

PNC FINANCIAL SERVICES GROUP INC  
Form 10-K  
March 01, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-K**

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2006

Commission file number 001-09718

**THE PNC FINANCIAL SERVICES GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Pennsylvania** (State or other jurisdiction of incorporation or organization)  
**One PNC Plaza**  
**249 Fifth Avenue**  
**Pittsburgh, Pennsylvania 15222-2707**

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

(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$5.00	New York Stock Exchange
\$1.60 Cumulative Convertible Preferred Stock-Series C, par value \$1.00	New York Stock Exchange
\$1.80 Cumulative Convertible Preferred Stock-Series D, par value \$1.00	New York Stock Exchange
Series G Junior Participating Preferred Share Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

\$1.80 Cumulative Convertible Preferred Stock - Series A, par value \$1.00

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**\$1.80 Cumulative Convertible Preferred Stock - Series B, par value \$1.00**

**8.25% Convertible Subordinated Debentures Due 2008**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The aggregate market value of the registrant's outstanding voting common stock held by nonaffiliates on June 30, 2006, determined using the per share closing price on that date on the New York Stock Exchange of \$70.17, was approximately \$20.6 billion. There is no non-voting common equity of the registrant outstanding.

Number of shares of registrant's common stock outstanding at February 16, 2007: 293,164,316

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement of The PNC Financial Services Group, Inc. to be filed pursuant to Regulation 14A for the annual meeting of shareholders to be held on April 24, 2007 ( Proxy Statement ) are incorporated by reference into Part III of this Form 10-K.

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*Forward-Looking Statements: From time to time The PNC Financial Services Group, Inc. ( "PNC" or the "Corporation" ) has made and may continue to make written or oral forward-looking statements regarding our outlook or expectations for earnings, revenues, expenses, capital levels, asset quality or other future financial or business performance, strategies or expectations, or the impact of legal, regulatory or supervisory matters on our business operations or performance. This Annual Report on Form 10-K (the "Report" or "Form 10-K" ) also includes forward-looking statements. With respect to all such forward-looking statements, you should review our Risk Factors discussion in Item 1A and our Cautionary Statement Regarding Forward-Looking Information included in Item 7 of this Report.*

**ITEM 1 BUSINESS**

**BUSINESS OVERVIEW** We are one of the largest diversified financial services companies in the United States based on assets, with businesses engaged in retail banking, corporate and institutional banking, asset management and global fund processing services. We provide many of our products and services nationally and others in our primary geographic markets located in Pennsylvania; New Jersey; the greater Washington, DC area, including Maryland and Virginia; Ohio; Kentucky; and Delaware. We also provide certain global fund processing services internationally. At December 31, 2006, our consolidated total assets, deposits and shareholders' equity were \$101.8 billion, \$66.3 billion and \$10.8 billion, respectively.

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We were incorporated under the laws of the Commonwealth of Pennsylvania in 1983 with the consolidation of Pittsburgh National Corporation and Provident National Corporation. Since 1983, we have diversified our geographical presence, business mix and product capabilities through internal growth, strategic bank and non-bank acquisitions and equity investments, and the formation of various non-banking subsidiaries.

On October 8, 2006, we entered into a definitive agreement with Mercantile Bankshares Corporation ( Mercantile ) for PNC to acquire Mercantile. Mercantile shareholders will be entitled to .4184 shares of PNC common stock and \$16.45 in cash for each share of Mercantile, or in the aggregate approximately 53 million shares of PNC common stock and \$2.1 billion in cash. Based on PNC 's recent stock prices, this transaction is valued at approximately \$6.0 billion in the aggregate.

Mercantile is a bank holding company with approximately \$18 billion in assets that provides banking and investment and wealth management services through 240 offices in Maryland, Virginia, the District of Columbia, Delaware and southeastern Pennsylvania. The transaction is expected to close in March 2007 and is subject to customary closing conditions, including regulatory approvals.

We acquired Riggs National Corporation ( Riggs ), a Washington, DC based banking company, effective May 13, 2005. Under the terms of the agreement, Riggs merged into The PNC Financial Services Group, Inc. and PNC Bank, National Association ( PNC Bank, N.A. ), our principal bank subsidiary, acquired substantially all of the assets of Riggs Bank, N.A., the principal banking subsidiary of Riggs.

We include information on significant recent acquisitions in Note 2 Acquisitions in the Notes To Consolidated Financial Statements in Item 8 of this Report and here by reference.

**REVIEW OF LINES OF BUSINESS** In addition to the following information relating to our lines of business, we incorporate

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information under the captions Line of Business Highlights, Product Revenue, Cross-Border Leases and Related Tax and Accounting Matters, and Business Segments Review in Item 7 of this Report here by reference. Also, we include financial and other information by business in Note 21 Segment Reporting in the Notes To Consolidated Financial Statements in Item 8 of this Report here by reference.

We have four major businesses engaged in providing banking, asset management and global fund processing products and services: Retail Banking; Corporate & Institutional Banking; BlackRock; and PFPC. Assets, revenue and earnings attributable to foreign activities were not material in the periods presented.

### RETAIL BANKING

Retail Banking provides deposit, lending, brokerage, trust, investment management, and cash management services to approximately 2.5 million consumer and small business customers within our primary geographic area. Our customers are serviced through approximately 850 offices in our branch network, the call center located in Pittsburgh and the Internet [www.pncbank.com](http://www.pncbank.com). The branch network is located primarily in Pennsylvania; New Jersey; the greater Washington, DC area, including Maryland and Virginia; Ohio; Kentucky; and Delaware. Brokerage services are provided through PNC Investments, LLC, and J.J.B. Hilliard, W.L. Lyons, Inc. Retail Banking also serves as investment manager and trustee for employee benefit plans and charitable and endowment assets and provides nondiscretionary defined contribution plan services and investment options through its *Vested Interest*<sup>®</sup> product. These services are provided to individuals and corporations primarily within our primary geographic markets.

Our goal is to generate sustainable revenue growth by continuing to increase our customer base. We also seek revenue growth by attempting to sell additional products and services to these customers. In addition, we are focused on optimizing our network of branches by opening and upgrading stand-alone and in-store branches in attractive sites while consolidating or selling branches with less opportunity for growth.

### CORPORATE & INSTITUTIONAL BANKING

Corporate & Institutional Banking provides lending, treasury management, and capital markets products and services to mid-sized corporations, government entities and selectively to large corporations. Lending products include secured and unsecured loans, letters of credit and equipment leases. Treasury management services include cash and investment management, receivables management, disbursement services, funds transfer services, information reporting and global trade services. Capital markets-related products and services include foreign exchange, derivatives, loan syndications, mergers and acquisitions advisory and related services to middle-market companies, securities underwriting, and securities sales and trading. Corporate & Institutional Banking also provides

commercial loan servicing, real estate advisory and technology solutions for the commercial real estate finance industry. Corporate & Institutional Banking provides products and services generally within our primary geographic markets, with certain products and services provided nationally.

Corporate & Institutional Banking is focused on becoming a premier provider of financial services in each of the markets it serves. Its value proposition to its customers is driven by providing a broad range of competitive and high quality products and services by a team fully committed to delivering the comprehensive resources of PNC to help each client succeed. Corporate & Institutional Banking's primary goals are to achieve market share growth and enhanced returns by means of expansion and retention of customer relationships and prudent risk and expense management.

### BLACKROCK

BlackRock, Inc. ( BlackRock ) is one of the largest publicly traded investment management firms in the United States. As of December 31, 2006, BlackRock's assets under management were approximately \$1.1 trillion. The firm manages assets on behalf of institutions and individuals worldwide through a variety of fixed income, cash management, equity, and alternative investment separate account and mutual fund products. In addition, BlackRock provides BlackRock Solutions<sup>®</sup>, risk management, investment system outsourcing, and financial advisory services to institutional investors. The firm has a major presence in key global markets, including the United States, Europe, Asia, Australia and the Middle East. For additional information, please see BlackRock's filings with the SEC, accessible on the SEC's website or on the firm's website at [www.blackrock.com](http://www.blackrock.com).

On September 29, 2006, Merrill Lynch contributed its investment management business ( MLIM ) to BlackRock in exchange for 65 million shares of newly issued BlackRock common and preferred stock. Immediately following the closing, PNC continued to own approximately 44 million shares of BlackRock common stock. Accordingly, at December 31, 2006, our ownership interest in BlackRock was approximately 34%. Prior to this transaction, BlackRock had been a majority-owned subsidiary of PNC. See Note 2 Acquisitions in the Notes To Consolidated

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Financial Statements in Item 8 of this Report for further details regarding the BlackRock/MLIM transaction.

Subsequent to the BlackRock/MLIM transaction, our BlackRock investment continues to be a strategic asset of PNC and a key component of our diversified earnings stream. The ability of BlackRock to grow assets under management is the key driver of increases in its revenue, earnings and, ultimately, shareholder value. BlackRock's strategies for growth in assets under management include a focus on achieving client investment performance objectives in a manner consistent with their risk preferences and delivering excellent client service. The business dedicates significant

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resources to attracting and retaining talented professionals and to the ongoing enhancement of its investment technology and operating capabilities to deliver on its strategy.

**PFPC**

PFPC is a leading full service provider of processing, technology and business solutions for the global investment industry. Securities services include custody, securities lending, and accounting and administration for funds registered under the 1940 Act and alternative investments. Investor services include transfer agency, managed accounts, subaccounting, and distribution. PFPC serviced \$2.2 trillion in total assets and 68 million shareholder accounts as of December 31, 2006 both domestically and internationally through its Ireland and Luxembourg operations.

PFPC focuses technological resources on driving efficiency through streamlining operations and developing flexible systems architecture and client-focused servicing solutions.

**SUBSIDIARIES** Our corporate legal structure at December 31, 2006 consisted of two subsidiary banks, including their subsidiaries, and approximately 60 active non-bank subsidiaries. PNC Bank, N.A., headquartered in Pittsburgh, Pennsylvania, is our principal bank subsidiary. At December 31, 2006, PNC Bank, N.A. had total consolidated assets representing approximately 89% of our consolidated assets. Our other bank subsidiary is PNC Bank, Delaware. For additional information on our subsidiaries, you may review Exhibit 21 to this Report.

**STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES** The following statistical information is included on the indicated pages of this Report and is incorporated herein by reference:

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Average Consolidated Balance Sheet And Net Interest Analysis	119
Analysis Of Year-To-Year Changes In Net Interest Income	118
Book Values Of Securities	28 and 89-91
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**SUPERVISION AND REGULATION**

**OVERVIEW**

PNC is a bank holding company registered under the Bank Holding Company Act of 1956 as amended ( BHC Act ) and

a financial holding company under the Gramm-Leach-Bliley Act ( GLB Act ).

We are subject to numerous governmental regulations, some of which are highlighted below. You should also read Note 4 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report, included here by reference, for additional information regarding our regulatory issues. Applicable laws and regulations restrict permissible activities and investments and require compliance with protections for loan, deposit, brokerage, fiduciary, mutual fund and other customers, among other things. They also restrict our ability to repurchase stock or to receive dividends from bank subsidiaries and impose capital adequacy requirements. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions.

In addition, we are subject to comprehensive examination and supervision by, among other regulatory bodies, the Board of Governors of the Federal Reserve System ( Federal Reserve ) and the Office of the Comptroller of the Currency ( OCC ). We are subject to examination by these regulators, which results in examination reports and ratings (which are not publicly available) that can impact the conduct and growth of our businesses. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. An examination downgrade by any of our federal bank

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regulators potentially can result in the imposition of significant limitations on our activities and growth. These regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies. This supervisory framework could materially impact the conduct, growth and profitability of our operations.

We are also subject to regulation by the Securities and Exchange Commission ( SEC ) by virtue of our status as a public company and due to the nature of some of our businesses.

As a regulated financial services firm, our relationships and good standing with regulators are of fundamental importance to the continuation and growth of our businesses. The Federal Reserve, OCC, SEC, and other domestic and foreign regulators have broad enforcement powers, and powers to approve, deny, or refuse to act upon our applications or notices to conduct new activities, acquire or divest businesses or assets, or reconfigure existing operations.

Over the last several years, there has been an increasing regulatory focus on compliance with anti-money laundering laws and regulations, resulting in, among other things, several



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significant publicly announced enforcement actions. There has also been a heightened focus recently on the protection of confidential customer information.

There are numerous rules governing the regulation of financial services institutions and their holding companies. Accordingly, the following discussion is general in nature and does not purport to be complete or to describe all of the laws and regulations that apply to us.

**BANK REGULATION**

As a bank holding company and a financial holding company, we are subject to supervision and regular inspection by the Federal Reserve. Our subsidiary banks and their subsidiaries are subject to supervision and examination by applicable federal and state banking agencies, principally the OCC with respect to PNC Bank, N.A. and the Federal Reserve Bank of Cleveland and the Office of the State Bank Commissioner of Delaware with respect to PNC Bank, Delaware.

Notwithstanding PNC's reduced ownership interest in BlackRock and the deconsolidation resulting from the BlackRock/MLIM transaction, BlackRock continues to be subject to the supervision and regulation of the Federal Reserve to the same extent as it was prior to the transaction.

*Parent Company Liquidity and Dividends.* The principal source of our liquidity at the parent company level is dividends from PNC Bank, N.A. Our subsidiary banks are subject to various federal and state restrictions on their ability to pay dividends to PNC Bancorp, Inc., the direct parent of the subsidiary banks, which in turn may affect the ability of PNC Bancorp, Inc. to pay dividends to PNC at the parent company level. Our subsidiary banks are also subject to federal laws limiting extensions of credit to their parent holding company and non-bank affiliates as discussed in Note 4 Regulatory Matters included in the Notes To Consolidated Financial Statements in Item 8 of this Report, which is incorporated herein by reference. Further information is also available in the Liquidity Risk Management section of Item 7 of this Report.

Under Federal Reserve policy, a bank holding company is expected to act as a source of financial strength to each of its subsidiary banks and to commit resources to support each such bank. Consistent with the source of strength policy for subsidiary banks, the Federal Reserve has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends unless its net income available to common shareholders has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with the corporation's capital needs, asset quality and overall financial condition. This policy does not currently have a negative impact on PNC's ability to pay dividends at our current level.

*Additional Powers Under the GLB Act.* The GLB Act permits a qualifying bank holding company to become a financial

holding company and thereby to affiliate with financial companies engaging in a broader range of activities than would otherwise be permitted for a bank holding company. Permitted affiliates include securities underwriters and dealers, insurance companies and companies engaged in other activities that are determined by the Federal Reserve, in consultation with the Secretary of the Treasury, to be financial in nature or incidental thereto or are determined by the Federal Reserve unilaterally to be complementary to financial activities. We became a financial holding company as of March 13, 2000.

The Federal Reserve is the umbrella regulator of a financial holding company, with its operating entities, such as its subsidiary broker-dealers, investment managers, investment companies, insurance companies and banks, also subject to the jurisdiction of various federal and state functional regulators with normal regulatory responsibility for companies in their lines of business.

As subsidiaries of a financial holding company under the GLB Act, our non-bank subsidiaries are allowed to conduct new financial activities or acquire non-bank financial companies with after-the-fact notice to the Federal Reserve. In addition, our non-bank subsidiaries (and any financial subsidiaries of subsidiary banks) are now permitted to engage in certain activities that were not permitted for banks and bank holding companies prior to enactment of the GLB Act, and to engage on less restrictive terms in certain activities that were previously permitted. Among other activities, we currently rely on our status as a financial holding company to conduct mutual fund distribution activities, merchant banking activities, and underwriting and dealing activities.

To continue to qualify for financial holding company status, our subsidiary banks must maintain well capitalized capital ratios, examination ratings of 1 or 2 (on a scale of 1 to 5), and certain other criteria that are incorporated into the definition of well managed under the BHC Act and Federal Reserve rules. If we were to no longer qualify for this status, we could not continue to enjoy the after-the-fact notice process for new non-banking activities and non-banking acquisitions, and would be required promptly to enter into an agreement with the Federal Reserve providing a plan for our subsidiary banks to meet the well capitalized and well managed criteria. The Federal Reserve would have broad authority to limit our activities. Failure to satisfy the criteria within a six-month period could result in a requirement that we conform existing non-banking activities to activities that were permissible prior to the enactment of the GLB Act. If a subsidiary bank failed to maintain a

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satisfactory or better rating under the Community Reinvestment Act of 1977, as amended ( CRA ), we could not commence new activities or make new investments in reliance on the GLB Act.

In addition, the GLB Act permits a national bank, such as PNC Bank, N.A., to engage in expanded activities through the

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formation of a financial subsidiary. In order to qualify to establish or acquire a financial subsidiary, PNC Bank, N.A. and each of its depository institution affiliates must be well capitalized and well managed and may not have a less than satisfactory CRA rating. A national bank that is one of the largest 50 insured banks in the United States, such as PNC Bank, N.A., must also have issued debt (which, for this purpose, may include the uninsured portion of PNC Bank, N.A.'s long-term certificates of deposit) with certain minimum ratings. PNC Bank, N.A. has filed a financial subsidiary certification with the OCC and currently engages in insurance agency activities through a financial subsidiary. PNC Bank, N.A. may also generally engage through a financial subsidiary in any activity that is financial in nature or incidental to a financial activity. Certain activities, however, are impermissible for a financial subsidiary of a national bank, including insurance underwriting, insurance investments, real estate investment or development, and merchant banking.

If one of our subsidiary banks were to fail to meet the well capitalized or well managed and related criteria, PNC Bank, N.A. would be required to enter into an agreement with the OCC to correct the condition. The OCC would have the authority to limit the activities of the bank. If the condition were not corrected within six months or within any additional time granted by the OCC, PNC Bank, N.A. could be required to conform the activities of any of its financial subsidiaries to activities in which a national bank could engage directly. In addition, if the bank or any insured depository institution affiliate receives a less than satisfactory CRA examination rating, PNC Bank, N.A. would not be permitted to engage in any new activities or to make new investments in reliance on the financial subsidiary authority.

*Other Federal Reserve and OCC Regulation.* The federal banking agencies possess broad powers to take corrective action as deemed appropriate for an insured depository institution and its holding company. The extent of these powers depends upon whether the institution in question is considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. Generally, the smaller an institution's capital base in relation to its total assets, the greater the scope and severity of the agencies' powers, ultimately permitting the agencies to appoint a receiver for the institution. Business activities may also be influenced by an institution's capital classification. For instance, only a well capitalized depository institution may accept brokered deposits without prior regulatory approval and an adequately capitalized depository institution may accept brokered deposits only with prior regulatory approval. At December 31, 2006 and December 31, 2005, both of our subsidiary banks exceeded the required ratios for classification as well capitalized. For additional discussion of capital adequacy requirements, we refer you to Capital And Funding Sources in the Consolidated Balance Sheet Review section of Item 7 of this Report and to Note 4 Regulatory Matters included in the

Notes To Consolidated Financial Statements in Item 8 of this Report.

Laws and regulations limit the scope of our permitted activities and investments. In addition to the activities that would be permitted a financial subsidiary, national banks (such as PNC Bank, N.A.) and their operating subsidiaries may engage in any activities that are determined by the OCC to be part of or incidental to the business of banking.

Moreover, examination ratings of 3 or lower, lower capital ratios than peer group institutions, regulatory concerns regarding management, controls, assets, operations or other factors, can all potentially result in practical limitations on the ability of a bank or bank holding company to engage in new activities, grow, acquire new businesses, repurchase its stock or pay dividends, or to continue to conduct existing activities.

The Federal Reserve's prior approval is required whenever we propose to acquire all or substantially all of the assets of any bank or thrift, to acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank or thrift, or to merge or consolidate with any other bank holding company or thrift holding company. When reviewing bank acquisition applications for approval, the Federal Reserve considers, among other things, each subsidiary bank's record in meeting the credit needs of the communities it serves in accordance with the CRA. Our ability to grow through acquisitions could be limited by these approval requirements.

At December 31, 2006, both of our bank subsidiaries, PNC Bank, N.A. and PNC Bank, Delaware, were rated outstanding with respect to CRA.

*FDIC Insurance.* Both of our subsidiary banks are insured by the FDIC and subject to premium assessments. Regulatory matters could increase the cost of FDIC deposit insurance premiums to an insured bank. Since 1996, the FDIC had not assessed banks in the most favorable capital and assessment risk classification categories for insurance premiums for most deposits, due to the favorable ratio of the assets in the FDIC's deposit insurance funds to the aggregate level of insured deposits outstanding. This resulted in significant cost savings to all insured banks. Deposit insurance premiums are assessed as a percentage of the deposits of the insured institution.

Beginning January 1, 2007, the FDIC reinstated the assessment premiums for all deposits, which could impose a significant cost to all insured banks, including our subsidiary banks, reducing the net spread between deposit and other bank funding costs and the earnings from assets and services of the bank, and thus the net income of the bank. Because of a one-time assessment credit based on deposit premiums that the subsidiary banks of PNC had paid prior to 1996, the deposit insurance assessment for PNC's subsidiary banks should be substantially offset for at least the next two years.



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FDIC deposit insurance premiums are risk based; therefore, higher fee percentages would be charged to banks that have lower capital ratios or higher risk profiles. These risk profiles take into account weaknesses that are found by the primary banking regulator through its examination and supervision of the bank. A negative evaluation by the FDIC or a bank's primary federal banking regulator could increase the costs to a bank and result in an aggregate cost of deposit funds higher than that of competing banks in a lower risk category.

Our subsidiary banks are subject to cross-guarantee provisions under federal law that provide that if one of these banks fails or requires FDIC assistance, the FDIC may assess a commonly-controlled bank for the estimated losses suffered by the FDIC. Such liability could have a material adverse effect on our financial condition or that of the assessed bank. While the FDIC's claim is junior to the claims of depositors, holders of secured liabilities, general creditors and subordinated creditors, it is superior to the claims of the bank's shareholders and affiliates, including PNC and intermediate bank holding companies.

### SECURITIES AND RELATED REGULATION

The SEC, together with either the OCC or the Federal Reserve, regulates our registered broker-dealer subsidiaries. These subsidiaries are also subject to rules and regulations promulgated by the National Association of Securities Dealers, Inc. (NASD), among others. Hilliard Lyons is also a member of the New York Stock Exchange and subject to its regulations and supervision.

Several of our subsidiaries are registered with the SEC as investment advisers and, therefore, are subject to the requirements of the Investment Advisers Act of 1940 and the SEC's regulations thereunder. The principal purpose of the regulations applicable to investment advisers is the protection of clients and the securities markets, rather than the protection of creditors and shareholders of investment advisers. The regulations applicable to investment advisers cover all aspects of the investment advisory business, including limitations on the ability of investment advisers to charge performance-based or non-refundable fees to clients; record-keeping; operational, marketing and reporting requirements; disclosure requirements; limitations on principal transactions between an adviser or its affiliates and advisory clients; as well as general anti-fraud prohibitions. These investment advisory subsidiaries also may be subject to state securities laws and regulations. In addition, our investment advisory subsidiaries that are investment advisers to registered investment companies and other managed accounts are subject to the requirements of the Investment Company Act of 1940, as amended, and the SEC's regulations thereunder. PFPC is subject to regulation by the SEC as a service provider to registered investment companies.

Additional legislation, changes in rules promulgated by the SEC, other federal and state regulatory authorities and self-

regulatory organizations, or changes in the interpretation or enforcement of existing laws and rules may directly affect the method of operation and profitability of investment advisers. The profitability of investment advisers could also be affected by rules and regulations that impact the business and financial communities in general, including changes to the laws governing taxation, antitrust regulation and electronic commerce.

Recently, the SEC and other governmental agencies have been investigating the mutual fund industry, including its service providers. The SEC has adopted and proposed various rules, and legislation has been introduced in Congress, intended to reform the regulation of this industry. The effect of regulatory reform has, and is likely to continue to, increase the extent of regulation of the mutual fund industry and impose additional compliance obligations and costs on our subsidiaries involved with that industry.

Under various provisions of the federal securities laws (including in particular those applicable to broker-dealers, investment advisers and registered investment companies and their service providers), a determination by a court or regulatory agency that certain violations have occurred at a company or its affiliates can result in fines, a limitation of permitted activities, disqualification to continue to conduct certain activities and an inability to rely on certain favorable exemptions. Certain types of infractions and violations can also affect a public company in its timing and ability to expeditiously issue new securities into the capital markets. In addition, expansion of activities of a broker-dealer generally requires approval of the New York Stock Exchange and/or NASD, and regulators may take into account a variety of considerations in acting upon such applications, including internal controls, capital, management experience and quality, and supervisory concerns.

BlackRock has subsidiaries in securities and related businesses subject to SEC and NASD regulation, as described above. For additional information about the regulation of BlackRock, we refer you to the discussion under the Regulation section of Item 1 Business in BlackRock's most recent Annual Report on Form 10-K, which may be obtained electronically at the SEC's website at [www.sec.gov](http://www.sec.gov).

**COMPETITION** We are subject to intense competition from various financial institutions and from non-bank entities that engage in similar activities without being subject to bank regulatory supervision and restrictions.

In making loans, our subsidiary banks compete with traditional banking institutions as well as consumer finance companies, leasing companies and other non-bank lenders, and institutional investors including CLO managers, hedge funds, mutual fund complexes and private equity firms.

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Loan pricing, structure and credit standards are under competitive pressure as lenders seek to deploy capital and a broader range

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of borrowers have access to capital markets. Traditional deposit activities are subject to pricing pressures and customer migration as a result of intense competition for consumer investment dollars.

Our subsidiary banks compete for deposits with the following:

- Other commercial banks,
- Savings banks,
- Savings and loan associations,
- Credit unions,
- Treasury management service companies,
- Insurance companies, and
- Issuers of commercial paper and other securities, including mutual funds.

Our various non-bank businesses engaged in investment banking and private equity activities compete with the following:

- Commercial banks,
- Investment banking firms,
- Merchant banks,
- Insurance companies,
- Private equity firms, and
- Other investment vehicles.

In providing asset management services, our businesses compete with the following:

- Investment management firms,
- Large banks and other financial institutions,
- Brokerage firms,
- Mutual fund complexes, and
- Insurance companies.

The fund servicing business is also highly competitive, with a relatively small number of providers. Merger, acquisition and consolidation activity in the financial services industry has also impacted the number of existing or potential fund servicing clients and has intensified competition.

We include here by reference the additional information regarding competition included in the Item 1A Risk Factors section of this Report.

**EMPLOYEES** Period-end employees totaled 23,783 at December 31, 2006 (comprised of 21,455 full-time and 2,328 part-time employees).

## **SEC REPORTS AND CORPORATE GOVERNANCE INFORMATION**

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended ( Exchange Act ), and, in accordance with the Exchange Act, we file annual, quarterly and current reports, proxy statements, and other information with the SEC. Our SEC File Number is 001-09718. You may read and copy this information at the SEC's Public Reference Room located at 100 F Street NE, Room 1580, Washington, D.C. 20549. You can obtain

information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

You can also obtain copies of this information by mail from the Public Reference Section of the SEC, 100F Street, N.E., Washington, D.C. 20549, at prescribed rates.

The SEC also maintains an internet World Wide Web site that contains reports, proxy and information statements, and other information about issuers, like us, who file electronically with the SEC. The address of that site is [www.sec.gov](http://www.sec.gov). You can also inspect reports, proxy statements and other information about us at the offices of The New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We also make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act available free of charge on or through our internet website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. PNC's corporate internet address is [www.pnc.com](http://www.pnc.com) and you can find this information under About PNC Investor Relations Financial Information SEC filings Form 10-K. Shareholders and bondholders may also obtain copies of these filings without charge by contacting Shareholder Services at 800-982-7652

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or via e-mail at [web.queries@computershare.com](mailto:web.queries@computershare.com) for copies without exhibits, or by contacting Shareholder Relations at (800) 843-2206 or via e-mail at [investor.relations@pnc.com](mailto:investor.relations@pnc.com) for copies of exhibits. We filed the certifications of our Chairman and Chief Executive Officer and our Chief Financial Officer required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 with respect to our Annual Report on Form 10-K for 2005 with the SEC as exhibits to that Report and have filed the CEO and CFO certifications required by Section 302 of that Act with respect to this Form 10-K as exhibits to this Report.

Information about our Board and its committees and corporate governance at PNC is available on PNC's corporate website at [www.pnc.com](http://www.pnc.com) under About PNC Investor Relations Corporate Governance. Shareholders who would like to request printed copies of the PNC Code of Business Conduct and Ethics or our Corporate Governance Guidelines or the charters of our Board's Audit, Nominating and Governance, or Personnel and Compensation Committees (all of which are posted on the PNC corporate website) may do so by sending their requests to George P. Long, III, Corporate Secretary, at corporate headquarters at One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707. Copies will be provided without charge to shareholders.

Our common stock is listed on the New York Stock Exchange ( NYSE ) under the symbol PNC. Our Chairman and Chief Executive Officer submitted the required annual CEO's Certification regarding the NYSE's corporate governance



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listing standards (a Section 12(a) CEO Certification) to the NYSE within 30 days after our 2006 annual shareholders meeting.

**ITEM 1A RISK FACTORS**

We are subject to a number of risks potentially impacting our business, financial condition, results of operations and cash flows. Indeed, as a financial services organization, certain elements of risk are inherent in every one of our transactions and are presented by every business decision we make. Thus, we encounter risk as part of the normal course of our business, and we design risk management processes to help manage these risks.

There are risks that are known to exist at the outset of a transaction. For example, every loan transaction presents credit risk (the risk that the borrower may not perform in accordance with contractual terms) and interest rate risk (a potential loss in earnings or economic value due to adverse movement in market interest rates or credit spreads), with the nature and extent of these risks principally depending on the identity of the borrower and overall economic conditions. These risks are inherent in every loan transaction; if we wish to make loans, we must manage these risks through the terms and structure of the loans and through management of our deposits and other funding sources. The success of our business is dependent on our ability to identify, understand and manage the risks presented by our business activities so that we can balance appropriately revenue generation and profitability with these inherent risks. We discuss our principal risk management processes and, in appropriate places, related historical performance in the Risk Management section included in Item 7 of this Report.

The following are the key risk factors that affect us. These risk factors are also discussed further in other parts of this Report.

**A sustained weakness or weakening in business and economic conditions generally or specifically in the principal markets in which we do business could adversely affect our business and operating results.**

PNC's business could be adversely affected to the extent that weaknesses in business and economic conditions have direct or indirect impacts on us or on our customers and counterparties. These conditions could lead, for example, to one or more of the following:

- A decrease in the demand for loans and other products and services offered by us,
- A decrease in the value of our loans held for sale,
- A decrease in the usage of unfunded commitments,
- A decrease in customer savings generally and in the demand for savings and investment products offered by us, and
- An increase in the number of customers and counterparties who become delinquent, file for protection under bankruptcy laws, or default on their loans or other obligations to us. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs, provision for credit losses, and valuation adjustments on loans held for sale.

Although many of our businesses are national and some are international in scope, our retail banking business is concentrated within our retail branch network footprint (Delaware, Indiana, Kentucky, New Jersey, Ohio, Pennsylvania, and the greater Washington, D.C. area, including Maryland and Virginia), and thus that business is particularly vulnerable to adverse changes in economic conditions in these regions.

**Changes in interest rates or in valuations in the debt or equity markets could directly impact our assets and liabilities and our performance.**

Given our business mix, our traditional banking activities of gathering deposits and extending loans, and the fact that most of our assets and liabilities are financial in nature, we tend to be particularly sensitive to market interest rate movement and the performance of the financial markets. In addition to the impact on the economy generally, with some of the potential effects outlined above, changes in interest rates, in the shape of the yield curve, or in valuations in the debt or equity markets could directly impact us in one or more of the following ways:

- Such changes could affect the difference between the interest that we earn on assets and the interest that we pay on liabilities, as well as the value of some or all of our on-balance sheet and off-balance sheet financial instruments or the value of equity investments that we hold or of our equity funding obligations;
- To the extent to which we access capital markets to raise funds to support our business, such changes could affect the cost of such funds or our ability to raise such funds; and
- Such changes could affect the value of the assets that we manage or otherwise administer for others or the assets for which we provide processing services. Although we are not directly impacted by changes in the value of assets that we manage or administer for others or for which we provide processing services, decreases in the value of those assets would affect our fee income relating to those assets

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and could result in decreased demand for our services.

As a result of the high percentage of our assets and liabilities that are in the form of interest-bearing instruments, the monetary, tax and other policies of the government and its agencies, including the Federal Reserve, which have a significant impact on interest rates and overall financial market performance, can affect the activities and results of

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operations of bank holding companies and their subsidiaries, such as PNC and our subsidiaries. An important function of the Federal Reserve is to regulate the national supply of bank credit and market interest rates. The actions of the Federal Reserve influence the rates of interest that we charge on loans and that we pay on borrowings and interest-bearing deposits and can also affect the value of our on-balance sheet and off-balance sheet financial instruments. Both due to the impact on rates and by controlling access to direct funding from the Federal Reserve Banks, the Federal Reserve's policies also influence, to a significant extent, our cost of funding. We cannot predict the nature or timing of future changes in monetary, tax and other policies or the effect that they may have on our activities and results of operations.

**We operate in a highly competitive environment, both in terms of the products and services we offer, the geographic markets in which we conduct business, as well as our labor markets and competition for talented employees. Competition could adversely impact our customer acquisition, growth and retention, as well as our credit spreads and product pricing, causing us to lose market share and deposits and revenues.**

We are subject to intense competition from various financial institutions and from non-bank entities that engage in similar activities without being subject to bank regulatory supervision and restrictions. This competition is described in Item 1 under Competition.

In all, the principal bases for competition are pricing (including the interest rates charged on loans or paid on interest-bearing deposits), structure, the range of products and services offered, and the quality of customer service (including convenience and responsiveness to customer needs and concerns). The ability to access and use technology is an increasingly important competitive factor in the financial services industry. Technology is important not only with respect to delivery of financial services but also in processing information. Each of our businesses consistently must make significant technological investments to remain competitive.

A failure to address adequately the competitive pressures we face could make it harder for us to attract and retain customers across our businesses. On the other hand, meeting these competitive pressures could require us to incur significant additional expenses or to accept risk beyond what we would otherwise view as desirable under the circumstances. In addition, in our interest sensitive businesses, pressures to increase rates on deposits or decrease rates on loans could reduce our net interest margin with a resulting negative impact on our net interest income. Any of these results would likely have an adverse effect on our overall financial performance.

**We grow our business in part by acquiring from time to time other financial services companies, and these acquisitions present us with a number of risks and uncertainties related both to the acquisition transactions themselves and to the integration of the acquired businesses into PNC after closing.**

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

Our pending acquisition of Mercantile presents many of the risks and uncertainties related to acquisition transactions themselves and to the integration of the acquired businesses into PNC after closing described above.

**The performance of our asset management businesses may be adversely affected by the relative performance of our products compared with alternative investments.**

Asset management revenue is primarily based on a percentage of the value of assets under management and, in some cases, performance fees, in most cases expressed as a percentage of the returns realized on assets under management, and thus is impacted by general changes in capital markets valuations and customer preferences. In addition, investment performance is an important factor influencing the level of assets under management. Poor investment performance could impair revenue and growth as existing clients might withdraw funds in favor of better performing products. Also, performance fees could be lower or nonexistent. Additionally, the ability to attract funds from existing and new clients might diminish.

**The performance of our fund servicing business may be adversely affected by changes in investor preferences, or changes in existing or potential fund servicing clients or alternative providers.**

Fund servicing fees are primarily derived from the market value of the assets and the number of shareholder accounts that we administer for our clients. The performance of our

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fund processing business is thus partially dependent on the underlying performance of its fund clients and, in particular, their ability to attract and retain customers. Changes in interest rates or a sustained weakness, weakening or volatility in the debt and equity markets could (in addition to affecting directly the value of assets administered as discussed above) influence an investor's decision to invest or maintain an investment in a particular mutual fund or other pooled investment product. Other factors beyond our control may impact the ability of our fund clients to attract or retain customers or customer funds, including changes in preferences as to certain investment styles. Further, to the extent that our fund clients' businesses are adversely affected by ongoing governmental investigations into the practices of the mutual and hedge fund industries, our fund processing business results also could be adversely impacted. As a result of these types of factors, fluctuations may occur in the level or value of assets for which we provide processing services. In addition, this regulatory and business environment is likely to continue to result in operating margin pressure for our various services.

**As a regulated financial services firm, we are subject to numerous governmental regulations and to comprehensive examination and supervision by regulators, which affects our business as well as our competitive position.**

PNC is a bank and financial holding company and is subject to numerous governmental regulations involving both its business and organization. Our businesses are subject to regulation by multiple bank regulatory bodies as well as multiple securities industry regulators. Applicable laws and regulations restrict our ability to repurchase stock or to receive dividends from bank subsidiaries and impose capital adequacy requirements. They also restrict permissible activities and investments and require compliance with protections for loan, deposit, brokerage, fiduciary, mutual fund and other customers, and for the protection of customer information, among other things. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions as well as damage to our reputation and business.

In addition, we are subject to comprehensive examination and supervision by banking and other regulatory bodies. Examination reports and ratings (which often are not publicly available) and other aspects of this supervisory framework can materially impact the conduct, growth, and profitability of our businesses.

We discuss these and other regulatory issues applicable to PNC in the Supervision and Regulation section included in Item 1 of this Report and in Note 4 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report and here by reference.

Over the last several years, there has been an increasing regulatory focus on compliance with anti-money laundering laws and regulations, resulting in, among other things, several

significant publicly-announced enforcement actions. There has also been a heightened focus recently, by customers and the media as well as by regulators, on the protection of confidential customer information. A failure to have adequate procedures to comply with anti-money laundering laws and regulations or to protect the confidentiality of customer information could expose us to damages, fines and regulatory penalties, which could be significant, and could also injure our reputation with customers and others with whom we do business.

**We must comply with generally accepted accounting principles established by the Financial Accounting Standards Board, rules set forth by the SEC, income tax regulations established by the Department of the Treasury, and revenue rulings and other guidance issued by the Internal Revenue Service, which affect our financial condition and results of operations.**

Changes in accounting standards, or interpretations of those standards, can impact our revenue recognition and expense policies and affect our estimation methods used to prepare the consolidated financial statements. Changes in income tax regulations, revenue rulings, revenue procedures, and other guidance can impact our tax liability and alter the timing of cash flows associated with tax deductions and payments. New guidance often dictates how changes to standards and regulations are to be presented in our consolidated financial statements, as either an adjustment to beginning retained earnings for the period or as income or expense in current period earnings. Certain changes may also be required to be applied retrospectively.

**Our business and financial performance could be adversely affected, directly or indirectly, by natural disasters, by terrorist activities or by international hostilities.**

The impact of natural disasters, terrorist activities and international hostilities cannot be predicted with respect to severity or duration. However, any of these could impact us directly (for example, by causing significant damage to our facilities or preventing us from conducting our business in the ordinary course), or could impact us indirectly through a direct impact on our borrowers, depositors, other customers, suppliers or other counterparties. We could also suffer adverse consequences to the extent that natural disasters, terrorist activities or international hostilities affect the economy and financial and capital markets generally. These types of impacts could lead, for example, to an increase in delinquencies, bankruptcies or defaults that could result in our experiencing higher levels of nonperforming assets, net charge-offs and provisions for credit losses.

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Our ability to mitigate the adverse consequences of such occurrences is in part dependent on the quality of our resiliency planning, including our ability to anticipate the

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nature of any such event that occurs. The adverse impact of natural disasters or terrorist activities or international hostilities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses that we deal with, particularly those that we depend upon.

**ITEM 1B UNRESOLVED STAFF COMMENTS**

There are no SEC staff comments regarding PNC's periodic or current reports under the Exchange Act that are pending resolution.

**ITEM 2 PROPERTIES**

Our executive and administrative offices are located at One PNC Plaza, Pittsburgh, Pennsylvania. The thirty-story structure is owned by PNC Bank, N. A. We occupy the entire building. In addition, PNC Bank, N.A. owns a thirty-four story structure adjacent to One PNC Plaza, known as Two PNC Plaza, that houses additional office space.

We own or lease numerous other premises for use in conducting business activities. We consider the facilities owned or occupied under lease by our subsidiaries to be adequate. We include here by reference the additional information regarding our properties in Note 10 Premises, Equipment and Leasehold Improvements in the Notes To Consolidated Financial Statements in Item 8 of this Report.

**ITEM 3 LEGAL PROCEEDINGS**

Some of our subsidiaries are defendants (or have potential contractual contribution obligations to other defendants) in several pending lawsuits brought during late 2002 and 2003 arising out of the bankruptcy of Adelphia Communications Corporation and its subsidiaries. There also are threatened additional proceedings arising out of the same matters. One of the lawsuits was brought on Adelphia's behalf by the unsecured creditors' committee and equity committee in Adelphia's consolidated bankruptcy proceeding and was removed to the United States District Court for the Southern District of New York by order dated February 9, 2006. The other lawsuits, one of which is a putative consolidated class action, were brought by holders of debt and equity securities of Adelphia and have been consolidated for pretrial purposes in that district court. These lawsuits arise out of lending and securities underwriting activities engaged in by these PNC subsidiaries together with other financial services companies. In the aggregate, more than 400 other financial services companies and numerous other companies and individuals have been named as defendants in one or more of the lawsuits. Collectively, with respect to some or all of the defendants, the lawsuits allege federal law claims, including violations of federal securities and other federal laws, violations of common law duties, aiding and abetting such violations, voidable preference payments, and fraudulent transfers, among other matters. The lawsuits seek unquantified

monetary damages, interest, attorneys' fees and other expenses, and a return of the alleged voidable preference and fraudulent transfer payments, among other remedies. The bank defendants, including the PNC defendants, have entered into a settlement of the consolidated class action referred to above. This settlement was approved by the district court in November 2006. In December 2006, a group of class members appealed the order approving the settlement agreement to the United States Court of Appeals for the Second Circuit. The amount for which we would be responsible under this settlement is insignificant. We believe that we have defenses to the claims against us in these lawsuits, as well as potential claims against third parties, and intend to defend the remaining lawsuits vigorously. These lawsuits involve complex issues of law and fact, presenting complicated relationships among the many financial and other participants in the events giving rise to these lawsuits, and have not progressed to the point where we can predict the outcome of the remaining lawsuits other than the one for which a settlement is pending. It is not possible to determine what the likely aggregate recoveries on the part of the plaintiffs in these remaining matters might be or the portion of any such recoveries for which we would ultimately be responsible, but the final consequences to PNC could be material.

In April 2005, an amended complaint was filed in the putative class action against PNC, PNC Bank, N.A., our Pension Plan and its Pension Committee in the United States District Court for the Eastern District of Pennsylvania (originally filed in December 2004). The complaint claims violations of the Employee Retirement Income Security Act of 1974, as amended (ERISA), arising out of the January 1, 1999 conversion of our Pension Plan from a traditional defined benefit formula into a cash balance formula, the design and continued operation of the Plan, and other related matters. Plaintiffs seek to represent a class of all current and former employee-participants in and beneficiaries of the Plan as of December 31, 1998 and thereafter. Plaintiffs also seek to represent a subclass of all current and former employee participants in and beneficiaries of the Plan as of December 31, 1998 and thereafter who were or would have become eligible for an early retirement subsidy under the former Plan at some time prior to the date of the amended complaint. The plaintiffs are seeking unquantified damages and equitable relief available under ERISA, including interest, costs, and attorneys' fees. In November 2005, the court granted our motion to dismiss the amended complaint. Plaintiffs appealed this ruling to the United States Court of Appeals for the Third Circuit, which affirmed the district court ruling in an opinion dated January 30, 2007. On February 13, 2007, plaintiffs filed in the court of appeals a petition for rehearing. Plaintiffs may seek further judicial review of the dismissal of their complaint.

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In March 2006, a first amended complaint was filed in the United States District Court for the Eastern District of Texas by Data Treasury Corporation against PNC and PNC Bank,



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

In August 2006, a lawsuit was filed in the United States District Court for the Eastern District of Texas by Ronald A. Katz Technology Licensing L. P. ( RAKTL ) against PNC, PNC Bank, N.A., and other defendants. In September 2006, this lawsuit was divided into separate actions, and amended complaints were then filed, one of which was against PNC and PNC Bank, N.A. This lawsuit is one of many related RAKTL patent infringement actions pending in various federal district courts against a large number of defendants. Each of the actions involves a single family of related patents that RAKTL refers to as the interactive call processing patents. The amended complaint alleged that PNC and PNC Bank, N.A. are infringing, and inducing or contributing to the infringement of, certain of the plaintiff's patents. In January 2007, the court dismissed the lawsuit against PNC following a settlement under which PNC and its affiliates received a non-exclusive license covering patents held by RAKTL. As part of the settlement, we agreed to pay a licensing fee to RAKTL. The amount of the fee is not material to PNC.

In its Form 10-Q for the quarter ended March 31, 2005, Riggs disclosed a number of pending lawsuits. All material lawsuits have been finally resolved, except one where a settlement agreement has been reached, subject to final documentation. The pending settlement is not material to PNC.

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