

PNC FINANCIAL SERVICES GROUP INC
Form DEF 14A
March 19, 2004
Table of Contents

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
(Amendment No. __)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

The PNC Financial Services Group, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

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

(3) Per unit price or other underlying value of 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 transaction:

(5) Total fee paid:

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.

Edgar Filing: PNC FINANCIAL SERVICES GROUP INC - Form DEF 14A

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

Table of Contents

James E. Rohr

Chairman and Chief Executive Officer

March 19, 2004

Dear Fellow Shareholder:

We are looking forward to discussing the business of your company with you at the 2004 annual meeting. PNC's Board of Directors and management team remain focused on building shareholder value and enhancing your company's corporate governance, regulatory relations, and risk management practices. I hope that you will be able to attend the annual meeting to hear about our progress during 2003 and our goals for the future.

Enclosed are the notice of meeting, proxy statement, and proxy card for the annual meeting of shareholders of The PNC Financial Services Group, Inc., which will be held on Tuesday, April 27, 2004, at One PNC Plaza, 15th Floor, 249 Fifth Avenue, in Pittsburgh, Pennsylvania, beginning at 11:00 a.m., local time. Our 2003 Annual Report on Form 10-K and Summary Annual Report to Shareholders accompany these enclosures.

Please review the enclosed material and complete, sign, date and return the proxy card regardless of whether or not you plan to attend the annual meeting so that the matters coming before the meeting can be acted upon. Instead of returning a proxy card, you may choose to vote your PNC shares by using the Internet or telephone voting options explained on your proxy card. You can also consent to access future annual reports, proxy statements, and other proxy soliciting material by means of the Internet, rather than receiving paper copies. Details are provided on your proxy card.

If you're not able to attend the annual meeting in person, you can choose to listen to the meeting by webcast or telephone conference options, which are explained on the opposite side of this letter.

Cordially,

James E. Rohr

Table of Contents

The PNC Financial Services Group

One PNC Plaza 249 Fifth Avenue Pittsburgh Pennsylvania 15222-2707

Table of Contents

IMPORTANT NOTICE REGARDING DELIVERY OF SECURITY HOLDER DOCUMENTS

In order to reduce printing and postage costs, The PNC Financial Services Group, Inc. (PNC) has undertaken an effort to deliver only one set of annual reports and one proxy statement to multiple shareholders sharing an address. This delivery method, called householding, is not being used, however, if PNC has received contrary instructions from one or more of the shareholders sharing an address. If your household has received only one set of annual reports and one proxy statement, PNC will deliver promptly a separate copy of the 2003 Annual Report on Form 10-K, the Summary Annual Report and the proxy statement to any shareholder who sends a written request to Computershare Investor Services, LLC (Computershare), P.O. Box 3504, Chicago, IL 60690-3504 or calls Computershare at 1-800-982-7652. You can also notify PNC that you would like to receive separate copies of PNC 's annual reports and proxy statement in the future by writing or calling Computershare. Even if your household has received only one set of annual reports and one proxy statement, a separate proxy card has been provided for each shareholder account. Each proxy card should be signed, dated, and returned in the enclosed self-addressed envelope. Neither the 2003 Annual Report on Form 10-K nor the 2003 Summary Annual Report to Shareholders is part of the proxy solicitation materials.

If your household has received multiple copies of PNC 's annual reports and proxy statement, you can request the delivery of single copies in the future by writing or calling Computershare as instructed above.

WEBCAST AND TELECONFERENCE DIRECTIONS

You are cordially invited to listen to PNC 's 2004 annual meeting of shareholders webcast live via the Internet on Tuesday, April 27, 2004, beginning at 11 a.m. Eastern Time. The audio portion of the event will also be available in a listen-only mode via telephone conference call. Using the webcast will enable you to view the slides shown at the meeting and hear the speakers on a synchronized basis. Neither the webcast nor the teleconference will enable you to ask questions or to vote your PNC shares.

To access the meeting, please go to PNC 's web site at www.pnc.com under For Investors or dial 800-990-2718 (domestic) or 1-706-643-0187 (international), using the passcode PNC, at least 15 minutes prior to the designated starting time to register and download any necessary audio software. If you plan to listen online, it is suggested that you test your computer 's access to RealNetworks RealPlayer or Windows MediaPlayer by visiting the above URL no earlier than one week prior to the meeting date.

If you are unable to listen online or via teleconference during the meeting, a replay of the event will be available on PNC 's Web site for thirty days after the meeting. The audio portion of the event will also be archived for one week after the meeting by teleconference at 800-642-1687 (domestic) and 1-706-645-9291 (international) entering conference ID number 5975423.

Note: Minimum requirements to listen to this broadcast online: The RealPlayer software, downloadable free from www.real.com/products/player/index.html, and at least a 14.4Kbps connection to the Internet or Windows MediaPlayer software, downloadable at www.microsoft.com/windows/windowsmedia/en/download/default.asp.

Table of Contents

March 19, 2004

Notice of Annual Meeting of Shareholders

April 27, 2004

TO THE SHAREHOLDERS:

The annual meeting of the shareholders of The PNC Financial Services Group, Inc. will be held at One PNC Plaza, 15th Floor, 249 Fifth Avenue, Pittsburgh, Pennsylvania on Tuesday, April 27, 2004, beginning at 11:00 a.m., local time, for the purpose of considering and acting upon the following matters:

- (1) The election of 16 directors to serve until the next annual meeting and until their successors are elected and qualified; and
- (2) Such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record at the close of business on February 27, 2004 are entitled to receive notice of, and to vote at, the meeting and any adjournment thereof.

A proxy statement, form of proxy and self-addressed envelope are enclosed. Please complete, date and sign the proxy card. Return it promptly in the envelope provided, which requires no postage if mailed in the United States. Alternatively, you may choose to vote your shares using the Internet or telephone voting options explained on the proxy card. If you attend the meeting, you may withdraw your proxy and vote in person if you so choose.

By Order of the Board of Directors,

Thomas R. Moore

Corporate Secretary

The PNC Financial Services Group

One PNC Plaza 249 Fifth Avenue Pittsburgh Pennsylvania 15222-2707

Table of Contents**TABLE OF CONTENTS**

| | <u>Page (s)</u> |
|--|-----------------|
| <u>Preliminary Information</u> | 1 |
| <u>Proxy solicitation information</u> | |
| <u>Revocability of proxy</u> | |
| <u>Shares outstanding on record date</u> | |
| <u>Number of votes per share</u> | |
| <u>Item 1 Election of Directors</u> | 2 3 |
| <u>Corporate Governance at PNC</u> | 4 17 |
| <u>Director Independence</u> | 4 6 |
| <u>Meetings of Non-Management and Independent Directors</u> | 6 |
| <u>Communicating With PNC's Directors</u> | 7 |
| <u>PNC's Director Nomination Process/ The Nominating and Governance Committee</u> | 7 9 |
| <u>The Personnel and Compensation Committee</u> | 9 |
| <u>The Audit Committee</u> | 10 |
| <u>PNC's Corporate Governance Guidelines</u> | 11 |
| <u>PNC's Code of Business Conduct and Ethics</u> | 11 |
| <u>Shareholder Proposals and Nominations</u> | 11 12 |
| <u>Confidential Voting</u> | 13 |
| <u>Common Stock Purchase Guidelines for Non-Management Directors</u> | 13 |
| <u>Stock Ownership Guidelines for Executive Officers</u> | 13 |
| <u>Other Board Committees</u> | 14 15 |
| <u>Compensation of Directors</u> | 15 17 |
| <u>Security Ownership of Directors, Nominees and Executive Officers</u> | 18 20 |
| <u>Security Ownership of Certain Beneficial Owners</u> | 20 |
| <u>Transactions Involving Directors and Executive Officers</u> | 20 21 |
| <u>Section 16(a) Beneficial Ownership Reporting Compliance</u> | 21 |
| <u>Compensation of Executive Officers</u> | 21 37 |
| <u>Personnel and Compensation Committee Report on Executive Compensation for the Fiscal Year 2003</u> | 22 28 |
| <u>Compensation Committee Interlocks and Insider Participation</u> | 28 |
| <u>Change in Control and Other Arrangements</u> | 28 30 |
| <u>Summary Compensation Table</u> | 31 33 |
| <u>Option Grants in 2003 Table</u> | 33 34 |
| <u>Aggregated Option Exercises in 2003 and 2003 Year-End Option Values Table</u> | 35 |
| <u>1997 Long-Term Incentive Award Plan, As Amended-Awards in 2003 Table</u> | 35 36 |
| <u>Pension Benefits</u> | 37 |
| <u>Common Stock Performance Graph</u> | 38 |
| <u>Voting Procedures</u> | 39 |
| <u>Independent Auditors</u> | 40 43 |
| <u>The Audit Committee's Procedures for the Pre-approval of Audit and Permitted Non-Audit Services</u> | 40 41 |
| <u>Audit and Other Fees</u> | 41 42 |
| <u>Report of the Audit Committee</u> | 43 |
| <u>Other Matters</u> | 44 |

EXHIBITS

Exhibit A Categorical Standards to Assist the Board of Directors in Determining the Independence of the Corporation's Directors for Purposes of Section 303A of the New York Stock Exchange Listed Company Manual as Adopted by the Board of Directors on January 6, 2004

Exhibit B Charter of the Audit Committee of the Board of Directors as Approved and Amended January 6, 2004

Table of Contents

March 19, 2004

Proxy Statement

FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD

APRIL 27, 2004

The enclosed proxy is being solicited by the Board of Directors (**Board of Directors** or **Board**) of The PNC Financial Services Group, Inc. (**Corporation** or **PNC**) for use at the Corporation's annual meeting of shareholders to be held on April 27, 2004, or at any adjournment thereof (**meeting** or **annual meeting**). Solicitation of proxies may be made by mail, personal interviews, telephone and facsimile by officers and employees of the Corporation and its subsidiaries. The Corporation has retained D. F. King & Co., Inc. to assist in the solicitation of proxies for a fee of \$13,500 plus out-of-pocket expenses. Brokerage houses and other custodians, nominees and fiduciaries will be requested to forward soliciting material to the beneficial owners of the stock held of record by such persons. Expenses for such solicitation will be borne by the Corporation. The proxy statement and form of proxy are first being mailed to shareholders on or about March 19, 2004.

The enclosed proxy is revocable at any time prior to the time voting is declared closed by the filing of an instrument revoking it, or of a duly executed proxy bearing a later date, with the Corporate Secretary of the Corporation, or by a properly authenticated electronic transmission revoking it or transmitting a proxy bearing a later date, or by attending the meeting and voting in person. All properly executed or authenticated proxies received by the Corporate Secretary prior to the time voting is declared closed, and not revoked or superseded prior to that time, will be voted at the meeting in accordance with the instructions set forth on the proxy, if any. Unless otherwise directed, proxies will be voted FOR the election as director of each of the persons named on page 3.

The Board of Directors has fixed the close of business on February 27, 2004 as the record date for determining shareholders entitled to receive notice of and to vote at the meeting (**Record Date**). On the Record Date, there were issued and outstanding 282,862,121 shares of the Corporation's common stock, par value \$5.00 per share (**Common Stock**), and the following shares of the Corporation's preferred stock entitled to vote at the meeting: 8,542 shares of \$1.80 Cumulative Convertible Preferred Stock-Series A (**Preferred Stock-A**); 2,356 shares of \$1.80 Cumulative Convertible Preferred Stock-Series B (**Preferred Stock-B**); 173,877 shares of \$1.60 Cumulative Convertible Preferred Stock-Series C (**Preferred Stock-C**); and 242,243 shares of \$1.80 Cumulative Convertible Preferred Stock-Series D (**Preferred Stock-D**) (collectively, **Voting Preferred Stock**).

The holders of Common Stock are entitled to one vote per share. Holders of each share of Voting Preferred Stock are entitled to a number of votes equal to the number of full shares of Common Stock which can be acquired upon conversion of such preferred stock, with holders of Preferred Stock-A and Preferred Stock-B being entitled to 8 votes per share and holders of Preferred Stock-C and Preferred Stock-D being entitled to 4 votes per 2.4 shares. Holders of record of the Common Stock and Voting Preferred Stock will vote together as a single class at the meeting. The presence in person or by proxy of shareholders entitled to cast at least a majority of the votes that all holders of the Common Stock and the Voting Preferred Stock are entitled to cast at the meeting will constitute a quorum for the transaction of business at the meeting.

Table of Contents

ITEM 1

ELECTION OF DIRECTORS

Information Concerning Nominees

The By-Laws of the Corporation provide that the number of directors shall not be fewer than five nor more than 36 as from time to time determined by the Board of Directors. Acting upon the recommendation of its Nominating and Governance Committee, the Board has fixed the number of directors to be elected at the annual meeting at 16 and has nominated the persons named on page 3 for election as directors, to hold office until the next annual meeting of shareholders and the election and qualification of their successors.

The proxies solicited hereby, unless directed to the contrary therein, will be voted FOR all of the nominees named on page 3. All such nominees are now directors of the Corporation. All nominees have consented to being named in this proxy statement and to serve if elected. The Board of Directors has no reason to believe that any nominee will be unavailable or unable to serve as a director, but if for any reason any nominee should not be available or able to serve, the accompanying proxy will be voted by the person or persons acting under said proxy in accordance with the recommendation of the Board of Directors.

The table on page 3 sets forth the names of the nominees for election as directors of the Corporation; their ages; their principal occupations as of March 5, 2004; the years the nominees first became directors of the Corporation; and their directorships of certain other companies. Except as otherwise indicated, all nominees have held the positions indicated or another senior executive position with the same entity or one of its affiliates or a predecessor corporation for at least the past five years.

Table of Contents

| <i>Name</i> | <i>Age</i> | <i>Principal Occupation</i> | <i>Director Since</i> | <i>Directorships in Companies</i> |
|-------------------------|------------|---|-----------------------|---|
| | | | | <i>Other than the Corporation</i> |
| | | | | <i>Filing Reports with the SEC</i> |
| Paul W. Chellgren | 61 | Retired Chairman and Chief Executive Officer of Ashland Inc. (energy company); Adjunct Professor, Northern Kentucky University | 1995 | None |
| Robert N. Clay | 57 | President and Chief Executive Officer of Clay Holding Company (investments) | 1987 | None |
| J. Gary Cooper | 67 | Chairman and Chief Executive Officer of Commonwealth National Bank (community banking) | 2002 | Gencorp, Inc.; Protective Life Corporation; and United States Steel Corporation |
| George A. Davidson, Jr. | 65 | Retired Chairman of Dominion Resources, Inc. (public utility holding company) | 1988 | Goodrich Corporation; and Dominion Resources, Inc. |
| Richard B. Kelson | 57 | Executive Vice President and Chief Financial Officer of Alcoa Inc. (producer of primary aluminum, fabricated aluminum, and alumina) | 2002 | MeadWestvaco Corporation |
| Bruce C. Lindsay | 62 | Chairman and Managing Director of Brind-Lindsay & Co., Inc. (advisory company) | 1995 | None |
| Anthony A. Massaro | 59 | Chairman, President and Chief Executive Officer of Lincoln Electric Holdings, Inc. (full-line manufacturer of welding and cutting products) | 2002 | Commercial Metals Company; Lincoln Electric Holdings Incorporated; and Thomas Industries Inc. |
| Thomas H. O'Brien | 67 | Retired Chairman of the Corporation | 1983 | BlackRock, Inc.; Hilb, Rogal and Hobbs Company; and Verizon Communications, Inc. |
| Jane G. Pepper | 58 | President of Pennsylvania Horticultural Society (nonprofit membership organization) | 1997 | None |
| James E. Rohr | 55 | Chairman and Chief Executive Officer of the Corporation | 1989 | Allegheny Technologies Incorporated; BlackRock, Inc.; and Equitable Resources Inc. |
| Lorene K. Steffes | 58 | Independent Business Advisor and Consultant (Vice President of International Business Machines 1998-2003) | 2000 | None |
| Dennis F. Strigl | 57 | President and Chief Executive Officer of Verizon Wireless, Inc. (wireless telecommunications) | 2001 | ANADIGICS Inc. |
| Stephen G. Thieke | 57 | Retired Chairman, Risk Management Committee of JP Morgan Incorporated (financial and investment banking services) | 2002 | None |
| Thomas J. Usher | 61 | Chairman and Chief Executive Officer of United States Steel Corporation (integrated steelmaker) | 1992 | H.J. Heinz Company; Marathon Oil Corporation; PPG Industries, Inc.; and United States Steel Corporation |
| Milton A. Washington | 68 | President and Chief Executive Officer of Allegheny Housing Rehabilitation Corporation (housing rehabilitation and construction) | 1994 | None |
| Helge H. Wehmeier | 61 | Vice Chairman of Bayer Corporation (healthcare, crop sciences, polymers, and chemicals) | 1992 | Terex Corporation |

Table of Contents

CORPORATE GOVERNANCE AT PNC

This portion of the proxy statement contains information about a variety of corporate governance policies and practices at PNC. In particular, shareholders will find information about how PNC is complying with the New York Stock Exchange's final corporate governance rules approved by the Securities and Exchange Commission (SEC) on November 4, 2003. The Exchange believes that its corporate governance rules will further the ability of honest and well-intentioned directors, officers, and employees to perform their functions effectively. The Exchange's new rules will become applicable to PNC on April 27, 2004, the date of the annual meeting. There is also new disclosure regarding the functions of the Board's Nominating and Governance Committee and communications between shareholders and PNC's Board of Directors. This disclosure is being provided as a result of new requirements adopted by the SEC that became effective on January 1, 2004. The SEC intends that these disclosure requirements will enhance the transparency of the operations of public company boards of directors.

Shareholders are encouraged to visit the corporate governance section of the For Investors page of the PNC Web site at www.pnc.com for additional information about PNC's Board and its committees, and corporate governance at PNC. Additional information on these topics is also included in other sections of this proxy statement.

Shareholders who would like to request printed copies of the PNC Code of Business Conduct and Ethics or the charters of the Board's Audit, Nominating and Governance, or Personnel and Compensation Committees (all of which are posted on the PNC Web site) may do so by sending their request to: Corporate Secretary, The PNC Financial Services Group, Inc., One PNC Plaza 21st Floor, 249 Fifth Avenue, Pittsburgh, PA 15222-2707. The material requested will be provided without cost to the shareholder.

Director Independence

Background. Because PNC is a company listed on the New York Stock Exchange (NYSE), beginning April 27, 2004 PNC's Board of Directors must have a majority of independent directors. Under the NYSE's new corporate governance rules, no director qualifies as independent unless PNC's Board affirmatively determines that the director has no material relationship with PNC, either directly or as a partner, shareholder, or officer of an organization that has a relationship with PNC. In addition, directors who have relationships covered by one of five bright-line independence tests established by the NYSE, as discussed below, may not be found to be independent.

PNC has a long history of maintaining a board of directors that has a majority of non-management directors. The NYSE's director independence requirements are designed to increase the quality of board oversight at listed companies and to lessen the possibility of damaging conflicts of interests. The NYSE's corporate governance rules do not define every relationship that will be considered material for purposes of determining a director's independence from PNC's management. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable, and familial relationships, among others. As the concern is a director's independence from PNC's management, however, the NYSE does not view the ownership of even a significant amount of PNC stock, by itself, as a bar to an independence finding.

NYSE's bright-line independence tests. The NYSE has adopted five bright-line independence tests for directors. Each of these tests describes a specific set of circumstances that will cause a director to be not independent from PNC's management. For example, a director who is an employee of PNC, or whose immediate family member is an executive officer of PNC, is not independent until three years after the end of the employment relationship. The other bright-line independence tests address circumstances involving: the receipt of more than \$100,000 per year in direct compensation from PNC, except for certain permitted payments such as director fees; employment by or affiliations with PNC's current or former internal or external auditors; interlocking

Table of Contents

directorates; and certain business relationships involving companies that make payments to, or receive payments from, PNC above specified annual thresholds. For more information about the NYSE's bright-line director independence tests, including the NYSE commentary explaining the application of the tests, please go to the NYSE Web site at www.nyse.com/pdfs/finalcorpgovrules.pdf.

Categorical standards of director independence adopted by the Board of Directors. The NYSE's corporate governance rules permit a listed company's board of directors to adopt categorical standards of director independence. Categorical standards are intended to assist a board in making determinations of independence. The NYSE recognizes that the adoption and disclosure of categorical standards provide investors with an adequate means of assessing the quality of a board's independence and its independence determinations while avoiding the excessive disclosure of immaterial relationships.

At its meeting on January 6, 2004, the Board, acting upon the recommendation of its Nominating and Governance Committee, adopted four categorical standards of independence that it applied, as appropriate, in determining the independence of the persons nominated for election as directors at the annual meeting. These categorical standards, which are set forth in Exhibit A to this proxy statement, describe categories of relationships that the Board has determined are not material to its determinations of director independence.

Consistent with the NYSE corporate governance rules, PNC makes a general disclosure below in this section of the proxy statement if all of a director's relationships with PNC meet these categorical standards. Any determination of independence by the PNC Board for a director who has a relationship with PNC that does *not* meet these standards is specifically explained below in this section of the proxy statement. This explanation includes a disclosure of the basis for the Board's determination that the director is independent even though he or she has a business or other relationship that does not fit within the categorical standards of independence.

In certain limited cases, a director may have a relationship that is described by a categorical standard *and* a NYSE bright-line independence test. In such a case, the bright-line test will determine whether the director's relationship is a material relationship that prohibits a determination of independence by the Board of Directors.

The categorical standards of independence adopted by the Board may be amended from time to time. The most current version of the categorical standards will be posted on the corporate governance section of the For Investors page of the PNC Web site at www.pnc.com.

Independence determinations made by the Board of Directors. At its meeting on February 19, 2004, the Board made a determination as to the independence of each director, in accordance with the applicable NYSE corporate governance rules. No director participated in the final determination of his or her own independence. All nominees for election as directors at the annual meeting are currently PNC directors. In making these determinations, the Board relied in part on the findings and recommendations made by its Nominating and Governance Committee. The independence determinations shown below were based on the information known to the Board and its Nominating and Governance Committee as of February 19, 2004. The Board and its Nominating and Governance Committee will consider information relevant to these independence determinations as it is brought to their attention.

Directors determined by the Board not to be independent. The Board has determined that the following directors are not independent under the NYSE corporate governance rules: Messrs. Rohr and O'Brien.

Directors determined by the Board to be independent and who have or may have one or more relationships meeting the categorical standards of independence. The Board has affirmatively determined that the following directors have no material relationship with

Edgar Filing: PNC FINANCIAL SERVICES GROUP INC - Form DEF 14A

PNC, either directly or as a partner, shareholder, or officer of an organization that has a relationship with PNC, and therefore are independent under the NYSE corporate governance rules: Mses. Pepper and Steffes and Messrs. Clay, Cooper, Davidson, Lindsay, Massaro, Strigl, Thieke, Usher, and Washington. Each of these directors

Table of Contents

has or may have one or more relationships that meet the categorical standards of independence adopted by the Board of Directors.

Directors determined to be independent and who have a relationship with PNC that does not meet the categorical standards of independence. Certain directors have a relationship with PNC that does not meet the categorical standards of independence adopted by the Board of Directors. The Board has nevertheless affirmatively determined that these relationships, none of which is described by a NYSE bright-line independence test, are not material and that the directors therefore are independent under the NYSE corporate governance rules. The names of these directors, together with a general description of the relationship involved and an explanation of the basis for the Board's independence determination, are as follows: Mr. Chellgren's daughter is a former employee of the consulting arm of the firm which previously provided audit services to the Corporation and its subsidiaries. Because Mr. Chellgren's daughter never performed any audit, assurance, tax compliance, or tax planning functions for that firm, the Board affirmatively determined, consistent with written guidance publicly provided by the NYSE, that Mr. Chellgren is independent.

Mr. Kelson's son and daughter-in-law are second-year associates at a law firm that provides legal services to the Corporation and its subsidiaries. Neither individual is a partner in the law firm and therefore does not have an equity interest in the firm or share in the profits derived from the firm's representation of PNC. Further, the annual fees earned by the law firm from its representation of PNC in each of the preceding two years have been immaterial when compared to the firm's total annual billings. For these reasons, the Board affirmatively determined that Mr. Kelson is independent.

Finally, Mr. Wehmeier's daughter is employed by the consulting arm of Deloitte Touche Tohmatsu. Deloitte & Touche LLP has served as the Corporation's independent auditor since 2002. Because Mr. Wehmeier's daughter has never performed, and does not currently perform, any audit, assurance, tax compliance, or tax planning functions for her firm, the Board affirmatively determined, consistent with written guidance publicly provided by the NYSE, that Mr. Wehmeier is independent.

Each of Messrs. Chellgren, Kelson, and Wehmeier also has or may have one or more relationships that meet the categorical standards of independence adopted by the Board of Directors.

Certain charitable contributions. To the Corporation's knowledge, the aggregate grants and contributions made by PNC, its subsidiaries, and the PNC Foundation during each of 2001, 2002, or 2003 to any nonprofit or charitable organization for which a director served as an executive officer did not exceed the greater of \$1 million or two percent of that organization's consolidated gross revenues.

Meetings of Non-management and Independent Directors

PNC's non-management directors have met and will continue to meet in regularly scheduled executive sessions without management present.

Non-management directors include all directors who are not PNC officers; currently, Mr. Rohr is the only PNC officer serving on the Board of Directors. The non-management directors have designated the Chairman of the Board's Nominating and Governance Committee to preside at these sessions.

Non-management directors include those directors whom the Board has determined not to be independent under the NYSE corporate governance rules. If the non-management directors include directors who are not independent, the independent directors will meet at least once a year by themselves in executive session. Currently, Mr. O'Brien is the only non-management director whom the Board has determined to be not independent. The Chairman of the Board's Nominating and Governance Committee will also preside at these executive sessions.

Table of Contents

Communicating with PNC's Directors

Shareholders or other interested parties who wish to communicate directly with the Chairman of the Nominating and Governance Committee, PNC's non-management directors as a group, the entire PNC Board of Directors, or with any specific director may do so at any time by writing to the following address: Chairman, Nominating and Governance Committee, The PNC Financial Services Group, Inc. Board of Directors, P.O. Box 2705, Pittsburgh, PA 15230-2705. Communications sent to this address will be delivered without being screened by employees of the Corporation. Communications to the Board or to one or more specific directors that are sent to the Corporation's offices will be handled in accordance with a collection and organization process approved by the Board's independent directors. Such communications are subject to a screening process that will determine which communications will be relayed to Board members. This screening process is described in the corporate governance section of the For Investors page of the PNC Web site at www.pnc.com. Shareholders who wish to: (i) make a nomination for the election of a director; (ii) submit proposals to be considered for inclusion in the Corporation's 2005 proxy materials; or (iii) make a proposal for action at an annual meeting of shareholders should follow the instructions given later in this section of the proxy statement.

At its meeting on February 19, 2004 the Board, acting upon the recommendation of its Nominating and Governance Committee, adopted a policy that strongly encourages each director to attend the annual meeting in person, if possible in light of surrounding circumstances. Each director is reminded of this policy in advance of the date of the annual meeting. Fourteen directors attended the Corporation's 2003 annual meeting of shareholders.

PNC's Director Nomination Process

The Board's Nominating and Governance Committee. The Board has a standing Nominating and Governance Committee that has a written charter approved by the Board. A copy of the committee's current charter, which is reviewed and reassessed by the committee annually, is posted on the corporate governance section of the For Investors page of the PNC Web site at www.pnc.com. On April 27, 2004, the date of the annual meeting, the NYSE's corporate governance rules, including the requirement that the Nominating and Governance Committee be composed entirely of directors who are independent under the NYSE's independence standards, become applicable to PNC. PNC's current Nominating and Governance Committee is composed entirely of such independent directors. When the Board holds its organization meeting on April 27, 2004 following the annual meeting, only independent directors will be appointed to the Nominating and Governance Committee. The Committee is presently composed of Ms. Steffes and Messrs. Usher (Chairman), Clay, Massaro, and Wehmeier.

The Nominating and Governance Committee's responsibilities include assisting the Board by identifying individuals qualified to become Board members, consistent with criteria approved by the Board, and recommending to the Board of Directors nominees for election at the next annual meeting of shareholders. The committee may also recommend that the Board appoint qualified individuals as directors in the intervals between annual meetings of shareholders.

Candidates recommended by a shareholder. The Nominating and Governance Committee has adopted a policy that formalizes its long-standing practice of considering any director candidate recommended by a shareholder in good faith, provided that there is no obvious impediment to the candidate's potential service as a director of the Corporation.

The Nominating and Governance Committee will not consider a candidate recommended by a shareholder unless the following procedures are followed strictly by the shareholder in submitting the recommendation. Such recommendations with respect to the 2005 annual meeting of shareholders must be submitted in writing no later than November 19, 2004 to: Corporate Secretary, The PNC Financial Services Group, Inc., One PNC Plaza 21 Floor, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707, and include the name, age, citizenship, business

Table of Contents

and residence addresses, qualifications, including principal occupation or employment, and directorships and other positions held by the proposed nominee in business, charitable, and community organizations. Information must also be provided concerning: (i) any commercial, industrial, banking, consulting, legal, accounting, charitable, familial, or other relationships involving the proposed nominee and PNC or its subsidiaries that may be relevant in determining whether the proposed nominee is independent of PNC's management and eligible to serve on the Board's Audit, Nominating and Governance, and Personnel and Compensation Committees, under the then applicable rules of the SEC and the NYSE; and (ii) the educational, professional, and employment-related background and experience of the proposed nominee, together with any other facts and circumstances that may be relevant in determining whether the proposed nominee is an audit committee financial expert under the then applicable rules of the SEC.

How candidates for directors are identified and evaluated. The Nominating and Governance Committee identifies individuals qualified to become Board members consistent with criteria approved by the Board of Directors at its meeting on February 19, 2004, upon the recommendation of the Nominating and Governance Committee. These criteria include: a sustained record of high achievement in financial services, business, industry, government, academia, the professions, or civic, charitable, or non-profit organizations; manifest competence and integrity; a strong commitment to the ethical and diligent pursuit of shareholders' best interests; the strength of character necessary to challenge management's recommendations and actions when appropriate and to confirm the adequacy and completeness of management's responses to such challenges to his or her satisfaction; the Board's strong desire to maintain its diversity in terms of race and gender; and personal qualities that will help to sustain an atmosphere of mutual respect and collegiality among the members of the Board of Directors.

The Nominating and Governance Committee has identified the following specific qualities or skills as being necessary for one or more of PNC's directors to possess: a majority of PNC's directors must satisfy the independence standards established by the NYSE; enough independent directors must be financially literate and have accounting or related financial management expertise so that the current and anticipated membership needs of the Audit Committee can be satisfied; directors are expected to gain a sound understanding of the Corporation's strategic vision, its mix of businesses, and its approach to regulatory relations and risk management; and the Board as a whole must possess a mix of qualities and skills adequate to address the risk factors to which the Corporation is subject.

At this time, the Nominating and Governance Committee has decided not to adopt specific, minimum qualifications that must be met by a committee-recommended nominee for the Board, but may do so in the future.

The current practice of the Nominating and Governance Committee is to identify potential director nominees through a variety of sources. The committee considers recommendations made by current or former directors or members of executive management. When appropriate, search firms may be retained by the committee to identify director candidates. No such search firm is currently retained by the committee. Potential candidates may also be identified through contacts in the business, civic, academic, legal, and non-profit communities. Potential candidates may be informally approached by the Chairman of the Board or the Chairman of the Nominating and Governance Committee to determine their interest in joining PNC's Board.

Each nominee for director is evaluated initially by the Nominating and Governance Committee at a meeting of the committee. The committee considers all relevant information then available about the candidate in light of the Board's approved criteria for persons qualified to become directors, and the Board's current and anticipated needs in terms of diversity, specific qualities or skills, experience, or background.

If the committee declines to recommend a candidate for election or appointment to the Board of Directors, no further action is taken, but the committee's decision is reported to the Board of Directors by the committee.

Table of Contents

Chairman at the Board's next regular meeting. If the candidate has been recommended by a shareholder, the committee's Secretary will send a letter to the shareholder informing him or her of the committee's decision and the date of the meeting at which the committee considered the candidate.

If the committee decides to recommend a candidate to the Board as a nominee for election at an annual meeting or for appointment by the Board, the committee Chairman reports the committee's decision to the Board at its next meeting. In advance of that meeting, each of the other directors is provided with the same biographical and other background information about the candidate as was considered by the Nominating and Governance Committee.

After discussion and questions, the entire Board votes on whether to nominate or appoint the candidate to the Board. If the Board's discussion has raised issues that require additional facts or deliberation, the Board's vote may be postponed until a future Board meeting.

Successful candidates are informed of the Board's decision and invited to become a director by the Chairman of the Board and the Chairman of the Nominating and Governance Committee, jointly acting on behalf of the entire Board of Directors.

Under its current practices, there are no differences in the manner in which the Nominating and Governance Committee evaluates a nominee for director based on whether the nominee is recommended by the committee or by a shareholder.

The Personnel and Compensation Committee

The Board has a standing Personnel and Compensation Committee that has a written charter approved by the Board. A copy of the Personnel and Compensation Committee's charter, which is reviewed and reassessed by the committee annually, is posted on the corporate governance section of the "For Investors" page of the PNC Web site at www.pnc.com. On April 27, 2004, the date of the annual meeting, the NYSE's corporate governance rules, including the requirement that the Personnel and Compensation Committee be composed entirely of directors who are independent under the NYSE's independence standards, become applicable to PNC. PNC's current Personnel and Compensation Committee is composed entirely of such independent directors. The committee's members also satisfy the independence standards established by applicable federal income tax and securities laws. When the Board holds its organization meeting on April 27, 2004 following the annual meeting, only independent directors will be appointed to the Personnel and Compensation Committee.

The Personnel and Compensation Committee's purpose is to discharge the Board's responsibilities relating to compensation of the Corporation's executive officers. The Committee has direct responsibility for evaluating and for approving or recommending for approval by the Board or the Corporation's shareholders the executive officer benefit, bonus, incentive compensation, severance, equity-based or other compensation plans, policies and programs of the Corporation. The Committee is also responsible for producing an annual report on executive compensation for inclusion in the Corporation's proxy statement and for reviewing and evaluating the development of an executive management succession plan. The Committee's report on executive compensation for fiscal year 2003 begins on page 22 of this proxy statement. The Committee is presently composed of Messrs. Strigl (Chairman), Chellgren, Massaro, Usher, and Washington.

Table of Contents

The Audit Committee

The Board has a standing Audit Committee that satisfies the requirements of SEC Rule 10A-3 under the Securities Exchange Act of 1934, as amended. Rule 10A-3 establishes listing standards relating to audit committees in the following areas: the independence of audit committee members; the audit committee's responsibility to select and oversee the company's independent accountant; procedures for handling complaints regarding the company's accounting practices; the authority of the audit committee to engage advisors; and funding for the independent accountant and any outside advisors engaged by the audit committee. The Audit Committee's procedures for the pre-approval of audit and permitted non-audit services are described beginning on page 39.

The Audit Committee is governed by a written charter adopted by the Corporation's Board of Directors. A copy of that charter, as approved and amended by the Board on January 6, 2004, is included as Exhibit B to this proxy statement. A copy of the committee's current charter is also posted on the corporate governance section of the For Investors page of the PNC Web site at www.pnc.com. The Audit Committee is directly responsible for the appointment, compensation, and oversight of the work of the Corporation's independent auditors (including the resolution of disagreements between management and the auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The Audit Committee is also responsible for approving all audit engagement fees and terms, as well as all permitted non-audit engagements with the independent auditors. The Audit Committee preapproves all auditing services and permitted non-audit services to be performed for the Corporation by the independent auditors and considers whether the provision of non-audit services is compatible with maintaining the auditors' independence. The independent auditors report directly to the Audit Committee. The Corporation's General Auditor also reports directly to the committee, which is responsible for preparing his or her performance evaluation and reviewing his or her compensation. The Audit Committee's primary purposes are to:

Provide assistance to the Board by: (1) monitoring the integrity of the consolidated financial statements of the Corporation, (2) monitoring compliance by the Corporation with legal and regulatory requirements and with the Corporation's Code of Business Conduct and Ethics, (3) evaluating and monitoring the independent auditors' qualifications and independence, and (4) evaluating and monitoring the performance of the Corporation's internal audit function and independent auditors, with respect to the parent company and its bank and non-bank subsidiaries; and

Prepare the report required by the rules of the SEC to be included in the Corporation's annual proxy statement. The Committee's report is contained on page 43 of this proxy statement.

The Audit Committee is presently composed of Messrs. Thieke (Chairman), Cooper, Davidson, Kelson, and Lindsay. Each Audit Committee member is independent, as defined in the NYSE listing standards that are currently applicable to PNC and the listing standards will become applicable on April 27, 2004. When the Board holds its organization meeting on April 27, 2004 following the annual meeting, only independent directors will be appointed to the Audit Committee. Acting upon the recommendation of the Nominating and Governance Committee, the Board of Directors has determined that each of Messrs. Kelson and Thieke is an audit committee financial expert, as that term is defined in SEC rules. The Audit Committee regularly holds separate sessions with the Corporation's management, internal auditors, and independent auditors.

PNC's Corporate Governance Guidelines, which are discussed in the next section of the proxy statement, limit the number of public company audit committees on which the Audit Committee members can serve to three, including PNC's Audit Committee. This limitation, which becomes effective on April 27, 2004, was adopted in recognition of the Audit Committee's demanding role and responsibilities and the time commitment required by committee members.

Table of Contents

PNC's Corporate Governance Guidelines

The Board of Directors has adopted Corporate Governance Guidelines that address these key corporate governance subjects, among others: director qualification standards; director responsibilities; director access to management and, as necessary and appropriate, independent advisors; director compensation; director orientation and continuing education; management succession; and an annual performance evaluation of the Board.

PNC's Corporate Governance Guidelines are posted on the corporate governance section of the For Investors page of the PNC Web site at www.pnc.com.

PNC's Code of Business Conduct and Ethics

The Board of Directors, acting upon the recommendation of its Audit Committee, has adopted a Code of Business Conduct and Ethics for its directors, officers, and employees. The Code satisfies the requirements of the SEC for a code of ethics that applies to PNC's chief executive officer and its senior financial officers. The Code requires that any exception to any provision of the Code for directors or executive officers must be submitted for approval to the Board's Audit Committee. Such exceptions will be publicly disclosed to the extent required by law or the rules of the NYSE.

The Code also contains compliance standards and procedures that are designed to facilitate the effective operation of the Code.

PNC's Code of Business Conduct and Ethics addresses these important topics, among others: conflicts of interest; corporate opportunities; confidentiality of information; fair dealing; protection and proper use of PNC assets; compliance with laws, rules and regulations (including insider trading laws); and encouraging the reporting of any illegal or unethical behavior.

A copy of PNC's Code of Business Conduct and Ethics is posted on the corporate governance section of the For Investors page of the PNC Web site at www.pnc.com and is available in print to any shareholder who requests it by writing to the Corporate Secretary at the address given on page 4.

Shareholder Proposals and Nominations

Eligible shareholders may submit proposals to be considered for inclusion in the Corporation's 2005 proxy materials for the 2005 annual meeting of shareholders if they do so in accordance with the applicable SEC rules. Any such proposals must be in writing and received by the Corporate Secretary at the principal executive offices of the Corporation no later than November 19, 2004 in order to be considered for inclusion in the Corporation's 2005 proxy materials. For information on how to submit the name of a person to be considered by the Nominating and Governance Committee for possible nomination as a director, please see the discussion of the committee's responsibilities earlier in this section.

Edgar Filing: PNC FINANCIAL SERVICES GROUP INC - Form DEF 14A

Director nominations and proposals for action at an annual meeting of shareholders may be made otherwise only: (i) pursuant to the Corporation's notice of such meeting; (ii) by the presiding officer; (iii) by or at the direction of a majority of the Board of Directors; or (iv) by one or more shareholders in accordance with the applicable rules of the SEC and the governing By-Law provisions.

A shareholder may make a nomination for election of a director or a proposal for action at an annual meeting only if written notice is received by the Corporate Secretary at the Corporation's principal office not later than: (i) 90 days prior to the annual meeting (which, for the 2005 annual meeting, would mean no later than January 26, 2005 if the annual meeting is held on April 26, 2005, unless a different date for such notice has been

Table of Contents

stated in the Corporation's most recent proxy materials distributed to shareholders); or (ii) if the annual meeting is to be held on a date other than the fourth Tuesday in April, the close of business on the tenth day following the first public disclosure of the meeting date. Public disclosure of the date of any annual meeting may be made in a filing with the SEC, in any notice given to the New York Stock Exchange, or in a news release reported by any national news service.

Each shareholder notice shall include: (i) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the notice is given (A) the name and address of such shareholder and of such beneficial owner, and (B) the class and number of shares of the stock of the Corporation that are owned of record and beneficially by such shareholder and such beneficial owner; and (ii) a representation that the shareholder is a beneficial owner of stock of the Corporation entitled to vote at such meeting and intends to be present at the meeting in person or by proxy to make such nomination or proposal.

Each notice of nomination for the election of a director from a shareholder also shall set forth: (i) the name and address of the person to be nominated; (ii) a description of all arrangements or understandings between the shareholder and nominee and any other person or persons (naming such person or persons) pursuant to which the nomination is to be made by the shareholder; (iii) such other information regarding the nominee as would be required to be included in proxy materials filed under the applicable rules of the SEC had the nominee been nominated by the Board of Directors; and (iv) the written consent of the nominee to serve as a director of the Corporation, if so elected.

Each notice of a proposal for action at an annual meeting from a shareholder also shall set forth a brief description of the proposal, the reasons for making such proposal, and any direct or indirect interest of the shareholder, or any person on whose behalf the shareholder is acting, in making such proposal.

If the Corporate Secretary receives notice of a shareholder proposal that complies with the governing By-Law provisions on or prior to the required date and if the proposal is properly presented at the 2005 annual meeting of shareholders, the proxies appointed by the Corporation may exercise discretionary authority in voting on the proposal. The Corporation's proxy statement for the meeting, however, must advise shareholders of the nature of the proposal and how the proxies appointed by the Corporation intend to vote on the proposal. The proxies appointed by the Corporation may not exercise discretionary authority in voting on the proposal if the shareholder submitting the proposal satisfies certain SEC requirements, including the mailing of a separate proxy statement to the Corporation's shareholders.

The presiding officer of the meeting may refuse to permit any nomination for the election of a director or proposal to be made at an annual meeting by a shareholder who has not complied with all of the governing By-Law procedures, including receipt of the required notice by the Corporate Secretary by the date specified. If a shareholder proposal is received by the Corporation after the required notice date but the presiding officer of the meeting nevertheless permits such proposal to be made at the 2005 annual meeting of shareholders, the proxies appointed by the Corporation's Board of Directors may exercise discretionary authority when voting on such a proposal.

Questions about these requirements, or notices mandated by them, may be directed to: Corporate Secretary, The PNC Financial Services Group, Inc., One PNC Plaza-21st Floor, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707.

Table of Contents

Confidential Voting

The Corporation has adopted a policy that all proxies, ballots, voting instructions from employee benefit plan participants, and voting tabulations that identify the particular vote of a shareholder or benefit plan participant be kept permanently confidential and not be disclosed to the Corporation, its directors, officers or employees except: (i) as necessary to meet legal requirements or to pursue or defend legal actions; (ii) to allow the Judge of Election to certify the results of the vote; (iii) when expressly requested by a shareholder or benefit plan participant; or (iv) in the event of a contested proxy solicitation. The Corporation has confirmed wi