the date we announced the merger, on the date we mailed this document to Mercantile stockholders, on the date of the special meeting of the Mercantile stockholders and thereafter. Any change in the market value of PNC common stock prior to completion of the merger will affect the implied value of the merger consideration that Mercantile stockholders will receive upon completion of the merger. Accordingly, at the time of the special meeting, Mercantile stockholders will not know or be able to calculate the market value of the merger consideration they would receive upon completion of the merger. Neither company is permitted to terminate the merger agreement solely because of changes in the market prices of either company s stock. There will be no adjustment to the merger consideration for changes in the market price of either shares of PNC common stock or shares of Mercantile common stock. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in our respective businesses, operations and prospects, and regulatory considerations. Many of these factors are beyond our control. You should obtain current market quotations for shares of PNC common stock and for shares of Mercantile common stock.

We May Fail To Realize All of the Anticipated Benefits of the Merger.

The success of the merger will depend, in part, on our ability to realize the anticipated benefits and cost savings from combining the businesses of PNC and Mercantile. However, to realize these anticipated benefits and cost savings, we must successfully combine the businesses of PNC and Mercantile. If we are not able to achieve these objectives, the anticipated benefits and cost savings of the merger may not be realized fully or at all or may take longer to realize than expected.

PNC and Mercantile have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the merger. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of Mercantile and PNC during the transition period.

The Market Price of PNC Common Stock after the Merger May Be Affected by Factors Different from Those Affecting the Shares of Mercantile or PNC Currently.

The businesses of PNC and Mercantile differ and, accordingly, the results of operations of the combined company and the market price of the combined company s shares of common stock may be affected by factors different from those currently affecting the independent results of operations of Mercantile. For a discussion of the businesses of PNC and Mercantile and of certain factors to consider in connection with those businesses, see the documents incorporated by reference in this document and referred to under Where You Can Find More Information.

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The Merger Agreement Limits Mercantile s Ability to Pursue Alternatives to the Merger.

The merger agreement contains no shop provisions that, subject to specified exceptions, limit Mercantile s ability to discuss, facilitate or commit to competing third-party proposals to acquire all or a significant part of Mercantile, as well as a termination fee that is payable by Mercantile under certain circumstances. These provisions might discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of Mercantile from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share market price than that proposed in the merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire Mercantile than it might otherwise have proposed to pay.

The Merger is Subject to the Receipt of Consents and Approvals from Government Entities that May Impose Conditions that Could Have an Adverse Effect on PNC.

Before the merger may be completed, various approvals or consents must be obtained from the Federal Reserve Board and various domestic and foreign bank regulatory, antitrust, insurance and other authorities. These governmental entities, including the Federal Reserve Board, may impose conditions on the completion of the merger or require changes to the terms of the merger. Although PNC and Mercantile do not currently expect that any such conditions or changes will be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the merger or imposing additional costs on or limiting the revenues of PNC following the merger, any of which might have an adverse effect on PNC following the merger. PNC is not obligated to complete the merger if the regulatory approvals received in connection with the completion of the merger include any conditions or restrictions that, in the aggregate, would reasonably be expected to have a material adverse effect on Mercantile or PNC, measured relative to Mercantile, but PNC could choose to waive this condition.

Mercantile Executive Officers and Directors Have Financial Interests in the Merger that May be Different from, or in Addition to, the Interests of Mercantile Stockholders.

Mercantile s officers and directors have financial interests in the merger that may be different from, or in addition to, the interests of Mercantile stockholders. For example, certain executive officers and employees of Mercantile may receive tax gross up, bonus or retention payments, payments with respect to outstanding equity awards, or new equity awards with respect to PNC common stock, and two of the directors of Mercantile will be retained as directors of PNC and receive compensation for their services as directors of PNC.

Mercantile s board of directors was aware of these interests and took them into account in its decision to approve and adopt the merger agreement. For information concerning these interests, please see the discussion under the caption Mercantile s Directors and Officers Have Financial Interests in the Merger.

The Shares of PNC Common Stock to be Received by Mercantile Stockholders as a Result of the Merger Will Have Different Rights from the Shares of Mercantile Common Stock.

Upon completion of the merger, Mercantile stockholders will become PNC stockholders and their rights as stockholders will be governed by the articles of incorporation and by-laws of PNC and Pennsylvania corporate law. The rights associated with Mercantile common stock are different from the rights associated with PNC common stock. See the section of this proxy statement/prospectus titled Comparison of Stockholders Rights beginning on page 65 for a discussion of the different rights associated with PNC common stock.

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THE MERCANTILE SPECIAL MEETING

This section contains information about the special meeting of Mercantile stockholders that has been called to consider and approve the merger of Mercantile with and into PNC, with PNC as the surviving corporation in the merger.

Together with this document, we are also sending you a notice of the special meeting and a form of proxy that is solicited by the Mercantile board of directors. The special meeting will be held on [ ], 2007, at [ ] local time, at [ ], subject to any adjournments or postponements.

Matters to Be Considered

The purpose of the special meeting is to vote on a proposal for approval of the merger.

You also will be asked to vote upon a proposal to approve the adjournment of the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve the merger.

Proxies

Each copy of this document mailed to holders of Mercantile common stock is accompanied by a form of proxy with instructions for voting. If you hold stock in your name as a stockholder of record, you should complete and return the proxy card accompanying this document to ensure that your vote is counted at the special meeting, or at any adjournment or postponement of the special meeting, regardless of whether you plan to attend the special meeting. You may also authorize a proxy to vote your shares by telephone or through the Internet as instructed on the proxy card.

If you hold your stock in street name through a bank or broker, you must direct your bank or broker to vote in accordance with the instructions you have received from your bank or broker.

If you hold stock in your name as a stockholder of record, you may revoke any proxy at any time before it is voted by (1) signing and returning a proxy card with a later date or submitting another proxy via the Internet or by telephone, (2) delivering a written revocation letter to Mercantile s Secretary or (3) attending the special meeting in person, notifying the Secretary, and voting by ballot at the special meeting. If you hold your stock in street name through a bank or broker, you must follow your bank s or broker s instructions to revoke your proxy.

Any stockholder entitled to vote in person at the special meeting may vote in person regardless of whether a proxy has been previously given, and such vote will revoke any previous proxy but the mere presence (without notifying Mercantile s Secretary) of a stockholder at the special meeting will not constitute revocation of a previously given proxy.

Written notices of revocation and other communications about revoking your proxy should be addressed to:

Mercantile Bankshares Corporation

2 Hopkins Plaza

Baltimore, Maryland 21201

Attention: Secretary

All shares represented by valid proxies that we receive through this solicitation, and that are not revoked, will be voted in accordance with your instructions on the proxy card. If you make no specification on your proxy card as to how you want your shares voted before signing and returning it, your proxy will be voted FOR approval of the merger and FOR approval of the proposal to adjourn the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve the merger. According to the Mercantile bylaws, business to be conducted at a special meeting of stockholders may only be brought before the meeting by means of Mercantile s notice of the meeting. Accordingly, no matters other than the matters described in this document will be presented for action at the special meeting or at any adjournment or postponement of the special meeting.

Mercantile stockholders should **not** send Mercantile stock certificates with their proxy cards. After the merger is completed, holders of Mercantile common stock will be mailed a transmittal form with instructions on how to exchange their Mercantile stock certificates for shares of PNC common stock, the cash portion of the merger consideration and cash instead of fractional shares of PNC common stock, if applicable.

Solicitation of Proxies

Mercantile will bear the entire cost of soliciting proxies from you. In addition to solicitation of proxies by mail, Mercantile will request that banks, brokers and other record holders send proxies and proxy material to the beneficial owners of Mercantile common stock and secure their voting instructions. Mercantile will reimburse the record holders for their reasonable expenses in taking those actions. Mercantile has also made arrangements with The Altman Group to assist in soliciting proxies and have agreed to pay them $10,000 plus reasonable expenses for these services. If necessary, Mercantile may use several of its regular employees, who will not be specially compensated, to solicit proxies from Mercantile stockholders, either personally or by telephone, facsimile, letter or other electronic means.

Record Date

The close of business on [ ] has been fixed as the record date for determining the Mercantile stockholders entitled to receive notice of and to vote at the special meeting. At that time, [ ] shares of Mercantile common stock were outstanding, held by approximately [ ] holders of record.

Voting Rights and Vote Required

The presence, in person or by properly executed proxy, of the holders of a majority of the outstanding shares of Mercantile common stock entitled to vote is necessary to constitute a quorum at the special meeting. Abstentions will be counted for the purpose of determining whether a quorum is present.

Approval of the merger requires the affirmative vote of the holders of at least two thirds of the outstanding shares of Mercantile common stock entitled to vote at the special meeting. You are entitled to one vote for each share of Mercantile common stock you held as of the record date. The failure to vote by proxy or in person will have the same effect as a vote against the merger.

The Mercantile board of directors urges you to promptly vote by completing, dating and signing the accompanying proxy card and to return it promptly in the enclosed postage-paid envelope or to vote by telephone or through the Internet, or, if you hold your stock in street name through a bank or broker, by following the voting instructions of your bank or broker.

As of the record date:

- Directors and executive officers of Mercantile and their affiliates, had the right to vote [ ] shares of Mercantile common stock, or [ ]% of the outstanding Mercantile common stock at that date. We currently expect that each of these individuals will vote their shares of Mercantile common stock in favor of the proposals to be presented at the special meeting.

- Directors and executive officers of PNC and their affiliates had the right to vote [ ] shares of Mercantile common stock, or [ ]% of the outstanding Mercantile common stock on that date. We

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currently expect that each of these individuals will vote their shares of Mercantile common stock in favor of the proposals to be presented at the special meeting.

Recommendation of the Mercantile Board of Directors

The Mercantile board of directors has approved the merger agreement and the transactions it contemplates, including the merger. The Mercantile board of directors determined that the merger, merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Mercantile and its stockholders and recommends that you vote FOR approval of the merger. See The Merger Mercantile s Reasons for the Merger; Recommendation of the Mercantile Board of Directors for a more detailed discussion of the Mercantile board of directors recommendation.

Attending the Meeting

All holders of Mercantile common stock, including stockholders of record and stockholders who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the special meeting. Stockholders of record can vote in person at the special meeting. If you are not a stockholder of record, you must obtain a proxy executed in your favor from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the special meeting. If you plan to attend the special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership and you must bring a form of personal photo identification with you in order to be admitted. We reserve the right to refuse admittance to anyone without both proper proof of share ownership and proper photo identification.

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THE MERGER

Background of the Merger

The Mercantile board of directors has periodically discussed and reviewed Mercantile s business, strategic direction, performance and prospects in the context of developments in the financial services industry and the competitive landscape in the markets in which Mercantile operates and elsewhere. The Mercantile board of directors has also at times discussed with senior management various potential strategic alternatives involving possible acquisitions or business combinations that could complement and enhance the company s competitive strengths and strategic position. Also, senior management of Mercantile has, from time to time, had informal discussions with representatives of other financial institutions regarding industry trends and issues and exploratory discussions of the potential benefits and issues arising from possible combinations among various industry players.

PNC s board of directors and senior management also regularly review the financial services industry environment, including the trend towards consolidation in the industry, and periodically discuss ways in which to enhance the company s competitive position. Senior management of PNC has, over time, considered the possibility of acquisitions and strategic combinations with a variety of financial institutions and the potential strategic fit with such institutions based on their lines of businesses, their management and employee cultures and their geographic locations.

In the summer of 2006, Edward J. Kelly, III, Mercantile s Chairman and Chief Executive Officer, was approached by two financial institutions (neither of which was PNC) that expressed interest in exploring a potential acquisition of Mercantile. Following discussions with the two institutions, Mr. Kelly discussed these developments and other strategic alternatives with Mercantile s board of directors on September 11, 2006 and then later discussed these developments and strategic alternatives with Mercantile s senior management team. As a result of these discussions, it was felt that further dialogue with one of the two institutions would not be productive due to the range of potential values indicated by that institution, but that further dialogue with the other institution might be advisable.

In addition, in mid-September 2006, Jim Rohr, Chairman and Chief Executive Officer of PNC, placed a telephone call to Mr. Kelly and the two men had a subsequent telephone conversation in which they agreed to meet to discuss the possibility of a strategic combination of PNC and Mercantile.

On September 22, 2006, Mr. Kelly met with senior members of Mercantile s senior management to discuss further a possible acquisition of Mercantile. Later the same day, a special meeting of the Mercantile board was held to discuss strategic alternatives, including a possible acquisition of Mercantile. Financial and legal advisors to Mercantile participated in this meeting. The Mercantile board instructed Mr. Kelly to continue contacts regarding a possible transaction with representatives of PNC and the institution that the board had previously determined might warrant additional dialogue.

On September 25, 2006, Mr. Kelly met with the CEO of the non-PNC financial institution referenced in the prior paragraph to discuss a potential acquisition of Mercantile. However, the potential range of values expressed by this potential acquirer was at a level that was not considered sufficient to justify further discussions.

On September 26, 2006, Messrs. Rohr and Kelly, together with representatives of Sandler O Neill and Wachtell Lipton, met to discuss the possibility of a potential merger of Mercantile with PNC. At this meeting, Mr. Rohr indicated to Mr. Kelly that, subject to due diligence, the finalization of the other terms and conditions of a combination and final PNC board approval, PNC would be prepared to undertake a transaction at a purchase price with a value of approximately $47 per share consisting of a mix of cash and stock. As a result of this meeting, the two determined that it would be in the best interests of both companies to continue to have further discussions, and Mr. Kelly agreed that he would discuss the potential for continued discussions with the Mercantile board.

On September 29, 2006 the Mercantile board of directors held a special meeting. At this meeting, the Mercantile board met with senior management of Mercantile and the company s outside advisors, including representatives of Sandler O Neill and Davis Polk & Wardwell. Mr. Kelly reviewed with the Mercantile board his discussions with Mr. Rohr and PNC s preliminary indicative price, and Mr. Kelly and senior management discussed the potential for a combination with PNC in view of Mercantile s recent financial performance and prospects, consolidation activity in the financial services industry and the general financial services environment, and the long-term trends and other developments in the markets in which Mercantile conducts business. Representatives of Sandler O Neill made a presentation to the board regarding the potential transaction, PNC and the pro forma combined enterprise, and described Sandler O Neill s preliminary financial analysis regarding the potential transaction. The board, management and the company s advisors also discussed PNC and its financial and strategic position, noting the greater scale and scope that would result from a combination, their belief that PNC and Mercantile enjoyed similar cultures and business philosophies, and their belief that a combination of the two companies could provide benefits to stockholders, customers, employees and the communities Mercantile serves. At the conclusion of this meeting the Mercantile board authorized management to continue to explore the possibility of a potential merger with PNC, to further develop the terms of such a merger and to commence due diligence regarding such a potential transaction. In addition, the board also concurred with the conclusions of Mr. Kelly and senior management of Mercantile that the goal of developing highest value for Mercantile shareholders would be best served by ceasing further discussions with any other potential acquirors and focusing the efforts of the negotiating team on the opportunity for a transaction with PNC.

On October 2, 2006, PNC and Mercantile entered into a customary confidentiality agreement and began their respective due diligence investigations. Over the course of the week of October 2, the parties, together with their financial, legal and other advisors, continued their diligence investigations and discussions relating to the key terms of a transaction. Also during this period, counsel to PNC and Mercantile, working with the companies, began to draft and negotiate definitive transaction documentation, and PNC and Mercantile updated their respective boards regarding the status of discussions and the results of the on-going due diligence investigations.

On October 8, 2006, following the conclusion of due diligence, the Mercantile board of directors met. A representative of Venable, LLP described the board s duties and responsibilities under Maryland law, and responded to questions from directors. Mr. Kelly updated the board on the progress of negotiations with PNC, described the key elements of the proposed merger and discussed with the board the strategic reasons for the proposed merger. Senior management then described to the board the due diligence regarding PNC conducted by Mercantile and its advisors. Representatives of Sandler O Neill then presented a summary of its financial analysis of the proposed merger and delivered its opinion that, as of that date, the consideration to be received by Mercantile s stockholders in the merger was fair from a financial point of view to Mercantile s stockholders. A discussion followed. A representative of Davis Polk then made a presentation to the board describing the key terms of the merger and the merger agreement, and a discussion followed. Discussion followed concerning the amounts to be received by certain members of management in connection with a potential transaction. Following further discussion and deliberations, the members of the board present at the meeting unanimously approved the merger agreement and the transactions contemplated by the merger agreement and resolved to recommend that Mercantile s stockholders vote to adopt the merger agreement.

Also on October 8, the PNC board of directors held a special meeting at which members of PNC s senior management and PNC s legal and financial advisors made various presentations about, and the board discussed, the potential strategic combination with Mercantile and the proposed terms of the merger. At this meeting, the PNC board approved the merger agreement and the transactions contemplated by the merger agreement.

Following approval of each board of directors, the parties and their counsel continued to finalize and document the legal terms of the definitive documentation for the transaction. Thereafter, the parties executed the merger agreement and on October 9, 2006, the transaction was announced in a joint press release.

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Mercantile s Reasons for the Merger; Recommendation of the Mercantile Board of Directors

In reaching its conclusion that the merger agreement and the merger are advisable and in the best interests of Mercantile and its stockholders, and in approving the merger agreement and the transactions contemplated thereby, Mercantile s board of directors considered and reviewed the transaction and its terms with Mercantile s senior management, as well as its financial and legal advisors, and considered a number of factors. The following include the material factors considered by Mercantile s board of directors:

- The value to be received by Mercantile stockholders under the merger agreement relative to the historical trading price of Mercantile common stock, including the fact that as of the date of the merger agreement, the merger consideration represented a premium of approximately 28% over the closing price of Mercantile common stock on October 6, 2006, the last trading day before the merger agreement was signed.

- The ability of Mercantile stockholders, through the PNC common stock component of the merger consideration, to participate in the potential growth of the combined PNC and Mercantile institutions following consummation of the transaction.

- The financial analyses conducted by Sandler O Neill and its opinion to the board of directors that, as of the date of the merger agreement, the consideration to be received by Mercantile s stockholders was fair from a financial point of view to Mercantile s stockholders.

- The expectation that the receipt of PNC common stock by Mercantile stockholders would generally be tax-free for U.S. federal income tax purposes.

- The potential alternatives available to Mercantile, including other potential extraordinary transactions and the alternative of remaining independent, and the risks and challenges inherent in successfully implementing Mercantile s business plans.

- The interest rate and economic environment and management s view of their impact on regional banks like Mercantile over the near and medium term.

- The competitive environment facing regional banks like Mercantile, and management s belief that Mercantile s customers and employees would benefit from a combination with PNC due to the combined entity s enhanced ability to serve its customers more broadly and effectively because of the combined entity s greater scale, broader product portfolio, stronger retail platform and robust technology.

- The fact that Mercantile has minimal overlap with PNC, and the resulting opportunity for PNC to extend its franchise to Mercantile s branch networks, lending franchises and institutional wealth management clients while retaining and utilizing Mercantile s customer-facing employees and management s belief that the minimal overlap would provide opportunities to Mercantile employees in the combined PNC-Mercantile organization that may not typically be available in acquisitions involving organizations with a greater overlap of businesses.

- Management s belief in the compatibility of PNC s and Mercantile s culture and focus on traditional customer segments, regional structure, dedication to customer service and commitment to their communities.

The results of the due diligence investigation of PNC conducted by Mercantile s management and advisors.

The previous experience of PNC s management in successfully integrating acquisition transactions, including Riggs National Bank.

Management s belief that the merger would likely be approved by the appropriate regulatory authorities without undue conditions or delay and in accordance with the terms proposed.

The terms and conditions of the merger agreement, including:

the limited number and nature of the conditions to PNC s obligation to consummate the merger;

the $25 million donation that the PNC Foundation will make at the effective time of the merger to Mercantile s foundation for charitable causes in the Baltimore area;

PNC s agreement to provide Mercantile employees with aggregate salary and benefits that are substantially similar to the salary and benefits provided by Mercantile prior to the merger or that are no less favorable than the salary and benefits provided by PNC to its employees;

PNC s agreement to provide certain severance benefits to Mercantile employees for the one-year period after closing of the merger; and

PNC s agreement to appoint two individuals mutually agreed by Mercantile and PNC to PNC s board of directors at closing.

The board of directors also considered potentially adverse factors and risks in reaching its conclusion, including:

Mercantile s history and heritage and the potential, impact on the greater Baltimore community of the loss of a leading independent regional bank.

The terms and conditions of the merger agreement, including:

the termination fee of up to $225 million that Mercantile would be required to pay if the merger agreement is terminated under certain circumstances;

the restrictions imposed on Mercantile from soliciting alternative transactions and the inability of Mercantile to terminate the merger agreement in order to accept an alternative proposal;

the fact that Mercantile s board of directors may withdraw, modify or condition its recommendation that Mercantile s stockholders approve the merger only if the board determines, after consultation with its outside financial and legal advisors, that the failure to take such action would be inconsistent with its fiduciary obligations under applicable law; and

the requirement that Mercantile must submit the merger agreement to a vote of Mercantile s stockholders notwithstanding any withdrawal or modification of the board of director s recommendation that Mercantile s stockholders approve the merger.

The complexity and risks involved in successfully integrating Mercantile and PNC in a timely manner, and the potential impact of integration on various constituencies.

The taxable nature for U.S. federal income tax purposes of the cash portion of the merger consideration received by Mercantile stockholders.

The fact that the interests of certain of Mercantile s officers and directors may be said to be different from, or in addition to, the interests of stockholders generally.

The above discussion of the information and factors considered by Mercantile s board of directors is not intended to be exhaustive, but indicates the material matters considered by the board of directors. In reaching its determination to approve the merger agreement and the transactions which it contemplates, the board did not quantify, rank or assign any relative or specific weight to, the foregoing factors, and individual directors may have considered various factors differently and may have given differing weights to different factors. Mercantile s board of directors did not undertake to make any specific determination as to whether any factor, or any particular aspect of any factor, supported or did not support its ultimate determination. Mercantile s board of directors based its determination on the totality of the information presented.

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Mercantile s board of directors determined, by unanimous vote of all directors present in person or by telephone at the meeting of the board of directors, that the merger on the terms and conditions set forth in the merger agreement is advisable and in the best interests of Mercantile and its stockholders. Accordingly, Mercantile s board of directors, by unanimous vote of all directors present in person or by telephone at the meeting of the board of directors, approved and adopted the merger agreement and the transactions contemplated thereby, and recommends that Mercantile stockholders vote FOR the proposal to approve the merger agreement.

Opinion of Mercantile s Financial Advisor

By letter dated October 3, 2006 Mercantile retained Sandler O Neill to act as its financial advisor in connection with a possible business combination with another financial institution. Sandler O Neill is a nationally recognized investment banking firm whose principal business specialty is financial institutions. In the ordinary course of its investment banking business, Sandler O Neill is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

Sandler O Neill acted as financial advisor to Mercantile in connection with the proposed merger and participated in certain of the negotiations leading to the execution of the merger agreement. At the October 8, 2006 meeting at which Mercantile s board of directors considered and approved the merger agreement, Sandler O Neill delivered to the board its oral opinion, subsequently confirmed in writing that, as of such date, the consideration to be received in the transaction was fair to Mercantile s shareholders from a financial point of view. **The full text of Sandler O Neill s opinion is attached as Annex B to this proxy statement/prospectus. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O Neill in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the opinion. We urge Mercantile shareholders to read the entire opinion carefully in connection with their consideration of the proposed merger.**

Sandler O Neill s opinion speaks only as of the date of the opinion. The opinion was directed to the Mercantile board and is directed only to the fairness of the merger consideration to Mercantile shareholders from a financial point of view. It does not address the underlying business decision of Mercantile to engage in the merger or any other aspect of the merger and is not a recommendation to any Mercantile shareholder as to how such shareholder should vote at the special meeting with respect to the merger or any other matter.

In connection with rendering its October 8, 2006 opinion, Sandler O Neill reviewed and considered, among other things:

(1) the Agreement;

(2) certain publicly available financial statements and other historical financial information of Mercantile that Sandler O Neill deemed relevant;

(3) certain publicly available financial statements and other historical financial information of PNC that Sandler O Neill deemed relevant;

(4) consensus median earnings per share estimates for the years ending December 31, 2006 and 2007 published by Institutional Brokers Estimate System (I/B/E/S) and reviewed with management of Mercantile;

(5) consensus median earnings per share estimates for PNC for the years ending December 31, 2006 and 2007 published by I/B/E/S and reviewed with management of PNC;

(6) the pro forma financial impact of the Merger on PNC, based on assumptions relating to transaction expenses, purchase accounting adjustments, cost savings and other synergies determined by the senior management of PNC and as discussed with the senior management of Mercantile and PNC;

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(7) publicly reported historical price and trading activity for the common stock of Mercantile and PNC, including a comparison of certain financial and stock market information for Mercantile and PNC with similar publicly available information for certain other companies the securities of which are publicly traded;

(8) to the extent publicly available, the financial terms of certain recent business combinations in the commercial banking industry;

(9) certain information concerning PNC, its business, financial condition, results of operations and prospects shared with Sandler O Neill in discussions with members of senior management of PNC;

(10) the current market environment generally and the banking environment in particular; and such other information, financial studies, analyses and investigations and financial, economic and market criteria as Sandler O Neill considered relevant.

Sandler O Neill also discussed with certain members of senior management of Mercantile the business, financial condition, results of operations and prospects of Mercantile and held similar discussions with certain members of management of PNC regarding the business, financial condition, results of operations and prospects of PNC.

In performing its reviews and analyses and in rendering its opinion, Sandler O Neill assumed and relied upon the accuracy and completeness of all the financial information, analyses and other information that was publicly available or otherwise provided to Sandler O Neill by Mercantile or PNC and further relied on the assurances of management of Mercantile and PNC that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. Sandler O Neill was not asked to and did not independently verify the accuracy or completeness of any of such information and they did not assume any responsibility or liability for the accuracy or completeness of any of such information. Sandler O Neill did not make an independent evaluation or appraisal of the assets, the collateral securing assets or the liabilities, contingent or otherwise, of Mercantile or PNC or any of their respective subsidiaries, or the collectibility of any such assets, nor was it furnished with any such evaluations or appraisals. Sandler O Neill is not an expert in the evaluation of allowances for loan losses and it did not make an independent evaluation of the adequacy of the allowance for loan losses of Mercantile or PNC, nor did it review any individual credit files relating to Mercantile or PNC. With Mercantile s consent, Sandler O Neill assumed that the respective allowances for loan losses for both Mercantile and PNC were adequate to cover such losses.

Sandler O Neill s opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, the date of its opinion. Sandler O Neill assumed, in all respects material to its analysis, that all of the representations and warranties contained in the merger agreement and all related agreements are true and correct, that each party to such agreements will perform all of the covenants required to be performed by such party under such agreements and that the conditions precedent in the merger agreement are not waived. Sandler O Neill also assumed, with Mercantile s consent, that there has been no material change in Mercantile s and PNC s assets, financial condition, results of operations, business or prospects since the date of the last financial statements made available to it that Mercantile and PNC will remain as going concerns for all periods relevant to its analyses, and that the merger will qualify as a tax-free reorganization for U.S. federal income tax purposes. Finally, with Mercantile s consent, Sandler O Neill relied upon the advice that Mercantile received from its legal and tax advisors as to all legal and tax matters relating to the Merger and the other transactions contemplated by the merger agreement.

In rendering its October 8, 2006 opinion, Sandler O Neill performed a variety of financial analyses. The following is a summary of the material analyses performed by Sandler O Neill, but is not a complete description of all the analyses underlying Sandler O Neill s opinion. The summary includes information presented in tabular format. **In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses**. The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate

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and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Sandler O Neill believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Sandler O Neill s comparative analyses described below is identical to Mercantile or PNC and no transaction is identical to the merger. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of Mercantile or PNC and the companies to which they are being compared.

The earnings projections used and relied upon by Sandler O Neill in its analyses were the publicly available I/B/E/S estimates for Mercantile and PNC, which were discussed with management of Mercantile and PNC, respectively. These earnings estimates and all projections of transaction costs, purchase accounting adjustments and expected cost savings relating to the merger were reviewed with the senior managements of PNC and Mercantile. Sandler O Neill expressed no opinion as to such financial projections or the assumptions on which they were based. These projections, as well as the other estimates used by Sandler O Neill in its analyses, were based on numerous variables and assumptions which are inherently uncertain and, accordingly, actual results could vary materially from those set forth in such projections.

In performing its analyses, Sandler O Neill also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of Mercantile, PNC and Sandler O Neill. The analyses performed by Sandler O Neill are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. Sandler O Neill prepared its analyses solely for purposes of rendering its opinion and provided such analyses to the Mercantile board at its October 8, 2006 meeting. Estimates on the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different. Accordingly, Sandler O Neill s analyses do not necessarily reflect the value of Mercantile s common stock or PNC s common stock or the prices at which Mercantile s or PNC s common stock may be sold at any time.

Summary of the Transaction. Sandler O Neill reviewed the financial terms of the transaction. Based upon the ten-day average closing price of PNC s common stock on October 6, 2006 of $73.01 per share, the exchange ratio of 0.4184 and the cash payment of $16.45, and based upon per-share financial information for Mercantile for the twelve months ended June 30, 2006 with balance sheet related adjustments made for the then pending acquisition of James Monroe Bancorp (James Monroe), which closed on July 17, 2006, Sandler O Neill calculated the following ratios:

Transaction Ratios

Transaction value/Last 12 months Earnings Per Share	20.2x
Transaction value/Estimated 2006 Earnings Per Share	19.8x
Transaction value/Estimated 2007 Earnings Per Share	18.4x
Transaction value/Tangible book value per share	391%
Tangible book premium/Core deposits[1]	40.8%

[1] Assumes Mercantile s total core deposits are $10.9 billion. Excludes certificates of deposit greater than $100,000.

The aggregate transaction value was calculated by Sandler O Neill to be approximately $5.961 billion, based upon 125,474,855 shares of Mercantile common stock outstanding and including the intrinsic value of

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options to purchase an aggregate of 3,259,612 shares with a weighted average strike price of $27.46 per share. Sandler O Neill noted that the transaction value represented a 27.8% premium over the October 6, 2006 closing value of Mercantile s common stock.

Sandler O Neill reviewed, in addition to the financial terms of the transaction ratios, the effect of a change in PNC s stock price to the common stock consideration paid to Mercantile. Applying a range of PNC stock prices of $63.00 to $83.00 (in $2.00 increments), with a fixed cash consideration of $16.45 per share, it was noted that the total per share consideration would range from $42.81 to $51.18. This per share consideration range resulted in an aggregate transaction value range of $5.421 billion to $6.499 billion, based upon 125,474,855 shares of Mercantile common stock outstanding and including the intrinsic value of options to purchase an aggregate of 3,259,612 shares with a weighted average strike price of $27.46 per option. Sandler O Neill calculated the following transaction values and transaction ratios:

										Transaction Multiples		
Buyer s Stock Price	% Change in Stock Price	Offer Price Per Share	Stock Portion Per Share	% Value Stock	Cash Portion Per Share	% Value Cash	Intrinsic Value Options ($mm)	Aggregate Value ($mm)	% Change in Aggregate Value ($mm)	Price/ LTM EPS (x)	Price/ TBV (%)	Premium to Core Deposits (%)
$83.00	13.7%	$ 51.18	$ 34.73	67.9%	$ 16.45	32.1%	$ 77.3	$ 6,499	9.0%	22.0x	426%	45.7%
$81.00	10.9%	$ 50.34	$ 33.89	67.3%	$ 16.45	32.7%	$ 74.6	$ 6,391	7.2%	21.6x	419%	44.7%
$79.00	8.2%	$ 49.50	$ 33.05	66.8%	$ 16.45	33.2%	$ 71.8	$ 6,283	5.4%	21.2x	412%	43.8%
$77.00	5.5%	$ 48.67	$ 32.22	66.2%	$ 16.45	33.8%	$ 69.1	$ 6,176	3.6%	20.9x	405%	42.8%
$75.00	2.7%	$ 47.83	$ 31.38	65.6%	$ 16.45	34.4%	$ 66.4	$ 6,068	1.8%	20.5x	398%	41.8%
$73.01	0.0%	$ 47.00	$ 30.55	65.0%	$ 16.45	35.0%	$ 63.7	$ 5,961	0.0%	20.2x	391%	40.8%
$71.00	(2.8)%	$ 46.16	$ 29.71	64.4%	$ 16.45	35.6%	$ 60.9	$ 5,852	(1.8)%	19.8x	384%	39.8%
$69.00	(5.5)%	$ 45.32	$ 28.87	63.7%	$ 16.45	36.3%	$ 58.2	$ 5,745	(3.6)%	19.5x	377%	38.8%
$67.00	(8.2)%	$ 44.48	$ 28.03	63.0%	$ 16.45	37.0%	$ 55.5	$ 5,637	(5.4)%	19.1x	370%	37.8%
$65.00	(11.0)%	$ 43.65	$ 27.20	62.3%	$ 16.45	37.7%	$ 52.7	$ 5,529	(7.2)%	18.7x	363%	36.8%
$63.00	(13.7)%	$ 42.81	$ 26.36	61.6%	$ 16.45	38.4%	$ 50.0	$ 5,421	(9.0)%	18.4x	356%	35.9%

***Stock Trading History*.** Sandler O Neill reviewed the history of the reported trading prices and volume of Mercantile s and PNC s common stock for the one-year and three-year periods ended October 6, 2006. As described below, Sandler O Neill then compared the relationship between the movements in the prices of Mercantile s and PNC s common stock to movements in the prices of the NASDAQ Bank Index, the S&P 500 Index, and the S&P Bank Index. During the one year period ended October 6, 2006, Mercantile underperformed each of the indices to which it was compared. During the three-year period ended the same day, Mercantile outperformed each of the indices to which it was compared.

Mercantile s Stock Performance

	Beginning Index Value October 6, 2005	Ending Index Value October 6, 2006
Mercantile	100.0%	104.5%
NASDAQ Bank Index	100.0	111.7
S&P 500 Index	100.0	113.3
S&P Bank Index	100.0	118.8

	Beginning Index Value October 6, 2003	Ending Index Value October 7, 2006
Mercantile	100.0%	135.5%
NASDAQ Bank Index	100.0	121.3
S&P 500 Index	100.0	130.5
S&P Bank Index	100.0	130.6

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During the one-year period and the three-year period ended October 6, 2006, PNC generally outperformed each of the indices to which it was compared.

PNC s Stock Performance

	Beginning Index Value October 6, 2005	Ending Index Value October 6, 2006
PNC	100.0%	129.6%
NASDAQ Bank Index	100.0	111.7
S&P 500 Index	100.0	113.3
S&P Bank Index	100.0	118.8

	Beginning Index Value October 6, 2003	Ending Index Value October 7, 2006
PNC	100.0%	149.4%
NASDAQ Bank Index	100.0	121.3
S&P 500 Index	100.0	130.5
S&P Bank Index	100.0	130.6

Comparable Company Analysis**.** Sandler O Neill used publicly available information to compare selected financial and market trading information for Mercantile and PNC with groups of financial institutions selected by Sandler O Neill for Mercantile and PNC, respectively. For Mercantile, the peer groups consisted of the following: (1) a Nationwide Regional Comparable Group consisting of publicly traded regional banking institutions each having a market capitalization greater than $1.9 billion as of October 6, 2006 and (2) a Mid-Atlantic Comparable Group consisting of publicly traded Mid-Atlantic banking institutions each having a market capitalization greater than $700 million as of October 6, 2006.

Mercantile Nationwide Regional Comparable Group

Zions Bancorporation	Cullen/Frost Bankers, Inc.
Compass Bancshares, Inc.	City National Corporation
Commerce Bancorp, Inc.	Valley National Bancorp
Colonial BancGroup, Inc.	South Financial Group, Inc.
Commerce Bancshares, Inc.	

Mercantile Mid-Atlantic Comparable Group

Wilmington Trust Corporation	Fulton Financial Corporation
Webster Financial Corporation	United Bankshares, Inc.
Susquehanna Bancshares, Inc.	Provident Bankshares Corporation
First Charter Corporation	

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The analysis compared publicly available financial information for Mercantile as of and for the twelve months ended June 30, 2006 with that of the Mercantile peer group as of and for the twelve month period ended June 30, 2006. The table below sets forth the data for Mercantile and the median data for the Mercantile peer groups, with pricing data as of October 6, 2006.

Comparable Group Analysis

	Mercantile	Mercantile Nationwide Regional Comparable Group	Mercantile Mid-Atlantic Comparable Group
Market Capitalization ($mm)	$ 4,615	$ 3,314	$ 1,565
Price/tangible book value per share	306%	292%	335%
Price/2006 Estimated Earnings per share[1]	15.5x	15.9x	15.2x
Price/2007 Estimated Earnings per share[2]	14.4x	14.5x	14.3x
I/B/E/S long-term growth	9.0%	10.0%	8.5%
2007 Price/Earnings to Growth	1.6x	1.4x	1.7x
Premium to Core Deposits	28.5%	20.9%	22.2%

1 Based upon publicly available median I/B/E/S estimates for the year ending December 31, 2006 for Mercantile, which was discussed with management of Mercantile.

2 Based upon publicly available median I/B/E/S estimates for the year ending December 31, 2007 for Mercantile, which was discussed with management of Mercantile.

PNC Nationwide Comparable Group

Wells Fargo & Company
U.S. Bancorp
Bank of New York Company, Inc.
National City Corporation
KeyCorp
Wachovia Corporation
SunTrust Banks, Inc.
BB&T Corporation
Fifth Third Bancorp

The analysis compared publicly available financial information for PNC with that of each of the companies in the PNC peer groups as of and for the twelve months ended June 30, 2006. The table below sets forth the data for PNC and the median data for the PNC peer groups, with pricing data as of October 6, 2006.

	PNC	PNC Nationwide Peer Group
Market Capitalization ($mm)	$ 21,690	$ 27,366
Price/tangible book value per share	318%	396%
Price/2006 Estimated Earnings per share[1]	14.6x	13.2x
Price/2007 Estimated Earnings per share[2]	13.0x	12.1x
I/B/E/S long-term growth	9.3%	9.5%
2007 Price/Earnings to Growth	1.4x	1.3x
Premium to Core Deposits	26.7%	28.9%

1 Based upon publicly available median I/B/E/S estimates for the year ending December 31, 2006 for PNC, which was discussed with management of PNC.

2 Based upon publicly available median I/B/E/S estimates for the year ending December 31, 2007 for PNC, which was discussed with management of PNC.

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***Analyst Recommendation and Estimates Analysis*.** Sandler O Neill used publicly available I/B/E/S research analyst estimates and recommendations to outline the current analyst views for Mercantile and PNC respectively. For Mercantile, the analysts consisted of the following:

Firms with Published Mercantile Research

BB&T Capital Markets	KeyBanc Capital Markets
Credit Suisse	Lehman Brothers Inc.
Davenport & Company	Merrill Lynch & Co.
Ferris Baker Watts Inc.	Miller Tabak & Co.
FIG Partners LLC	Prudential Equity Group LLC
Fox-Pitt Kelton Inc.	RBC Capital Markets
Friedman Billings Ramsey & Co.	Ryan Beck & Co.
FTN Midwest	Stifel Nicolaus & Co.
J.J.B. Hilliard W. L. Lyons	Sturdivant & Co.
Keefe Bruyette & Woods Inc.	SunTrust Robinson Humphrey

The analysis compared published recommendations, price targets, long term growth rates, 2006 earnings per share estimates and 2007 earnings per share estimates. As of October 6, 2006 seventeen research analysts had published recommendations for Mercantile, composed of thirteen Hold recommendations, one Sell recommendation and three Buy recommendations. The table below sets forth the median I/B/E/S published estimates and price targets for Mercantile as of October 6, 2006.

	Mercantile
Target Price ($)	$ 39.00
I/B/E/S Long Term Growth Rate	9.00%
I/B/E/S 2006 Estimated Earnings per share	$ 2.37
I/B/E/S 2007 Estimated Earnings per share	$ 2.56

For PNC, the analysts consisted of the following:

Firms with Published PNC Research

A.G. Edwards Inc.	Merrill Lynch & Co.
Banc of America Securities	Morgan Stanley
Bear, Stearns & Company	NAB Research LLC
CIBC World Markets Corporation	Oppenheimer & Co.
Citigroup Investment Research	Prudential Equity Group LLC
Fox-Pitt Kelton Inc.	Punk Ziegel & Co.
Friedman Billings Ramsey & Co.	RBC Capital Markets
Goldman, Sachs & Co.	Sandler O Neill & Partners LP
Keefe Bruyette & Woods Inc.	Sanford C. Bernstein & Co. LLC
Lehman Brothers, Inc.	UBS Securities LLC

The analysis compared published recommendations, price targets, long term growth rates, 2006 earnings per share estimates and 2007 earnings per share estimates. As of October 6, 2006 nineteen research analysts had published recommendations for PNC, composed of eleven Hold recommendations and eight Buy recommendations. The table below sets forth the median I/B/E/S published estimates and price targets for PNC as of October 6, 2006.

	PNC
Target Price ($)	$ 77.50

I/B/E/S Long Term Growth Rate		9.25%
I/B/E/S 2006 Estimated Earnings per share	$	5.05
I/B/E/S 2007 Estimated Earnings per share	$	5.67

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Analysis of Selected Merger Transactions**.** Sandler O Neill reviewed 21 merger transactions announced nationwide from January 1, 2001 through October 6, 2006 involving the acquisitions of commercial banking institutions with announced transaction values greater than $1 billion. Sandler O Neill reviewed the multiples of transaction price at announcement to last twelve months earnings, transaction price to this year s estimated earnings, transaction price to tangible book value, tangible book premium to core deposits, and premium to market value. The median multiples from this nationwide group was compared to the proposed transaction ratios.

Comparable Transaction Metrics

	PNC/Mercantile Metric	**Median Nationwide Metric**
Transaction price/Last twelve months earnings per share	20.2x	19.2x
Transaction price/Estimated 2006 earnings per share	19.8x	17.4x
Transaction price/Tangible book value	391%	364%
Tangible book premium/Core deposits[1]	40.8%	27.3%
Market Premium[2]	27.8%	24.3%

[1] Assumes Mercantile s core deposits total $10.9 billion.

[2] Based on Mercantile s closing price of $36.78 per share as of October 6, 2006.

Discounted Cash Flow Analysis**.** Sandler O Neill performed an analysis that estimated the future stream of after-tax cash flows of Mercantile through December 31, 2011 under various circumstances, assuming Mercantile s core dividend payout ratio of 47.3% and that Mercantile performed in accordance with the earnings and growth projections reviewed with management of Mercantile. To approximate the terminal value of Mercantile common stock at December 31, 2011, Sandler O Neill applied price to earnings multiples ranging from 13x to 16x. The dividend income streams and terminal values were then discounted to present values using different discount rates ranging from 10.0% to 13.0% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Mercantile common stock. In addition, the terminal value of Mercantile s common stock at December 31, 2011 was calculated using a 14x price to last twelve months earnings multiple applied to a range of discounts and premiums to the projected net income of Mercantile. The range applied to the projected net income was 10% under the projected amount to 10% over the projected amount, using a range of discount rates from 10.0% to 13.0% for the tabular analysis. As illustrated in the following tables, this analysis indicated an imputed range of values per share for Mercantile s common stock of $37.29 to $48.11 when applying the price to earnings multiples to the matched projections and $35.45 to $47.99 when applying the discount rates and a 14x price to earnings multiples to the -10% / +10% projection.

	Earnings Per Share Multiples			
	13.0x	**14.0x**	**15.0x**	**16.0x**
10.0%	$ 41.65	$ 43.80	$ 45.96	$ 48.11
11.0%	$ 40.12	$ 42.17	$ 44.23	$ 46.28
12.0%	$ 38.66	$ 40.62	$ 42.58	$ 44.54
13.0%	$ 37.29	$ 39.16	$ 41.03	$ 42.90

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With Projected Net Income Variance:

	Discount Rates			
	10.0%	11.0%	12.0%	13.0%
10.00%	$ 47.99	$ 46.19	$ 44.48	$ 42.86
8.00%	$ 47.15	$ 45.38	$ 43.71	$ 42.12
6.00%	$ 46.31	$ 44.58	$ 42.94	$ 41.38
4.00%	$ 45.48	$ 43.78	$ 42.17	$ 40.64
2.00%	$ 44.64	$ 42.97	$ 41.40	$ 39.90
0.00%	$ 43.80	$ 42.17	$ 40.62	$ 39.16
(2.00)%	$ 42.97	$ 41.37	$ 39.85	$ 38.42
(4.00)%	$ 42.13	$ 40.56	$ 39.08	$ 37.68
(6.00)%	$ 41.29	$ 39.76	$ 38.31	$ 36.93
(8.00)%	$ 40.45	$ 38.96	$ 37.54	$ 36.19
(10.00)%	$ 39.62	$ 38.15	$ 36.77	$ 35.45

In connection with its analyses, Sandler O Neill considered and discussed with the Mercantile board of directors how the present value analyses would be affected by changes in the underlying assumptions, including variations with respect to net income. Sandler O Neill noted that the discounted cash flow and terminal value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

Sandler O Neill performed an analysis that estimated the future stream of after-tax cash flows of PNC through December 31, 2011 under various circumstances, assuming PNC s core dividend payout ratio of 43.6% and that PNC performed in accordance with the earnings and growth projections reviewed with and confirmed by management of PNC. To approximate the terminal value of PNC common stock at December 31, 2011, Sandler O Neill applied price to earnings multiples ranging from 12x to 15x. The dividend income streams and terminal values were then discounted to present values using different discount rates ranging from 11.0% to 14.0% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of PNC common stock. In addition, the terminal value of PNC s common stock at December 31, 2011 was calculated using a 13x price to last twelve months earnings multiple applied to a range of discounts and premiums to the projected net income of PNC. The range applied to the projected net income was 10% under the projected amount to 10% over the projected amount, using a range of discount rates from 11.0% to 14.0% for the tabular analysis. As illustrated in the following tables, this analysis indicated an imputed range of values per share for PNC s common stock of $69.79 to $91.00 when applying the price to earnings multiples to the matched projections and $66.52 to $90.25 when applying the discount rates and a 13x price to earnings multiples to the -10% / +10% projection.

	Earnings Per Share Multiples			
	12.0x	13.0x	14.0x	15.0x
11.0%	$ 77.93	$ 82.29	$ 86.64	$ 91.00
12.0%	$ 75.07	$ 79.23	$ 83.39	$ 87.55
13.0%	$ 72.36	$ 76.33	$ 80.30	$ 84.27
14.0%	$ 69.79	$ 73.58	$ 77.37	$ 81.16

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With Projected Net Income Variance:

	Discount Rates			
	11.0%	**12.0%**	**13.0%**	**14.0%**
10.00%	$ 90.25	$ 86.88	$ 83.68	$ 80.65
8.00%	$ 88.66	$ 85.35	$ 82.21	$ 79.23
6.00%	$ 87.06	$ 83.82	$ 80.74	$ 77.82
4.00%	$ 85.47	$ 82.29	$ 79.27	$ 76.41
2.00%	$ 83.88	$ 80.76	$ 77.80	$ 75.00
0.00%	$ 82.29	$ 79.23	$ 76.33	$ 73.58
(2.00)%	$ 80.69	$ 77.70	$ 74.86	$ 72.17
(4.00)%	$ 79.10	$ 76.17	$ 73.39	$ 70.76
(6.00)%	$ 77.51	$ 74.64	$ 71.92	$ 69.35
(8.00)%	$ 75.92	$ 73.11	$ 70.45	$ 67.93
(10.00)%	$ 74.32	$ 71.58	$ 68.99	$ 66.52

In connection with its analyses, Sandler O Neill considered and discussed with the Mercantile board of directors how the present value analyses would be affected by changes in the underlying assumptions, including variations with respect to net income. Sandler O Neill noted that the discounted cash flow and terminal value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

Pro Forma Merger Analysis. Sandler O Neill analyzed certain potential pro forma effects of the merger, assuming the following: (1) the merger closes on March 1, 2007; (2) 100% of the Mercantile shares are exchanged for shares of PNC common stock and cash at total price per share of $47.00 dollars; (3) I/B/E/S median earnings per share estimates for 2006 and 2007 of $5.05 and $5.67 for PNC, respectively, and $2.37 and $2.56 for Mercantile, respectively; (4) 2008 earnings per share estimates are derived using the median I/B/E/S long-term growth rates for each company applied to the 2007 I/B/E/S median earnings per share estimate; (5) no purchase accounting adjustments related to securities; (6) 25% cost saves on Mercantile s non-interest expense base or $108 million plus an additional $27 million in savings attributable to PNC s initiatives, 33% of which is phased in 2007 and 100% of which is phased in 2008; (7) 5.75% pre-tax cost of cash used to fund the deal; (8) after-tax restructuring charges of $97.2 million capitalized at close and $44.5 million deduction to net income in 2007; (9) 3.6% core deposit intangible amortized over 10 years using sum of years digits methodology; (10) tax rate of 37.7%; (11) no deposit divestitures; and (12) PNC will repurchase shares of PNC common stock with the goal of managing its tangible common equity to tangible asset ratio to approximately 5.5%.

Based upon those assumptions, Sandler O Neill s analysis indicated that during the years ended December 31, 2007 and December 31, 2008 the merger would be dilutive to PNC s earnings per share in 2007, accretive to PNC s earnings per share in 2008, dilutive to PNC s cash earnings per share in 2007, and accretive to PNC s cash earnings per share in 2008.

From the perspective of a Mercantile shareholder, the analysis indicated that at the years ended December 31, 2007 and December 31, 2008, the merger would be accretive to Mercantile s earnings per share, dilutive to Mercantile s tangible book value per share and accretive to Mercantile s dividends per share. The actual results achieved by the combined company may vary from projected results and the variations may be material.

Sandler O Neill Relationship. Mercantile has agreed to pay Sandler O Neill a transaction fee in connection with the merger of approximately $18,000,000 of which $5,000,000 has been paid and the balance of which is contingent, and payable, upon closing of the merger. Sandler O Neill has also received a fee of $1,000,000, as part of the transaction fee already paid, for rendering its opinion, which will be credited against that portion of the transaction fee due upon closing of the merger. Mercantile has also agreed to reimburse certain of Sandler O Neill s reasonable out-of-pocket expenses incurred in connection with its engagement and to indemnify Sandler O Neill and its affiliates and their respective partners, directors, officers, employees, agents, and controlling persons against certain expenses and liabilities, including liabilities under securities laws.

Sandler O Neill has, in the past, provided certain investment banking services to both Mercantile and PNC and has received compensation for such services. In 2005, PNC paid Sandler O Neill $1,111,064 in connection with such services provided; PNC paid no fees to Sandler O Neill in 2006. In 2006, Mercantile paid Sandler O Neill $5,850,000 in connection with investment banking services and $77,985 in connection with fixed income services. In 2005, Mercantile paid Sandler O Neill $253,265 in connection with fixed income services. In 2005, Community Bank of Northern Virginia, which merged with and into Mercantile-Safe Deposit and Trust Company, paid Sandler O Neill $2,142,359 in connection with such merger. In the ordinary course of its business as a broker-dealer, Sandler O Neill may purchase securities from and sell securities to Mercantile and PNC and their affiliates. Sandler O Neill may also actively trade the debt or equity securities of Mercantile and/or PNC or their affiliates for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

Board of Directors and Management of PNC Following Completion of the Merger

Upon completion of the merger, the current directors and officers of PNC are expected to continue in their current positions. Two additional directors will be added to PNC s board of directors, with the additional directors to be mutually agreed upon by Mercantile and PNC.

Information about the current PNC directors and executive officers can be found in PNC s proxy statement dated March 24, 2006. Information about the current Mercantile directors and executive officers can be found in Mercantile s proxy statement dated March 29, 2006. PNC s and Mercantile s Annual Reports on Form 10-K for the year ended December 31, 2005 are incorporated by reference in this document. See Where You Can Find More Information on page 77.

For more information see Mercantile s Directors and Officers Have Financial Interests in the Merger on page 35.

Public Trading Markets

PNC common stock trades on the NYSE under the symbol PNC . Mercantile common stock trades on the NASDAQ under the symbol MRBK. Upon completion of the merger, Mercantile common stock will be delisted from the NASDAQ and deregistered under the Securities Exchange Act of 1934, as amended. The PNC common stock issuable in the merger will be listed on the NYSE.

The shares of PNC common stock to be issued in connection with the merger will be freely transferable under the Securities Act of 1933, as amended, which we refer to as the Securities Act, except for shares issued to any stockholder who is an affiliate of Mercantile, as discussed in The Merger Agreement Resales of PNC Stock by Affiliates on page 50.

Mercantile Stockholders Do Not Have Dissenters Appraisal Rights in the Merger

Appraisal rights are statutory rights that allow stockholders to dissent from extraordinary transactions, such as a merger, and to demand that the corporation pay the fair value of their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to stockholders in connection with the extraordinary transaction. Appraisal rights are not available in all circumstances, and exceptions to these rights are provided under the Maryland General Corporation Law. Because Mercantile common stock is listed on the NASDAQ, the holders of Mercantile common stock are not entitled to appraisal rights in the merger.

Regulatory Approvals Required for the Merger

We have agreed to use our reasonable best efforts to obtain all regulatory approvals required to complete the transactions contemplated by the merger agreement. These approvals include approval from the Federal Reserve Board, the Delaware State Bank Commissioner, the Commissioner of Financial Regulation of the Maryland

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Department of Labor, Licensing and Regulation and the Bureau of Financial Institutions of the Virginia State Corporation Commission, as well as various other federal and state regulatory authorities. PNC and Mercantile have completed, or will complete, the filing of applications and notifications to obtain the required regulatory approvals.

Federal Reserve Board. The merger is subject to approval by the Federal Reserve Board pursuant to Section 3 of the Bank Holding Company Act of 1956. On November 22, 2006, PNC filed the required application with the Federal Reserve Board for approval of the merger.

The Federal Reserve Board is prohibited from approving any transaction under the applicable statutes that (1) would result in a monopoly, (2) would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States, or (3) may have the effect in any section of the United States of substantially lessening competition, tending to create a monopoly or resulting in a restraint of trade, unless the Federal Reserve Board finds that the anti-competitive effects of the transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the communities to be served. The Federal Reserve Board may not approve an interstate acquisition without regard to state law if the applicant controls, or after completion of the acquisition the combined entity would control, more than 10 percent of the total deposits of insured depository institutions in the United States.

In addition, in reviewing a transaction under the applicable statutes, the Federal Reserve Board will consider the financial and managerial resources of the companies and their subsidiary banks and the convenience and needs of the community to be served as well as the companies effectiveness in combating money-laundering activities. In connection with its review, the Federal Reserve Board will provide an opportunity for public comment on the application for the merger, and is authorized to hold a public meeting or other proceeding if it determines that would be appropriate.

Under the Community Reinvestment Act of 1977, which we refer to as the CRA, the Federal Reserve Board must take into account the record of performance of each of PNC and Mercantile in meeting the credit needs of the entire communities, including low- and moderate-income neighborhoods, served by the company and its subsidiaries. Each of PNC s and Mercantile s depository institutions has a satisfactory or better CRA rating.

Other Requisite Approvals, Notices and Consents. The merger is also subject to the prior approval of the Delaware State Bank Commissioner, the Commissioner of Financial Regulation of the Maryland Department of Labor, Licensing and Regulation and the Bureau of Financial Institutions of the Virginia State Corporation Commission. Applications or notifications may also be required to be filed with various other regulatory authorities in connection with the merger.

Antitrust Considerations. At any time before or after the acquisition is completed, the Antitrust Division of the United States Department of Justice or the United States Federal Trade Commission, which we refer to as the Antitrust Division and the FTC, respectively, could take action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the acquisition or seeking divestiture of substantial assets of PNC or Mercantile or their subsidiaries. Private parties also may seek to take legal action under the antitrust laws under some circumstances. Based upon an examination of information available relating to the businesses in which the companies are engaged, PNC and Mercantile believe that the completion of the merger will not violate U.S. antitrust laws. However, PNC and Mercantile can give no assurance that a challenge to the merger on antitrust grounds will not be made, or, if such a challenge is made, that PNC and Mercantile will prevail.

In addition, the merger may be reviewed by the state attorneys general in the various states in which PNC and Mercantile operate. Although PNC and Mercantile believe there are substantial arguments to the contrary, these agencies may claim the authority, under the applicable state and federal antitrust laws and regulations, to investigate and/or disapprove the merger. There can be no assurance that one or more state attorneys general will not attempt to file an antitrust action to challenge the merger.

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Timing. We cannot assure you that all of the regulatory approvals described above will be obtained, and, if obtained, we cannot assure you as to the date of any approvals or the absence of any litigation challenging such approvals. Likewise, we cannot assure you that the Antitrust Division, the FTC or any state attorney general will not attempt to challenge the merger on antitrust grounds, and, if such a challenge is made, we cannot assure you as to its result.

Pursuant to the Bank Holding Company Act, a transaction approved by the Federal Reserve Board may not be completed until 30 days after approval is received, during which time the Antitrust Division may challenge the merger on antitrust grounds. The commencement of an antitrust action would stay that is, suspend the effectiveness of an approval unless a court specifically were to order otherwise. With the approval of the Federal Reserve Board and the concurrence of the Antitrust Division, the waiting period may be reduced to no less than 15 days.

PNC and Mercantile believe that the merger does not raise substantial antitrust or other significant regulatory concerns and that they will be able to obtain all requisite regulatory approvals on a timely basis without the imposition of any condition that would have a material adverse effect on PNC or Mercantile. In connection with obtaining any required regulatory approvals, PNC is not required to agree to conditions or restrictions that would have a material adverse effect on either Mercantile or PNC, measured on a scale relative to Mercantile.

We are not aware of any material governmental approvals or actions that are required for completion of the merger other than those described above. It is presently contemplated that if any such additional governmental approvals or actions are required, those approvals or actions will be sought. There can be no assurance, however, that any additional approvals or actions will be obtained.

Mercantile s Directors and Officers Have Financial Interests in the Merger

In considering the recommendation of Mercantile s Board of Directors that Mercantile stockholders vote in favor of the proposal to approve the merger, Mercantile stockholders should be aware that Mercantile directors and executive officers may have interests in the merger that may be different from, or in addition to, their interests as stockholders of Mercantile. Mercantile s Board of Directors was aware of these interests and took them into account in its decision to approve the merger and the merger agreement. These interests relate to or arise from the following:

Executive Agreements

Prior Agreements. Mercantile and Mercantile-Safe Deposit and Trust Company had previously entered into Amended and Restated Executive Severance Agreements (or Executive Severance Agreements) with Edward J. Kelly, III, Jay M. Wilson, Alexander T. Mason, J. Marshall Reid, Peter W. Floeckher, Jr. and certain other executive officers of Mercantile. Under these agreements, upon certain termination of employment events in connection with a change of control (including completion of the merger), the covered executives (other than Mr. Kelly) would receive severance equal to three times the sum of (i) twelve times the average monthly base salary received by the executive during the thirty-six month period prior to termination of employment, plus (ii) the average annual bonuses earned by the executive for the three fiscal years preceding such termination.

PNC Agreements General. All of the executive officers covered by these change of control severance agreements have agreed to waive their rights under these agreements and any applicable employment agreements with Mercantile, in exchange for other rights that are set forth in new agreements with PNC. The PNC agreements are dated as of December 26, 2006 (except for the agreement for Mr. Kelly, which is dated as of January 8, 2007), and will become effective as of the closing of the merger. The PNC agreements supersede the severance agreements and any existing employment agreements between Mercantile and the executive officers, except for the survival of certain provisions as further described below.

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Edward J. Kelly, III has entered into an agreement with PNC that provides that he will serve as a Vice Chairman of PNC. The agreement further provides that he will receive an annual base salary of $600,000, and participate in PNC s annual bonus program with a guaranteed annual bonus for 2007 equal to $1,400,000, which will be paid if he is employed on December 31, 2007 or if he has certain termination of employment events prior to December 31, 2007. In addition, the agreement provides for an award of 16,000 PNC restricted shares, and an award of PNC restricted stock units with a value of $5,000,000 on the closing date. Both awards vest upon the second anniversary of the closing, subject to his continued employment through such date.

If Mr. Kelly s employment is terminated by PNC without cause (as defined in the severance agreement), by him for good reason (as defined in the PNC agreement), by reason of his death or disability (as defined in the severance agreement), or, with the consent of PNC, due to his retirement, or if a change of control (as defined in the PNC 2006 Incentive Award Plan and the award agreement) occurs, his restricted stock will vest. If Mr. Kelly s employment is terminated, whether by him or PNC, for any reason other than a termination by PNC for cause, or if a change of control occurs, his restricted stock units will vest. Furthermore, if Mr. Kelly s employment is terminated without good cause (as defined in his employment agreement with Mercantile) prior to February 2, 2008, he will be entitled to continued health coverage through February 2, 2008, on terms substantially similar to those he enjoyed prior to his termination of employment.

Additionally, Mr. Kelly will be entitled to certain benefits of PNC after the merger, including reimbursement of moving expenses and participation in a home purchase program in the event of his relocation to Washington, D.C., eligibility to travel on the PNC-owned aircraft for certain business purposes, secretarial services, and a dollar-for-dollar match on charitable donations he makes to charities during fiscal year 2007 up to an aggregate amount of $150,000.

Peter W. Floeckher, Jr., has entered into an agreement with PNC that provides for cash payments on the first business day after the closing date and the first pay date after each of the first, second and third anniversaries of the closing, subject to his continued employment through each date. In addition, the agreement provides for an award of PNC restricted stock which vests upon the third anniversary of the closing, subject to his continued employment through such date. If Mr. Floeckher s employment is terminated by PNC without cause (as defined in the severance agreement), by him for good reason (as defined in the PNC agreement), or by reason of his death or disability (as defined in the severance agreement), or if a change of control (as defined in the PNC 2006 Incentive Award Plan and the award agreement) occurs, he will nonetheless receive the annual stay bonus , to the extent then unpaid, and his restricted stock will vest. Mr. Floeckher s payment on the first business day after the closing date is $400,000, each of his stay bonus payments is $605,427 and the value of his restricted stock award is $443,256.

J. Marshall Reid has entered into an agreement with PNC that provides for cash payments on the first business day after the closing date and the first pay date after each of the first and second anniversaries of the closing, subject to his continued employment through each date. In addition, the agreements provide for an award of PNC restricted stock which vests upon the second anniversary of the closing, subject to his continued employment through such date. If Mr. Reid s employment is terminated by PNC without cause (as defined in the severance agreement), by him for good reason (as defined in the PNC agreement), or by reason of his death or disability (as defined in the severance agreement), or if a change of control (as defined in the PNC 2006 Incentive Award Plan and the award agreement) occurs, he will nonetheless receive the annual stay bonus, to the extent then unpaid, and his restricted stock will vest. Additionally, after the first anniversary of the closing date and prior to the second anniversary of the closing date, Mr. Reid may terminate his employment for any reason and receive the second installment of his stay bonus, if he enters into an agreement restricting him from providing services to any competitor of PNC for a period of one year following his termination date. Mr. Reid s payment on the first business day after the closing date is $850,000, each of his stay bonus payments is $836,986 and the value of his restricted stock award is $378,596.

Jay M. Wilson has entered into an agreement with PNC that provides for cash payments on the first business day after the closing date and the first pay date after the first anniversary of the closing, subject to his continued employment through each date. If Mr. Wilson s employment is terminated by PNC without cause (as defined in

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the severance agreement), by him for good reason (as defined in the PNC agreement), or by reason of his death or disability (as defined in the severance agreement), or if a change of control (as defined in the PNC 2006 Incentive Award Plan and the award agreement) occurs, he will nonetheless receive the stay bonus, to the extent then unpaid. Additionally, if Mr. Wilson s employment is terminated without good cause (as defined in his employment agreement with Mercantile) or by him for good reason (as defined in his PNC agreement) prior to January 1, 2008, he will be entitled to continued health coverage through January 1, 2008, on terms substantially similar to those he enjoyed prior to his termination of employment. Mr. Wilson s payment on the first business day after the closing date is equal to $3,900,000 and his stay bonus payment is equal to $1,000,000.

Alexander T. Mason has entered into an agreement with PNC that provides for a cash payment on the first business day after the closing date. Mr. Mason s payment on the first business day after the closing date is $4,155,525.

Certain other executive officers have entered into agreements that provide for, or otherwise will receive, a cash payment on the first business day after the closing date and, in some cases, a stay bonus on the first pay date after the nine month anniversary of the closing and, in one case, continued health coverage through March 19, 2008, upon a termination without good cause on the terms set forth in such executive officer s existing employment agreement with Mercantile. The aggregate amounts payable under such agreements is $6,336,890.

In the event that an executive officer is subject to any taxes imposed under Section 4999 of the Code or Section 409A of the Code, the existing Mercantile severance agreements provide that the executive officers will be placed in the same after-tax position as if no such taxes had been imposed. Under the PNC agreements, this gross-up provision generally survives with respect to payments made under the PNC agreements, in connection with the merger and/or with respect to deferred compensation plans in which the executive officers participate as of the consummation of the merger.

Bonus and Retention Payments

Subject to action of the Compensation Committee of Mercantile s Board of Directors, the merger agreement provides that Mercantile may pay bonuses or other retention payments in an aggregate amount of $39,000,000, which includes $14,000,000 that will have been accrued in respect of 2006 annual bonuses and an additional $25,000,000, all of which will be accrued or paid on or before the effective time of the merger. Out of this retention pool, annual bonuses in respect of 2006 will be paid to employees who have change in control agreements at 100% of the target amount on or before December 31, 2006. Annual 2006 bonuses for other employees will be paid at the earlier of the effective time of the merger or the date of regular bonus payments scheduled to be made in March 2007.

Options to Purchase Shares

The merger agreement provides that, upon completion of the merger, each outstanding option to purchase shares of Mercantile common stock granted under any stock compensation plan maintained by Mercantile or its subsidiaries, which we refer to as the Mercantile stock plans, to employees or directors of Mercantile or its subsidiaries, whether vested or not, will be cancelled in exchange for the right to receive a lump sum cash payment to be paid as soon as practicable after the completion of the merger. The lump sum cash payment shall equal the product of (i) the number of shares of Mercantile common stock subject to the outstanding portion of the option and (ii) the excess of the all cash consideration over the exercise price per share of the option. The all cash consideration will equal the sum of (a) $16.45 and (b) the product of 0.4184 multiplied by the average, rounded to the nearest one-ten thousandth, of the closing sale prices of PNC common stock for the five trading days immediately preceding the date of completion of the merger. The lump sum cash payment shall be subject to applicable tax withholding.

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Stock options held by Mercantile s directors and executive officers as of the record date for the special meeting are shown in the following table:

	Outstanding Options	Weighted Average Exercise Price Per Share
Edward J. Kelly, III	[ ]	[ ]
Alexander T. Mason	[ ]	[ ]
Jay M. Wilson	[ ]	[ ]
J. Marshall Reid	[ ]	[ ]
Peter W. Floeckher, Jr.	[ ]	[ ]
All other directors and executive officers as group	[ ]	[ ]

Restricted Stock and Restricted Stock Units

The merger agreement provides that, upon completion of the merger, each outstanding restricted share of Mercantile common stock and each outstanding restricted stock unit of Mercantile common stock granted under the Mercantile stock plans, regardless of whether or not vested, shall be cancelled and converted into the right to receive, without restrictions, the merger consideration, which is (a) 0.4184 of a share of PNC common stock and (b) cash equal to $16.45. PNC shall be entitled to deduct applicable tax withholding.

A restricted share is a share of Mercantile common stock that is forfeitable to Mercantile until certain restrictions lapse. A restricted stock unit is an agreement to issue a share of Mercantile common stock upon the satisfaction of certain conditions.

Restricted stock and restricted stock units held by Mercantile s directors and executive officers as of the record date for the special meeting are shown in the following table:

	Shares of Restricted Stock	Restricted Stock Units
Edward J. Kelly, III	[ ]	[ ]
Alexander T. Mason	[ ]	[ ]
Jay M. Wilson	[ ]	[ ]
J. Marshall Reid	[ ]	[ ]