MERCANTILE BANKSHARES CORP
Form DEFM14A
January 18, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Mercantile Bankshares Corporation

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of the transaction:

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

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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 February 27, 2007 at 10:30 a.m., local time, at the Radisson Plaza Lord Baltimore Hotel, 20 W. Baltimore Street, Baltimore, MD 21202, 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 (including the related preferred stock purchase rights under PNC s May 2000 Rights Agreement) and $16.45 in cash, without interest. Under the formula set forth in the merger agreement, an aggregate of up to approximately 54.2 million shares of PNC common stock (and an equal number of related rights) may be issued and $2.13 billion paid in the merger. 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 January 17, 2007, 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 01/17/07	$ 74.66	$ 47.48	$ 47.69

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 January 18, 2007, and it is first being mailed or otherwise delivered to Mercantile stockholders on or about January 22, 2007.

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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 the Radisson Plaza Lord Baltimore Hotel, 20 W. Baltimore Street, Baltimore, MD 21202, at 10:30 a.m., local time, on February 27, 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 January 11, 2007 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

January 18, 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: William Callihan** **Investor Relations** **(412) 762-8257**	**Mercantile Bankshares Corporation** **2 Hopkins Plaza, P.O. Box 1477** **Baltimore, Maryland 21201** **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 February 13, 2007 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

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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

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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 January 17, 2007, 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 January 17, 2007	$ 74.66	$ 47.48	$ 47.69

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 February 27, 2007 (page 16)

The special meeting will be held on February 27, 2007, at 10:30 a.m., local time, at the Radisson Plaza Lord Baltimore Hotel, 20 W. Baltimore Street, Baltimore, MD 21202. 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 January 11, 2007 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 January 11, 2007, there were approximately 125,331,046 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 approximately 562,048 shares of Mercantile common stock, or 0.45% of the outstanding Mercantile common stock entitled to be voted at the special meeting. At that date, PNC, its directors and its executive officers beneficially owned less than 0.1% of the outstanding Mercantile common stock. We currently expect that each of these individuals and PNC will vote his or her or its 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

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.

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 February 27, 2007, at 10:30 a.m. local time, at the Radisson Plaza Lord Baltimore Hotel, 20 W. Baltimore Street, Baltimore, MD 21202, 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 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. Mercantile has also made arrangements with MacKenzie Partners to assist in soliciting proxies and has agreed to pay them $30,000 plus 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 January 11, 2007 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, approximately 125,331,046 shares of Mercantile common stock were outstanding, held by approximately 12,228 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 approximately 562,048 shares of Mercantile common stock, or 0.45% 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.

- PNC, its directors and its executive officers beneficially owned less than 0.1% of the outstanding Mercantile common stock. We currently expect that each of these individuals and PNC will vote his, her or its shares of Mercantile common stock in favor of the proposals to be presented at the special meeting.

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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.

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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 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:

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)	Transaction Multiples: Price/ LTM EPS (x)	Transaction Multiples: Price/ TBV (%)	Transaction Multiples: 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.

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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 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.

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

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severance agreements and any existing employment agreements between Mercantile and the executive officers, except for the survival of certain provisions as further described below.

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.

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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 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	502,496	$ 31.84
Alexander T. Mason	207,499	$ 33.75
Jay M. Wilson	102,500	$ 36.74
J. Marshall Reid	126,497	$ 28.89
Peter W. Floeckher, Jr.	80,937	$ 31.90
All other directors and executive officers as group	314,442	$ 30.20

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	25,607	145,438
Alexander T. Mason	20,407	24,079
Jay M. Wilson	10,463	24,079
J. Marshall Reid	12,466	16,053
Peter W. Floeckher, Jr.	12,466	16,053
All other directors and executive officers as group	36,466	60,197

Phantom Stock Units

The merger agreement provides that, upon completion of the merger, each phantom stock unit with respect to Mercantile common stock granted under certain non-employee director deferred compensation plans shall cease to represent rights with respect to Mercantile common stock and shall 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, 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 the completion of the merger and (b) 0.4184.

The consideration for the phantom stock units as determined above would be payable on the same terms and conditions as were in effect immediately prior to the completion of the merger with any cash payment due to be paid as soon as reasonably practical after the completion of the merger at the option of Mercantile.

The number of phantom stock units held by the nonemployee directors as a group as of the record date for the special meeting are 111,777.

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Indemnification and Insurance

The merger agreement provides that (a) from and after the effective time of the merger, PNC shall, to the fullest extent permitted by applicable law, indemnify, defend and hold harmless, and provide advancement of expenses to, Mercantile s directors and officers against all losses, claims, damages, costs, expenses (including fees and expenses of counsel), fines, penalties, liabilities or judgments or amounts that are paid in settlement of or in connection with any claim based on or arising out of the fact that such person is or was a director or officer of Mercantile or a subsidiary of Mercantile, and pertaining to any matter existing or occurring, or any acts or omissions occurring, at or prior to the effective time of the merger and (b) all rights to indemnification and exculpation from liabilities for acts or omissions occurring at or prior to the effective time of the merger now existing in favor of any Mercantile director or officer as provided in the charter or bylaws (or comparable organizational documents) of Mercantile and its subsidiaries, and any existing indemnification agreements, shall survive the merger and shall continue in full force and effect in accordance with their terms, and shall not be amended, repealed or otherwise modified after the effective time of the merger, except for those set forth in the organizational documents of Mercantile or its subsidiaries, which shall not be amended, repealed or otherwise modified for a period of six years after the effective time of the merger.

The merger agreement provides that PNC will, for a period of six years after the effective time of the merger, maintain directors and officers liability insurance for the individuals serving as directors and officers of Mercantile immediately prior to the effective time of the merger with respect to acts or omissions occurring prior to the effective time of the merger that were committed by such directors and officers in such capacities. The merger agreement provides that such directors and officers liability insurance will be comparable to that currently maintained by Mercantile for such individuals; provided that PNC is not required to expend an annual aggregate amount in excess of 250% of the annual premiums currently paid by Mercantile for such insurance.

Board of Directors of PNC

The merger agreement provides that PNC shall appoint two individuals mutually agreed by Mercantile and PNC to the Board of Directors of PNC as of the effective time of the merger, and that PNC shall increase the size of the PNC Board of Directors if required to permit the appointment of these individuals as directors. It is currently expected that the two individuals to be elected will be chosen in February 2007.

THE MERGER AGREEMENT

The following describes certain aspects of the merger, including material provisions of the merger agreement. The following description of the merger agreement is subject to, and qualified in its entirety by reference to, the merger agreement, which is attached to this document as Annex A and is incorporated by reference in this document. We urge you to read the merger agreement carefully and in its entirety, as it is the legal document governing this merger.

Terms of the Merger

Each of the Mercantile board of directors and the PNC board of directors has approved the merger agreement which provides for the merger of Mercantile with and into PNC. PNC will be the surviving corporation in the merger. Each share of PNC common or preferred stock issued and outstanding immediately prior to completion of the merger will remain issued and outstanding as one share of common or preferred stock of PNC, as applicable, and each share of Mercantile common stock issued and outstanding immediately prior to the completion of the merger, except for specified shares of Mercantile common stock held by Mercantile and PNC, will be converted into the right to receive 0.4184 of a share of PNC common stock and $16.45 in cash, without interest. If the number of shares of common stock of PNC changes before the merger is completed because of a reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other similar event, then an appropriate and proportionate adjustment will be made to the number of shares of PNC common stock into which each share of Mercantile common stock will be converted.

PNC will not issue any fractional shares of PNC common stock in the merger. Instead, a Mercantile stockholder who otherwise would have received a fraction of a share of PNC common stock will receive an amount in cash rounded to the nearest cent, determined by multiplying the fraction of a share of PNC common stock to which the holder would otherwise be entitled by the average closing price of PNC common stock over the five trading days immediately prior to the date on which the merger is completed.

The PNC articles of incorporation will be the articles of incorporation, and the PNC bylaws will be the bylaws, of the combined company after completion of the merger. The merger agreement provides that PNC may change the structure of the merger if consented to by Mercantile (but Mercantile s consent cannot be unreasonably withheld or delayed). No such change will alter the amount or kind of merger consideration to be provided under the merger agreement, adversely affect the tax consequences to Mercantile stockholders in the merger or materially impede or delay completion of the merger.

Treatment of Mercantile Stock Options and Other Equity-Based Awards

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 sales 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.

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.

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Each phantom stock unit with respect to Mercantile common stock granted under certain non-employee director deferred compensation plans shall cease to represent rights with respect to Mercantile common stock and shall 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, rounded to the nearest one-ten thousandth, of the closing sales prices of PNC common stock for the five trading days immediately preceding the date of the completion of the merger and (b) 0.4184.

Closing and Effective Time of the Merger

The merger will be completed only if all of the following occur:

- the merger is approved by Mercantile stockholders;
- we obtain all required governmental and regulatory consents and approvals without a condition or restriction that would have a material adverse effect on PNC, measured on a scale relative to Mercantile; and
- all other conditions to the merger discussed in this document and the merger agreement are either satisfied or waived.

The merger will become effective when articles of merger are filed with the Maryland State Department of Assessments and Taxation and the Department of State of the Commonwealth of Pennsylvania. However, we may agree to a later time for completion of the merger and specify that time in accordance with Maryland and Pennsylvania law. In the merger agreement, we have agreed to cause the completion of the merger to occur no later than the fifth business day following the satisfaction or waiver of the last of the conditions specified in the merger agreement, or on another mutually agreed date. If these conditions are first satisfied or waived during the two weeks immediately prior to the end of a fiscal quarter of PNC, then PNC may postpone the closing until the first full week after the end of that quarter. It currently is anticipated that the effective time of the merger will occur in the first quarter of 2007, but we cannot guarantee when or if the merger will be completed.

Board of Directors of the Surviving Corporation

Before completion of the merger, PNC will take such actions as may be reasonably required to appoint two additional directors to PNC s board, with the directors to be mutually agreed on by PNC and Mercantile.

Charitable Donation

If the merger is consummated, PNC has agreed that either it or the PNC Foundation will make a charitable donation of $25 million to Mercantile s charitable foundation for charitable causes in the Baltimore area.

Conversion of Shares; Exchange of Certificates

The conversion of Mercantile common stock into the right to receive the merger consideration will occur automatically at the effective time of the merger. As soon as reasonably practicable after completion of the merger, the exchange agent will provide to Mercantile stockholders of record the letter of transmittal described below and, as soon as reasonably practicable after the completed letter and Mercantile stock certificates are returned to the exchange agent, will exchange certificates representing shares of Mercantile common stock for merger consideration to be received pursuant to the terms of the merger agreement. Prior to the completion of the merger, PNC will select a bank or trust company reasonably acceptable to Mercantile, or PNC s transfer agent, to be the exchange agent, who will exchange certificates for the merger consideration and perform other duties as explained in the merger agreement.

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Letter of Transmittal

Soon after the completion of the merger, the exchange agent will mail a letter of transmittal to each holder of a Mercantile common stock certificate at the effective time of the merger. This mailing will contain instructions on how to surrender Mercantile common stock certificates in exchange for statements indicating book-entry ownership of PNC common stock and a check in the appropriate amount of the cash portion of the merger consideration. If a holder of a Mercantile common stock certificate makes a special request, however, PNC will issue to the requesting holder a PNC stock certificate in lieu of book-entry shares. When you deliver your Mercantile stock certificates to the exchange agent along with a properly executed letter of transmittal and any other required documents, your Mercantile stock certificates will be cancelled and you will receive statements indicating book-entry ownership of PNC common stock, or, if requested, stock certificates representing the number of full shares of PNC common stock to which you are entitled under the merger agreement. You will receive payment in cash, without interest, for the cash portion of the merger consideration and an additional cash payment instead of any fractional shares of PNC common stock that would have been otherwise issuable to you as a result of the merger.

Holders of Mercantile common stock should not submit their Mercantile stock certificates for exchange until they receive the transmittal instructions and a form of letter of transmittal from the exchange agent.

If a certificate for Mercantile common stock has been lost, stolen or destroyed, the exchange agent will issue the consideration properly payable under the merger agreement upon receipt of an affidavit of that fact from the claimant, and, if reasonably required by the exchange agent or PNC, the posting of a bond by the claimant.

After completion of the merger, there will be no further transfers on the stock transfer books of Mercantile, except as required to settle trades executed prior to completion of the merger.

Withholding

The exchange agent will be entitled to deduct and withhold from the cash consideration or cash in lieu of fractional shares payable to any Mercantile stockholder the amounts the exchange agent is required to deduct and withhold under any federal, state, local or foreign tax law. If the exchange agent withholds any amounts, these amounts will be treated for all purposes of the merger as having been paid to the stockholders from whom they were withheld.

Dividends and Distributions

Until Mercantile common stock certificates are surrendered for exchange, any dividends or other distributions declared after the effective time with respect to PNC common stock into which shares of Mercantile common stock may have been converted will accrue but will not be paid. PNC will pay to former Mercantile stockholders any unpaid dividends or other distributions, without interest, only after they have duly surrendered their Mercantile stock certificates.

Prior to the effective time of the merger, Mercantile and its subsidiaries may not declare or pay any dividend or distribution on its capital stock or repurchase any shares of its capital stock, other than:

- regular quarterly cash dividends at a rate not to exceed $0.28 per share of Mercantile common stock with record dates and payment dates consistent with the prior year;

- dividends paid by any subsidiary of Mercantile to Mercantile or to any of its wholly-owned subsidiaries;

- the acceptance of shares of Mercantile common stock in payment of the exercise of a stock option or the vesting of restricted shares of Mercantile common stock granted under a Mercantile stock plan, in each case in accordance with past practice; and dividends on the capital securities and common securities issued under the three James Monroe Statutory Trusts, in each case in accordance with the terms thereof.

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Mercantile and PNC have agreed to coordinate declaration of dividends so that holders of Mercantile common stock will not receive two dividends, or fail to receive one dividend, for any quarter with respect to their Mercantile common stock and any PNC common stock any holder receives in the merger.

Representations and Warranties

The merger agreement contains customary representations and warranties of Mercantile and PNC relating to their respective businesses. With the exception of certain representations that must be true and correct in all material respects (or, in the case of specific representations and warranties regarding the capitalization of Mercantile, true and correct except to a *de minimis* extent), no representation or warranty will be deemed untrue or incorrect as a consequence of the existence or absence of any fact, circumstance or event unless that fact, circumstance or event, individually or when taken together with all other facts, circumstances or events, has had or is reasonably likely to have a material adverse effect on the ability of the company making the representation to consummate the merger, or on the business, results of operations or financial conditions of the company (including any impact on its customers and employees) making the representation. In determining whether a material adverse effect has occurred or is reasonably likely, the parties will disregard effects resulting from (1) changes in generally accepted accounting principles or regulatory accounting requirements applicable to banks or savings associations and their holding companies generally, (2) changes in laws, rules or regulations of general applicability to banks or savings associations and their holding companies, generally, or their interpretations by courts or governmental entities, (3) changes in global or national or regional political conditions or in general or regional economic or market conditions affecting banks, savings associations or their holding companies generally, except to the extent that such changes in general or market conditions have a materially disproportionate adverse effect on such party, or (4) public disclosure of the merger. The representations and warranties in the merger agreement do not survive the effective time of the merger.

Each of PNC and Mercantile has made representations and warranties to the other regarding, among other things:

- corporate matters, including due organization and qualification;
- capitalization;
- authority relative to execution and delivery of the merger agreement and the absence of conflicts with, or violations of, organizational documents or other obligations as a result of the merger;
- required governmental filings and consents;
- the timely filing of reports with governmental entities, and the absence of investigations by regulatory agencies;
- financial statements, internal controls and accounting;
- broker s fees payable in connection with the merger;
- the absence of material adverse changes;
- legal proceedings;

tax matters;

compliance with applicable laws;

risk management instruments and derivatives;

investment and loan portfolios;

real property;

environmental liabilities;

tax treatment of the merger; and

the accuracy of information supplied for inclusion in this document and other similar documents.

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In addition, Mercantile has made other representations and warranties about itself to PNC as to:

- employee matters, including employee benefit plans;
- material contracts, exclusivity arrangements, and other certain types of contracts;
- intellectual property;
- broker-dealer subsidiaries;
- the inapplicability of state takeover laws and the rights agreement; and
- the receipt of a financial advisor s opinion.

PNC also has made a representation and warranty to Mercantile regarding the availability of cash to pay the cash portion of the merger consideration.

The representations and warranties described above and included in the merger agreement were made by each of PNC and Mercantile to the other. These representations and warranties were made as of specific dates, may be subject to important qualifications and limitations agreed to by PNC and Mercantile in connection with negotiating the terms of the merger agreement, and may have been included in the merger agreement for the purpose of allocating risk between PNC and Mercantile rather than to establish matters as facts. The merger agreement is described in, and included as an annex to, this document only to provide you with information regarding its terms and conditions, and not to provide any other factual information regarding Mercantile, PNC or their respective businesses. Accordingly, the representations and warranties and other provisions of the merger agreement should not be read alone, but instead should be read only in conjunction with the information provided elsewhere in this document and in the documents incorporated by reference into this document. See Where You Can Find More Information on page 77.

Covenants and Agreements

Each of Mercantile and PNC has undertaken customary covenants that place restrictions on it and its subsidiaries until the effective time of the merger. In general, each of PNC and Mercantile agreed to (1) conduct its business in the ordinary course in all material respects, (2) use commercially reasonable efforts to maintain and preserve intact its business organization and advantageous business relationships, including retaining the services of key officers and employees, and (3) take no action that is intended to or would reasonably be expected to adversely affect or materially delay its respective ability to obtain any necessary regulatory approvals, perform its covenants or complete the merger. Mercantile further agrees that, with certain exceptions and except with PNC s prior written consent, Mercantile will not, and will not permit any of its subsidiaries to, among other things, undertake the following extraordinary actions:

- incur indebtedness or in any way assume the indebtedness of another person, except in the ordinary course of business;
- adjust, split, combine or reclassify any of its capital stock;
- make, declare or pay any dividends or other distributions on any shares of its capital stock, except as set forth above in Conversion of Shares; Exchange of Certificates Dividends and Distributions ;

issue shares, stock options or other equity-based awards outside the parameters set forth in the merger agreement;

except as contemplated by the merger agreement and except in certain circumstances as in the ordinary course of business, (1) increase wages, salaries or incentive compensation, (2) pay or provide, or increase or accelerate the accrual rate, vesting or timing or payment or funding of, any compensation or benefit to employees of Mercantile and its subsidiaries or otherwise pay any amount to which any employee of Mercantile or any of its subsidiaries is not entitled, or (3) establish, adopt or become a party to any new employee benefit or compensation plan or agreement or amend, suspend or terminate any Mercantile benefit plan;

other than in the ordinary course of business, sell, transfer, mortgage, encumber or otherwise dispose of any material assets or properties, or cancel, release or assign any material indebtedness;

enter into any new line of business or change in any material respect its lending, investment, underwriting, risk and asset liability management and other banking, operating, and servicing policies other than as required by applicable law;

make any material investment for its own account either by purchase of securities, capital contributions, property transfers or purchase of property or assets;

take any action or knowingly fail to take any action reasonably likely to prevent the merger from qualifying as a reorganization for United States federal income tax purposes;

amend its charter or bylaws;

restructure or materially change its investment securities portfolio or its gap position;

commence or settle any material claim except settlements involving only monetary remedies in the ordinary course of business consistent with past practice not in excess of $500,000 individually or $2,000,000 in the aggregate;

take any action that is intended, or may be reasonably expected, to cause any of the conditions to the merger to fail to be satisfied;

make any material change to its financial accounting methods, except as required by applicable law or generally accepted or regulatory accounting principles;

enter into, renew or terminate, or make any payment not then required under employment contracts, material contracts, exclusivity arrangements, collective bargaining agreement, or other certain types of contracts other than, subject to certain exceptions, in the ordinary course of business consistent with past practice;

make, change, or revoke any material tax election, change an annual tax accounting period, adopt or change any tax accounting method, file any material amended tax return, enter into any closing agreement with respect to a material amount of taxes, settle any material tax claim or assessment or surrender any right to claim a refund of a material amount of taxes;

file any application to establish, or to relocate or terminate the operations of, any banking office of Mercantile or any Mercantile subsidiary; or

agree to take or adopt any resolutions by the board of directors in support of any of the actions prohibited by the preceding bullets.

PNC agrees that, except with Mercantile s prior written consent, PNC will not, among other things, undertake the following extraordinary actions:

amend any charter documents in a manner that would adversely affect Mercantile or its stockholders or the merger;

take any action or knowingly fail to take any action reasonably likely to prevent the merger from qualifying as a reorganization for United States federal income tax purposes;

take any action that is intended, or may be reasonably expected, to result in any of the conditions to the merger not being satisfied;

take any action that would reasonably be expected to prevent, materially impede or materially delay completion of the merger;

make or pay any extraordinary one-time dividend or distribution on shares of PNC common stock (other than any dividend or distribution of PNC common stock); or

agree to take or adopt any resolutions by the board of directors in support of any of the actions prohibited by the preceding bullets.

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The merger agreement also contains mutual covenants relating to the preparation of this document and the holding of the special meeting of Mercantile stockholders, access to information of the other company and public announcements with respect to the transactions contemplated by the merger agreement. Mercantile and PNC have also agreed to use their reasonable best efforts to take all actions needed to obtain necessary governmental and third party consents. Notwithstanding the foregoing, PNC is not required to take any action in connection with obtaining the necessary governmental and third party consents that would reasonably be expected to have a material adverse effect, measured relative to Mercantile.

Reasonable Best Efforts of Mercantile to Obtain the Required Stockholder Vote

Mercantile has agreed to hold a meeting of its stockholders as soon as is reasonably practicable for the purpose of obtaining stockholder approval of the merger. Mercantile will use its reasonable best efforts to obtain such approval. Mercantile s board of directors may withdraw, modify, condition or refuse to recommend the adoption of the merger agreement if Mercantile s board of directors determines, in good faith 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. Notwithstanding the forgoing, the merger agreement requires Mercantile to submit the merger agreement to a stockholder vote even if its board of directors no longer recommends approval of the merger agreement, in which event the board may communicate its basis for its lack of a recommendation to stockholders.

Agreement Not to Solicit Other Offers

Mercantile also has agreed that it, its subsidiaries and their officers, directors, or employees will not, directly or indirectly:

- initiate, solicit, encourage or facilitate any inquiries or proposals for any Alternative Proposal (as defined below); or

- participate in any discussions or negotiations, or enter into any agreement, regarding any Alternative Transaction (as defined below).

However, prior to the special meeting, Mercantile may consider and participate in discussions and negotiations with respect to a *bona fide* Alternative Proposal if (1) it has first entered into a confidentiality agreement with the party proposing the Alternative Proposal on terms comparable to the confidentiality agreement with PNC and (2) the Mercantile board of directors determines reasonably in good faith (after consultation with outside legal counsel) that failure to take these actions would be inconsistent with its fiduciary duties.

Mercantile has agreed:

- to notify PNC promptly (but in no event later than 24 hours) after it receives any Alternative Proposal, or any material change to any Alternative Proposal, or any request for nonpublic information relating to Mercantile or any of its subsidiaries, and to provide PNC with relevant information regarding the Alternative Proposal or request;

- to keep PNC fully informed, on a current basis, of any material changes in the status and any material changes in the terms of any such Alternative Proposal; and

- to cease any existing discussions or negotiations with any persons with respect to any Alternative Proposal, and to use reasonable best efforts to cause all persons other than PNC who have been furnished with confidential information in connection with an Alternative Proposal within the 12 months prior to the date of the merger agreement to return or destroy such information.

As used in the merger agreement, an Alternative Proposal means any inquiry or proposal regarding any merger, share exchange, consolidation, sale of assets, sale of shares of capital stock (including by way of a tender offer) or similar transactions involving Mercantile or any of its subsidiaries that, if completed, would constitute an Alternative Transaction.

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As used in the merger agreement, Alternative Transaction means any of the following:

- a transaction pursuant to which any person (or group of persons) other than PNC or its affiliates, directly or indirectly, acquires or would acquire more than 25% of the outstanding shares of Mercantile common stock or outstanding voting power or of any new series or new class of Mercantile preferred stock that would be entitled to a class or series vote with respect to the merger, whether from Mercantile or pursuant to a tender offer or exchange offer or otherwise;

- a merger, share exchange, consolidation or other business combination involving Mercantile (other than the merger being described here);

- any transaction pursuant to which any person (or group of persons) other than PNC or its affiliates acquires or would acquire control of assets (including, for this purpose, the outstanding equity securities of subsidiaries of Mercantile and securities of the entity surviving any merger or business combination including any of Mercantile s subsidiaries) of Mercantile, or any of its subsidiaries representing more than 25% of the fair market value of all the assets, net revenues or net income of Mercantile and its subsidiaries, taken as a whole, immediately prior to such transaction; or

- any other consolidation, business combination, recapitalization or similar transaction involving Mercantile or any of its subsidiaries, other than the transactions contemplated by the merger agreement, as a result of which the holders of shares of Mercantile common stock immediately prior to the transaction do not, in the aggregate, own at least 75% of each of the outstanding shares of common stock and the outstanding voting power of the surviving or resulting entity in the transaction immediately after the completion of the transaction in substantially the same proportion as the holders held the shares of Mercantile common stock immediately prior to the completion of the transaction.

Expenses and Fees

In general, each of PNC and Mercantile will be responsible for all expenses incurred by it in connection with the negotiation and completion of the transactions contemplated by the merger agreement. However, the costs and expenses of printing and mailing this document, and all filing and other fees paid to the SEC in connection with the merger, shall be borne equally by Mercantile and PNC.

Employee Matters

PNC has agreed, with respect to the employees of Mercantile and its subsidiaries at the effective time, it will or will cause its applicable subsidiaries to provide such employees in the aggregate with employee benefits, rates of base salary or hourly wage and annual bonus opportunities that are (1) substantially similar in the aggregate to the aggregate employee benefits, rates of base salary or hourly wage and annual bonus opportunities provided to such employees pursuant to Mercantile s benefit plans as in effect immediately prior to the merger or (2) no less favorable than those provided to similarly situated PNC employees, and provide severance protection for such employees who are terminated without cause during the one-year period following the merger.

In addition, PNC has agreed, to the extent any Mercantile employee becomes eligible to participate in PNC benefit plans following the merger:

- generally to recognize each employee s service with Mercantile prior to the completion of the merger for purposes of eligibility to participate, vesting credits and, except under defined benefit pension plans, other than for certain purposes, benefit accruals, in each case under the PNC plans to the same extent such service was recognized under comparable Mercantile plans prior to completion of the merger; and

- to waive any exclusion for pre-existing conditions under any PNC health, dental or vision plans, to the extent such limitation would have been waived or satisfied under a corresponding Mercantile plan in which such employee participated immediately prior to the effective time, and recognize any medical or health expenses incurred in the year in which the merger closes for purposes of applicable deductible and annual out-of-pocket expense requirements under any health, dental or vision plan of PNC.

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However, PNC has no obligation to continue the employment of any Mercantile employee for any period following the merger.

Indemnification and Insurance

The merger agreement requires PNC to maintain in effect for six years after completion of the merger the current rights of Mercantile directors, officers and employees to indemnification under the Mercantile articles of incorporation or the Mercantile bylaws or disclosed agreements of Mercantile. The merger agreement also provides that, upon completion of the merger, PNC will indemnify and hold harmless, and provide advancement of expenses to, all past and present officers, directors and employees of Mercantile and its subsidiaries in their capacities as such against all losses, claims, damages, costs, expenses, liabilities, judgments or amounts paid in settlement to the fullest extent permitted by applicable laws.

The merger agreement provides that PNC will maintain for a period of six years after completion of the merger Mercantile s current directors and officers liability insurance policies, or policies of at least the same coverage and amount and containing terms and conditions that are not less advantageous than the current policy, with respect to acts or omissions occurring prior to the effective time of the merger, except that PNC is not required to incur annual premium expense greater than 250% of Mercantile s current annual directors and officers liability insurance premium.

Conditions to Complete the Merger

Our respective obligations to complete the merger are subject to the fulfillment or waiver of certain conditions, including:

- the approval of the merger by Mercantile stockholders;
- the approval of the listing of PNC common stock to be issued in the merger on the NYSE, subject to official notice of issuance;
- the effectiveness of the registration statement of which this document is a part with respect to the PNC common stock to be issued in the merger under the Securities Act and the absence of any stop order or proceedings initiated or threatened by the SEC for that purpose; and
- the absence of any law, statute, regulation, judgment, decree, injunction or other order in effect by any court or other governmental entity that prohibits completion of the transactions contemplated by the merger agreement.

Each of PNC s and Mercantile s obligations to complete the merger is also separately subject to the satisfaction or waiver of a number of conditions including:

- the receipt by each of PNC and Mercantile of a legal opinion with respect to certain United States federal income tax consequences of the merger;
- the receipt and effectiveness of all governmental and other approvals, registrations and consents, and the expiration of all related waiting periods required to complete the merger (in the case of the conditions to PNC s obligation to complete the merger, without any conditions or restrictions that would have a material adverse effect on PNC, measured on a scale relative to Mercantile); and
- the truth and correctness of the representations and warranties of each other party in the merger agreement, subject to the materiality standard provided in the merger agreement, and the performance by each other party in all material respects of their obligations under the merger agreement and the receipt by each party of certificates from the other party to that effect.

We cannot provide assurance as to when or if all of the conditions to the merger can or will be satisfied or waived by the appropriate party. As of the date of this document, we have no reason to believe that any of these conditions will not be satisfied.

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Termination of the Merger Agreement

The merger agreement can be terminated at any time prior to completion by mutual consent, if authorized by each of our boards of directors, or by either party in the following circumstances:

- if any of the required regulatory approvals are denied (and the denial is final and nonappealable);
- if the merger has not been completed by October 8, 2007, unless the failure to complete the merger by that date is due to the terminating party s failure to abide by the merger agreement;
- if there is a breach by the other party that would cause the failure of the closing conditions described above, unless the breach is capable of being, and is, cured within 45 days of notice of the breach; or
- if the stockholders of Mercantile fail to approve the merger at the special meeting.

In addition, PNC may terminate the merger agreement if the Mercantile board of directors fails to recommend that Mercantile stockholders approve the merger, withdraws, modifies or qualifies in a manner adverse to PNC its recommendation of the merger to stockholders, or recommends a competing merger proposal in a manner adverse to PNC. 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.

Effect of Termination. If the merger agreement is terminated, it will become void, and there will be no liability on the part of PNC or Mercantile, except that (1) both PNC and Mercantile will remain liable for any willful breach of the merger agreement and (2) designated provisions of the merger agreement, including the payment of fees and expenses, the confidential treatment of information and publicity restrictions, will survive the termination.

Termination Fee

Mercantile must pay PNC a termination fee of $225 million if:

- the merger agreement is terminated by PNC as a result of the PNC termination rights described under Termination of the Merger Agreement above relating to the Mercantile stockholder recommendation and compliance with the stockholder vote and non-solicit covenants; or
- (1) a competing takeover proposal is made to Mercantile or its stockholders or has been publicly announced, (2) the merger agreement is terminated by Mercantile or PNC because the merger has not been completed within one year of signing or because the stockholders of Mercantile do not approve the merger at the stockholder meeting and (3) either Mercantile completes an alternative transaction within 12 months of termination or Mercantile enters into a definitive agreement relating to a competing takeover proposal within 12 months of termination (in which case Mercantile will pay one-third of the termination fee on that date) and the transaction is completed within 18 months of termination (in which case Mercantile will pay the remaining two-thirds of the termination fee).

Amendment, Waiver and Extension of the Merger Agreement

Subject to applicable law, the parties may amend the merger agreement by action taken or authorized by their boards of directors or by written agreement. However, after any approval of the transactions contemplated by the merger agreement by the Mercantile stockholders, there may not be, without further approval of those stockholders, any amendment of the merger agreement that (1) changes the amount or the form of the consideration to be delivered to the holders of Mercantile common stock, (2) changes any term of the articles of incorporation of the combined company or (3) changes any of the terms and conditions of the merger agreement if such change would adversely affect the holders of any Mercantile securities, in each case other than as contemplated by the merger agreement.

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At any time prior to the completion of the merger, each of us, by action taken or authorized by our respective board of directors, to the extent legally allowed, may:

- extend the time for the performance of any of the obligations or other acts of the other party;
- waive any inaccuracies in the representations and warranties of the other party; or
- waive compliance by the other party with any of the other agreements or conditions contained in the merger agreement.

Resales of PNC Stock by Affiliates

Shares of PNC common stock to be issued to Mercantile stockholders in the merger have been registered under the Securities Act, and may be traded freely and without restriction by those stockholders not deemed to be affiliates (as that term is defined under the Securities Act) of Mercantile. Any subsequent transfers of shares, however, by any person who is an affiliate of Mercantile at the time the merger is submitted for a vote of the Mercantile stockholders will, under existing law, require:

- the further registration under the Securities Act of the PNC stock to be transferred;
- compliance with Rule 145 promulgated under the Securities Act, which permits limited sales under certain circumstances; or
- the availability of another exemption from registration.

An affiliate of Mercantile is a person who directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, Mercantile. These restrictions are expected to apply to the directors and executive officers of Mercantile and the holders of 10% or more of the outstanding Mercantile common stock. The same restrictions apply to the spouses and certain relatives of those persons and any trusts, estates, corporations or other entities in which those persons have a 10% or greater beneficial or equity interest.

PNC will give stop transfer instructions to the exchange agent with respect to the shares of PNC common stock to be received by persons subject to these restrictions, and the certificates for their shares will be appropriately legended. PNC is not required to further register the sale of PNC common stock to be issued to affiliates of Mercantile.

Mercantile has agreed in the merger agreement to use its reasonable best efforts to cause each person who is an affiliate of Mercantile for purposes of Rule 145 under the Securities Act to deliver to PNC a written agreement intended to ensure compliance with the Securities Act.

ACCOUNTING TREATMENT

The merger will be accounted for as a purchase, as that term is used under generally accepted accounting principles, for accounting and financial reporting purposes. Under purchase accounting, the assets (including identifiable intangible assets) and liabilities (including executory contracts and other commitments) of Mercantile as of the effective time of the merger will be recorded at their respective fair values and added to those of PNC. Any excess of purchase price over the fair values is recorded as goodwill. Financial statements of PNC issued after the merger would reflect these fair values and would not be restated retroactively to reflect the historical financial position or results of operations of Mercantile.

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MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

In the opinions of Wachtell, Lipton, Rosen & Katz and Davis Polk & Wardwell, the following are the anticipated material United States federal income tax consequences to U.S. holders (as defined below) of Mercantile common stock of the receipt of shares of PNC common stock and cash in exchange for Mercantile common stock pursuant to the merger. This summary is based upon the provisions of the Code, applicable current and proposed United States Treasury Regulations, judicial authorities and administrative rulings and practice, all as in effect as of the date of this registration statement and all of which are subject to change, possibly on a retroactive basis.

For purposes of this discussion, the term U.S. holder means a beneficial owner of Mercantile common stock that is for United States federal income tax purposes: (i) a citizen or resident of the United States; (ii) a corporation, or other entity taxable as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia; (iii) a trust if it (a) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (b) has a valid election in effect under applicable United States Treasury Regulations to be treated as a United States person; or (iv) an estate the income of which is subject to United States federal income tax regardless of its source.

Holders of Mercantile common stock who are not U.S. holders may have different tax consequences than those described below and are urged to consult their own tax advisors regarding the tax treatment to them under United States and non-United States tax laws.

The United States federal income tax consequence to a partner in an entity treated as a partnership, for United States federal income tax purposes, that holds Mercantile common stock generally will depend on the status of the partner and the activities of the partnership. Partners in a partnership holding Mercantile common stock should consult their own tax advisors.

This discussion assumes that a U.S. holder holds Mercantile common stock as a capital asset within the meaning of Section 1221 of the Code. This discussion does not address all aspects of United States federal income taxation that may be relevant to a U.S. holder in light of its personal circumstances or to U.S. holders subject to special treatment under the United States federal income tax laws (for example, insurance companies, dealers or brokers in securities or currencies, traders in securities who elect mark-to-market accounting, tax-exempt organizations, financial institutions, mutual funds, partnerships or other pass-through entities (and persons holding Mercantile common stock through a partnership or other pass-through entity), United States expatriates and stockholders subject to alternative minimum tax, U.S. holders who hold Mercantile common stock as part of a hedging, straddle, conversion or other integrated transaction, a person whose functional currency for United States federal income tax purposes in not the U.S. dollar or U.S. holders who acquired their Mercantile common stock through the exercise of employee stock options or other compensation arrangements). In addition, the discussion does not address any aspect of foreign, state, local, estate or gift taxation that may be applicable to a U.S. holder.

Holders of Mercantile common stock are strongly urged to consult with their own tax advisors as to the tax consequences of the merger on their particular circumstances, including the applicability and effect of the alternative minimum tax and any state, local or foreign and other tax laws and of changes in those laws.

Tax Consequences of the Merger Generally

In the opinions of Wachtell, Lipton, Rosen & Katz and Davis Polk & Wardwell, the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. It is a condition to PNC s obligation to complete the merger that PNC receive an opinion of its counsel, Wachtell, Lipton, Rosen & Katz, dated the closing date of the merger, substantially to the effect that the merger will be treated as a reorganization within the

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meaning of Section 368(a) of the Code. It is a condition to Mercantile s obligation to complete the merger that Mercantile receive a further opinion of its counsel, Davis Polk & Wardwell, dated the closing date of the merger, substantially to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code. These opinions are and will be based on facts, representations and assumptions set forth in the opinion and representations set forth in certificates to be received from PNC and Mercantile. None of the tax opinions given in connection with the merger or the opinions described below will be binding on the Internal Revenue Service, and neither PNC nor Mercantile intends to request any ruling from the Internal Revenue Service as to the United States federal income tax consequences of the merger.

Consequently, no assurance can be given that the Internal Revenue Service will not assert, or that a court would not sustain, a position contrary to any of those set forth below. In addition, if any of the facts, representations or assumptions upon which those opinions are based is inconsistent with the actual facts, the United States federal income tax consequences of the merger could be adversely affected. It is assumed for purposes of the remainder of the discussion that the merger will qualify as a reorganization within the meaning of the Code. Based on this assumption, upon the exchange of Mercantile common stock for a combination of PNC common stock and cash, a U.S. holder will generally recognize gain (but not loss) in an amount equal to the lesser of:

- the amount of gain realized (i.e., the excess, if any, of the sum of the cash and the fair market value of the PNC common stock a U.S. holder received over its tax basis in the Mercantile common stock surrendered in the merger); and

- the amount of cash received in the merger (other than cash received instead of a fractional share of PNC common stock).

For this purpose, gain or loss must be calculated separately for each identifiable block of shares surrendered in the exchange, and a loss realized on one block of shares may not be used to offset a gain realized on another block of shares. If a U.S. holder has different bases or holding periods in respect of shares of Mercantile common stock, a U.S. holder should consult its tax advisor prior to the exchange with regard to identifying the bases or holding periods of the particular shares of PNC common stock received in the merger.

Any recognized gain will generally be long-term capital gain if the U.S. holder s holding period with respect to the Mercantile common stock surrendered is more than one year at the effective time of the merger. In some cases, where a U.S. holder actually or constructively owned PNC common stock immediately before the merger, such cash received in the merger could be treated as having the effect of the distribution of a dividend, under the tests set forth in Section 302 of the Code, in which case such gain would be treated as ordinary dividend income. These rules are complex and dependent upon the specific factual circumstances particular to each U.S. holder. Consequently, each U.S. holder that may be subject to those rules should consult its tax advisor as to the application of these rules to the particular facts relevant to such U.S. holder.

Tax Basis and Holding Period

A U.S. holder s aggregate tax basis in the shares of PNC common stock received in the merger, including any fractional share interests deemed received by the U.S. holder under the treatment described below, will equal its aggregate adjusted tax basis in the Mercantile common stock surrendered in the merger, increased by the amount of taxable gain, if any, recognized in the merger (including any portion of the gain that is treated as a dividend but excluding any gain or loss resulting from the deemed receipt and redemption of a fractional share interest described below) and decreased by the amount of any cash received in the merger (excluding any cash received instead of a fractional share interest). The holding period for the shares of PNC common stock received in the merger (including a fractional share interest deemed received and redeemed as described below) will include the holding period for the shares of Mercantile common stock surrendered in the merger.

Cash Instead of a Fractional Share

A U.S. holder who receives cash instead of a fractional share of PNC common stock will be treated as having received the fractional share of PNC common stock pursuant to the merger and then as having exchanged the fractional share of PNC common stock for cash in a redemption by PNC. In general, this deemed redemption will be treated as a sale or exchange, provided the redemption is not essentially equivalent to a dividend. The determination of whether a redemption is essentially equivalent to a dividend depends upon whether and to what extent the redemption reduces the U.S. holder s deemed percentage stock ownership of PNC. While this determination is based on each U.S. holder s particular facts and circumstances, the Internal Revenue Service has ruled that a redemption is not essentially equivalent to a dividend and will therefore result in sale or exchange treatment in the case of a shareholder of a publicly held company whose relative stock interest is minimal and who exercises no control over corporate affairs if the redemption results in even a minor reduction in the stock interest of the shareholder. As a result, the redemption of a fractional share of PNC common stock is generally treated as a sale or exchange and not as a dividend, and a U.S. holder generally will recognize capital gain or loss equal to the difference between the amount of cash received and the basis in its fractional share of PNC common stock as set forth above. This capital gain or loss generally will be long-term capital gain or loss if, as of the effective date of the merger, the holding period for the shares is greater than one year. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding

Cash payments received in the merger by a U.S. holder may, under certain circumstances, be subject to information reporting and backup withholding (currently at a rate of 28%) of the cash payable to the holder, unless the holder provides proof of an applicable exemption or furnishes its taxpayer identification number, and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a U.S. holder under the backup withholding rules are not additional tax and will be allowed as a refund or credit against the U.S. holder s United States federal income tax liability, provided that the required information is timely furnished to the Internal Revenue Service.

Reporting Requirements

A U.S. holder who receives shares of PNC common stock as a result of the merger will be required to retain records pertaining to the merger and will be required to file with its United States federal income tax return for the year in which the merger takes place a statement setting forth certain facts relating to the merger.

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INFORMATION ABOUT THE COMPANIES

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.

Additional information about PNC and its subsidiaries is included in documents incorporated by reference in this document. See Where You Can Find More Information on page 77.

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.

Additional information about Mercantile and its subsidiaries is included in documents incorporated by reference in this document. See Where You Can Find More Information on page 77.

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PRO FORMA FINANCIAL INFORMATION

THE PNC FINANCIAL SERVICES GROUP, INC. AND

MERCANTILE BANKSHARES CORPORATION

The following unaudited pro forma condensed combined financial statements combine the historical consolidated financial statements of PNC and its subsidiaries and of Mercantile and its subsidiaries, as an acquisition by PNC of Mercantile using the purchase method of accounting and giving effect to the related pro forma adjustments described in the accompanying notes. The unaudited pro forma condensed combined balance sheet gives effect to the merger as if it had occurred on September 30, 2006. The unaudited pro forma condensed combined income statements for the nine months ended September 30, 2006 and the year ended December 31, 2005, give effect to the merger as if the merger had become effective at the beginning of each period presented.

The unaudited pro forma condensed combined financial statements included herein are presented for informational purposes only. This information does not reflect the benefits of the expected cost savings or opportunities to earn additional revenue and includes various estimates and may not necessarily be indicative of the financial position or results of operations that would have occurred if the merger had been consummated on the date or at the beginning of the period indicated or which may be attained in the future. The unaudited pro forma condensed combined financial statements and accompanying notes should be read in conjunction with and are qualified in their entirety by reference to the historical consolidated financial statements and related notes thereto of PNC and its subsidiaries and of Mercantile and its subsidiaries, such information and notes thereto are incorporated by reference herein.

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THE PNC FINANCIAL SERVICES GROUP, INC.

Pro Forma Condensed Combined Balance Sheet

At September 30, 2006

In millions, except par value	PNC as Reported (a) (Unaudited)	MRBK as Reported (b) (Unaudited)	Pro Forma Adjustments (Unaudited)	Notes	Pro Forma Combined (Unaudited)
Assets					
Cash and due from banks	$ 3,018	$ 318			$ 3,336
Federal funds sold and resale agreements	2,818	134			2,952
Other short-term investments, including trading securities	2,718				2,718
Loans held for sale	4,317	2			4,319
Securities available for sale and held to maturity	19,512	3,141			22,653
Loans, net of unearned income	48,900	12,534	$ (120)	(A)	61,314
Allowance for loan and lease losses	(566)				