PNC FINANCIAL SERVICES GROUP INC
Form S-4/A
February 11, 2008

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As filed with the Securities and Exchange Commission on February 11, 2008

Registration No. 333-149076

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1
to
Form S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

THE PNC FINANCIAL SERVICES GROUP, INC.
(Exact name of registrant as specified in its charter)

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

One PNC Plaza
249 Fifth Avenue
Pittsburgh, Pennsylvania 15222-2707
(412) 762-2000
(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant s Principal Executive Offices)

Richard J. Johnson
Chief Financial Officer
One PNC Plaza
249 Fifth Avenue
Pittsburgh, Pennsylvania 15222-2707
(412) 762-2000

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

With copies to:

H. Rodgin Cohen, Esq. **Mark J. Menting, Esq.** **Sullivan & Cromwell LLP** **125 Broad Street** **New York, New York 10004** **(212) 558-4000**	**Jean Svoboda, Esq.** **Sr. Vice President, General Counsel** **Sterling Financial Corporation** **1097 Commercial Avenue** **East Petersburg, Pennsylvania 17520** **(717) 735-4908**	**Edward D. Herlihy, Esq.** **Nicholas G. Demmo, Esq.** **Wachtell, Lipton, Rosen & Katz** **51 West 52nd Street** **New York, New York 10019** **(212) 403-1000**

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

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

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

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

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

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MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

Dear Sterling Shareholder:

On July 19, 2007, Sterling Financial Corporation agreed to merge with The PNC Financial Services Group, Inc. We are sending you this proxy statement/prospectus to notify you of the special meeting of Sterling shareholders being held to vote on the plan of merger and related matters and to ask you to vote at the special meeting in favor of the plan of merger.

If the merger is completed, Sterling will merge with and into PNC, and you will be entitled to elect to receive your merger consideration in the form of PNC common stock, cash or a combination of both. Subject to the election and adjustment procedures described in this document, you will be entitled to receive, in exchange for each share of Sterling common stock you hold at the time of the merger, consideration, without interest, with a value equal to the sum of (i) 0.1543 multiplied by the average closing price of PNC common stock on the New York Stock Exchange, which we refer to as the NYSE, during the five trading days ending the day before the completion of the merger and (ii) $7.60. 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.

The implied value of the merger consideration will fluctuate with the market price of PNC common stock. As explained in more detail in this document, whether you make a cash election, a stock election or no election, the value of the consideration you will receive as of the completion date will be substantially the same and will be based on the average pre-closing PNC trading price.

As an example, if the average closing price of PNC common stock on the NYSE for the five trading days ending the day before the completion of the merger is $63.29, which was the closing price of PNC common stock on the NYSE on February 8, 2008 (the most recent practicable date prior to the mailing of this proxy statement), each share of Sterling common stock would be converted into the right to receive either approximately $17.37 in cash or approximately 0.2745 shares of PNC common stock. Based on that PNC closing price, the 0.2745 shares of PNC common stock would have a market value of approximately $17.37. As an additional example, if the average closing price of PNC common stock on the NYSE for the five trading days ending the day before the completion of the merger is $73.21, which was the closing price for PNC common stock on July 18, 2007 (the last trading day prior to the announcement of the merger), each share of Sterling common stock would be converted into the right to receive approximately $18.90 in cash or approximately 0.2582 of a share of PNC common stock. A chart showing the cash and stock merger consideration at various hypothetical closing prices of PNC common stock is provided on pages 2 and 40 of this document.

The market prices of both PNC common stock and Sterling common stock will fluctuate before the merger. You should obtain current stock price quotations for PNC common stock and Sterling common stock. PNC common stock is listed on the NYSE under the symbol PNC and Sterling common stock is quoted on the NASDAQ Global Select Market under the symbol SLFI.

The special meeting of the shareholders of Sterling will be held on March 26, 2008 at 10:30 a.m., EST, at the Liberty Place Conference Center, 313 West Liberty Street, Lancaster, PA 17603. **Your vote is important.** A majority of the votes cast at the Sterling special meeting is required to adopt the plan of merger, and a majority of the outstanding shares, represented in person or by proxy, is necessary to constitute a quorum in order to transact business at the special meeting. Regardless of whether you plan to attend the special shareholders meeting, please take the time to vote your shares in accordance with the instructions contained in this document. **The Sterling board of directors recommends that Sterling shareholders vote FOR adoption of the plan of 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 15, for a discussion of the risks relating to the proposed merger. You also can obtain information about PNC from documents that it has filed with the Securities and Exchange Commission and about Sterling from the information in this document.

Glenn R. Walz	J. Roger Moyer Jr.
Chairman	President and Chief Executive Officer
Sterling Financial Corporation	Sterling Financial 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 February 11, 2008 and it is first being mailed or otherwise delivered to Sterling shareholders on or about February 13, 2008.

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STERLING FINANCIAL CORPORATION
101 North Pointe Boulevard
Lancaster, PA 17601

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Sterling Financial Corporation will hold a special meeting of shareholders at Liberty Place Conference Center, 313 West Liberty Street, Lancaster, PA 17603, at 10:30 a.m., EST, on March 26, 2008 to consider and vote upon the following proposals:

to adopt the Agreement and Plan of Merger, dated as of July 19, 2007, between The PNC Financial Services Group, Inc. and Sterling Financial Corporation, as it may be amended from time to time, which provides for, among other things, the merger of Sterling Financial Corporation with and into The PNC Financial Services Group, Inc.;

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 adopt the plan of merger; and

to approve such other matters as may be appropriate in connection with the approval of the plan of merger and the transactions contemplated thereby.

The Sterling board of directors has fixed the close of business on January 18, 2008 as the record date for the special meeting. Only Sterling shareholders 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.

Assuming a quorum is present, a majority of the votes cast at the Sterling special meeting is required to adopt the plan of 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 shareholder 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 Sterling 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 Sterling board of directors has approved the merger and the plan of merger and recommends that Sterling shareholders vote FOR adoption of the plan of merger, FOR the approval of the adjournment, if necessary, and FOR approval of other matters appropriate in connection with the plan of merger.

By Order of the Board of Directors,

JEAN SVOBODA
Sr. Vice President, General Counsel

and Corporate Secretary

February 11, 2008
Lancaster, Pennsylvania

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.

REFERENCES TO ADDITIONAL INFORMATION

This document incorporates important business and financial information about PNC 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 PNC at the following address:

The PNC Financial Services Group, Inc.
One PNC Plaza
249 Fifth Avenue
Pittsburgh, Pennsylvania 15222-2707
Attention: Shareholder Relations
(800) 843-2206
Email: investor.relations@pnc.com

You will not be charged for any of these documents that you request. Sterling shareholders requesting documents should do so by March 19, 2008 in order to receive them before the special meeting.

See Where You Can Find More Information on page 74.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND 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 adopt the Agreement and Plan of Merger, dated as of July 19, 2007, between The PNC Financial Services Group, Inc. and Sterling Financial Corporation, as it may be amended from time to time, which provides for, among other things, the merger of Sterling Financial Corporation with and into The PNC Financial Services Group, Inc.

Q: What do I need to do now?

A: With respect to the meeting   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 shareholder 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.

With respect to the merger   you should complete and return the form of election (which is being separately mailed to Sterling shareholders following the mailing of this document), together with your stock certificates, to Computershare, the exchange agent for the merger, according to the instructions printed on the form or, if your shares are held in   street name,   according to your broker s instructions.

Q: When must I elect the type of merger consideration that I prefer to receive?

A: If you wish to elect the type of merger consideration you receive in the merger, you should carefully review and follow the instructions set forth in the form of election, which is being separately mailed to Sterling shareholders following the mailing of this document. You will need to complete, sign and date the form of election and transmittal materials and return them to the exchange agent, Computershare, at the address given in the materials, together with the certificates representing shares of Sterling common stock, prior to the election deadline. The election deadline will be March 25, 2008, although this may change if agreed to by PNC and Sterling. If PNC and Sterling agree to change the election deadline, PNC and Sterling will issue a press release announcing the change. If you do not submit a properly completed and signed form of election to the exchange agent by the election deadline, you will have no control over the type of merger consideration you may receive and, consequently, may receive only cash, only PNC common stock or a combination of cash and PNC common stock in the merger. If you hold shares in   street name,   you must follow your broker s instructions to make an election. If you are allocated shares of Sterling common stock in Sterling s 401(k) Retirement Plan, you should follow the instructions that will be delivered to you separately.

Q: If I am a Sterling shareholder, should I send in my Sterling stock certificates with my proxy card?

A: No. Please DO NOT send your Sterling stock certificates with your proxy card. You should carefully review and follow the instructions set forth in the form of election, which is being mailed to Sterling shareholders separately following the mailing of this document, regarding the surrender of your share certificates. You should then, prior to the election deadline, send your Sterling common stock certificates to the exchange agent, together with your completed, signed form of election.

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Q: Why is my vote important?

A: Because the merger cannot be completed without the affirmative vote of a majority of the votes cast at the special meeting, and because a majority of the outstanding Sterling common stock entitled to vote is necessary to constitute a quorum in order to transact business at the special meeting, every shareholder s vote is important. **The Sterling board of directors recommends that you vote FOR adoption of the plan of 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 (a so-called broker non-vote). Because only those votes cast for and against the merger proposal are counted, a failure to provide your broker instructions will have no effect on the vote to approve the merger proposal. For purposes of determining the number of votes cast with respect to the merger proposal, only those votes cast for or against the proposal are counted. Broker non-votes, if any are submitted by brokers or nominees in connection with the special meeting, will not be counted as votes for or against for purposes of determining the number of votes cast but will be treated as present for quorum purposes.

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

A: Yes. All shareholders, including shareholders of record and shareholders who hold their shares through banks, brokers, nominees or any other holder of record, may attend the special meeting. Holders of record of Sterling common stock can vote in person at the special meeting. If you are not a shareholder 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.

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 Sterling, or (3) attending the special meeting in person, notifying the Secretary and voting by ballot at the special meeting. The Sterling Secretary s mailing address is 1097 Commercial Avenue, MC 294-953, East Petersburg, PA 17520.

Any shareholder 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 Sterling) of a shareholder at the special meeting will not constitute revocation of a previously given proxy.

Q: When do you expect to complete the merger?

A: We expect to complete the merger in the first half of 2008. However, we cannot assure you when or if the merger will occur. Among other things, we cannot complete the merger until we obtain the approval of Sterling shareholders at the special meeting.

Q: Whom should I call with questions about the shareholders meeting or the merger?

A: Sterling shareholders should call Georgeson Inc., Sterling s proxy solicitor and information agent, at (800) 319-6872 with any questions about the merger and related transactions.

SUMMARY

This summary highlights information contained elsewhere in this document and may 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 74. Each item in this summary refers to the page of this document on which that subject is discussed in more detail.

The Merger (page 23)

The terms and conditions of the merger are contained in the plan of merger, which is attached as Annex B to this document. Please carefully read the plan of merger as it is the legal document that governs the merger. We are proposing the merger of Sterling with and into PNC. As a result, PNC will continue as the surviving company. For information about Sterling and issues facing it as a result of developments related to its subsidiary, Equipment Finance, LLC, please see Recent Developments Regarding Sterling beginning on page 68 and The Merger Background of the Merger beginning on page 23.

Sterling Shareholders Will Receive Cash and/or Shares of PNC Common Stock in the Merger Depending on Their Election and Any Proration (page 39)

You will have the right to elect to receive merger consideration, without interest, for each of your shares of Sterling common stock in the form of cash or shares of PNC common stock, or both, subject to proration in the circumstances described below. In the event of proration, you may receive a portion of the merger consideration in a form other than that which you elected.

The implied value of the merger consideration will fluctuate with the market price of PNC common stock and will be determined based on the average closing price of PNC common stock on the NYSE for the five trading days ending the day before the completion of the merger. As explained in more detail in this document, whether you make a cash election or a stock election, the value of the consideration you receive as of the date of completion of the merger will be substantially the same and will be based on the average PNC closing price used to calculate the merger consideration. If you are a record holder, you may specify different elections with respect to different shares that you hold (if, for example, you own 100 shares of Sterling common stock, you could make a cash election with respect to 50 shares and a stock election with respect to the other 50 shares).

As an example, if the average of the closing prices of PNC common stock on the NYSE for the five trading days ending the day before the completion of the merger is $63.29, for each share of Sterling common stock held, you would receive either approximately $17.37 in cash or 0.2745 of a share of PNC common stock, subject to possible proration. We will compute the actual amount of cash and number of shares of PNC common stock that each Sterling shareholder will receive in the merger using the formula contained in the plan of merger. For a summary of the formula contained in the plan of merger, see The Plan of Merger Consideration To Be Received in the Merger beginning on page 39.

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Set forth below is a table showing the consideration that you would receive in a cash election, on the one hand, or in a stock election, on the other hand, under the merger consideration formula if the actual average of the closing prices of PNC common stock on the NYSE for the five trading days ending the day before the completion of the merger were equal to the hypothetical range contained in the table. The table does not reflect the fact that cash will be paid instead of fractional shares. **As described below, regardless of whether you make a cash election or a stock election, you may nevertheless receive a mix of cash and stock due to proration and adjustment.**

Hypothetical Five-Day Average Closing Prices	Cash Election: Cash Consideration per Share	OR	Stock Election: Stock Consideration per Share — Shares of PNC Common Stock	Stock Election: Stock Consideration per Share — Market Value (*)
$50.00	$ 15.32		0.3064	$ 15.32
$51.00	$ 15.47		0.3033	$ 15.47
$52.00	$ 15.62		0.3004	$ 15.62
$53.00	$ 15.78		0.2977	$ 15.78
$54.00	$ 15.93		0.2950	$ 15.93
$55.00	$ 16.09		0.2925	$ 16.09
$56.00	$ 16.24		0.2900	$ 16.24
$57.00	$ 16.40		0.2877	$ 16.40
$58.00	$ 16.55		0.2853	$ 16.55
$59.00	$ 16.70		0.2831	$ 16.70
$60.00	$ 16.86		0.2810	$ 16.86
$61.00	$ 17.01		0.2789	$ 17.01
$62.00	$ 17.17		0.2769	$ 17.17
$63.00	$ 17.32		0.2749	$ 17.32
$64.00	$ 17.48		0.2731	$ 17.48
$65.00	$ 17.63		0.2712	$ 17.63
$66.00	$ 17.78		0.2694	$ 17.78
$67.00	$ 17.94		0.2678	$ 17.94
$68.00	$ 18.09		0.2660	$ 18.09
$69.00	$ 18.25		0.2645	$ 18.25
$70.00	$ 18.40		0.2629	$ 18.40
$71.00	$ 18.56		0.2614	$ 18.56
$72.00	$ 18.71		0.2599	$ 18.71
$73.00	$ 18.86		0.2584	$ 18.86
$74.00	$ 19.02		0.2570	$ 19.02
$75.00	$ 19.17		0.2556	$ 19.17

* Market value based on hypothetical five-day average closing price on the NYSE of PNC common stock.

The examples above are illustrative only. The value of the merger consideration that you actually receive will be based on the actual average closing price of PNC common stock on the NYSE for the five trading days ending the day before the completion of the merger, as described below. The actual average closing price may be outside the range of the amounts set forth above, and as a result, the actual value of the merger consideration per share of PNC common stock may not be shown in the above table.

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Regardless of Whether You Make a Cash Election or a Stock Election, You May Nevertheless Receive a Mix of Cash and Stock (page 39)

The aggregate number of shares of PNC common stock that will be issued in the merger is approximately 4.56 million, based on the number of shares of Sterling common stock outstanding on January 18, 2008, and the aggregate amount of cash that will be paid in the merger is approximately $224.27 million. If more Sterling shareholders make valid elections to receive either PNC common stock or cash than is available as merger consideration under the plan of merger, those Sterling shareholders electing the over-subscribed form of consideration will have the over-subscribed consideration proportionately reduced and substituted with consideration in the other form, despite their election.

What Holders of Sterling Stock Options Will Receive (page 44)

When we complete the merger, stock options to purchase shares of Sterling common stock that are outstanding immediately before completion of the merger will become options to acquire shares of PNC common stock. The number of shares of PNC common stock subject to such stock options and the exercise price of such options will be adjusted to reflect the exchange ratio.

In Order to Make a Valid Election, You Must Properly Complete and Deliver the Form of Election (page 44)

If you wish to elect the type of merger consideration you prefer to receive in the merger, you should carefully review and follow the instructions set forth in the form of election, which is being mailed to Sterling shareholders separately following the mailing of this document. You will need to sign, date and complete the form of election and transmittal materials and return them to the exchange agent at the address given in the materials, together with the certificates representing shares of Sterling common stock (or a properly completed notice of guaranteed delivery) prior to the election deadline. The form of election also includes delivery instructions for shares held in book-entry form. You should NOT send your stock certificates with your proxy card.

The election deadline will be March 25, 2008, although this may change if agreed to by PNC and Sterling. If PNC and Sterling agree to change the election deadline, PNC and Sterling will issue a press release announcing the change. If you fail to submit a properly completed and signed form of election, together with your stock certificates (or a properly completed notice of guarantee), by the election deadline, you will be deemed not to have made an election. As a non-electing holder, you will be paid merger consideration in an amount per share that is equivalent in value to the amount paid per share to holders making elections, but you may be paid all in cash, all in PNC common stock, or in part cash and in part PNC common stock, depending on the remaining pool of cash and PNC common stock available for paying merger consideration after honoring the cash elections and stock elections that other shareholders have made, and without regard to your preference.

If you hold shares in street name, you must follow your broker s instructions to make an election.

Once you have tendered your Sterling stock certificates to the exchange agent, you may not transfer your shares of Sterling common stock represented by those stock certificates until the merger is completed, unless you revoke your election by written notice to the exchange agent that is received prior to the election deadline. If the merger is not completed and the plan of merger is terminated, stock certificates will be returned by the exchange agent.

The Merger Has Been Structured to Be Tax-Free to Sterling Shareholders to the Extent They Receive PNC Common Stock (page 56)

The exchange by U.S. holders of Sterling common stock for PNC common stock has been structured to be generally tax free for U.S. federal income tax purposes, except that:

U.S. holders of Sterling common stock that receive both cash and PNC common stock generally will recognize gain, but not loss, to the extent of the cash received;

U.S. holders of Sterling common stock that receive only cash generally will recognize gain or loss; and

U.S. holders of Sterling common stock generally will recognize gain or loss with respect to cash received instead of fractional shares of PNC common stock that such holders would otherwise be entitled to receive.

For further information, please refer to Material United States Federal Income Tax Consequences of the Merger.

The United States federal income tax consequences described above may not apply to all holders of Sterling common stock. Your tax consequences will depend on your individual situation. Accordingly, please 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 13 and 66)

PNC common stock is listed on the NYSE under the symbol PNC. Sterling common stock is quoted on the NASDAQ Global Select Market under the symbol SLFI. The following table shows the closing sale prices of PNC common stock and Sterling common stock as reported on the NYSE and NASDAQ on July 18, 2007, the last trading day before we announced the merger, and on February 8, 2008, the last practicable trading day prior to mailing this document. The table also presents the equivalent value of the merger consideration per share of Sterling common stock on July 18, 2007 and February 8, 2008, calculated by multiplying the closing price of PNC common stock on those dates by 0.2582 and 0.2745, respectively, each representing the fraction of a share of PNC common stock that Sterling shareholders electing to receive PNC common stock would receive in the merger for each share of Sterling common stock, assuming that the average of the closing prices of PNC common stock on the NYSE for the five trading days ending the day before the completion of the merger was the closing price of PNC common stock on July 18, 2007 and February 8, 2008, respectively, and assuming no proration.

	PNC Common Stock	Sterling Common Stock	Equivalent per Share Value
At July 18, 2007	$ 73.21	$ 10.55	$ 18.90
At February 8, 2008	$ 63.29	$ 15.86	$ 17.37

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

Keefe, Bruyette & Woods, Inc. Has Provided an Opinion to the Sterling Board of Directors Regarding the Merger Consideration (page 28)

On July 18, 2007, the date that the Sterling board of directors approved the merger, Keefe, Bruyette & Woods, Inc., which we refer to as KBW, Sterling s financial advisor, rendered an oral opinion to Sterling s board of directors, that, as of that date and subject to a number of factors and assumptions, the consideration to be paid to Sterling shareholders in the merger was fair to such holders from a financial point of view. KBW confirmed its oral opinion by delivering to the Sterling board of directors a written opinion dated as of July 19, 2007. The full text of KBW s written opinion is attached as Annex C to this proxy statement/prospectus. Sterling s shareholders are urged to read the opinion in its entirety. KBW s opinion does not constitute a recommendation to any Sterling shareholder as to how the shareholder should vote at the Sterling special meeting on the plan of merger or any related matter.

Sterling and KBW have entered into an agreement relating to the services to be provided by KBW in connection with the merger. Sterling has agreed to pay KBW, at the time of closing, a cash fee equal to 1.00% of the market value of the aggregate consideration offered in exchange for the outstanding shares of common stock and options of Sterling, minus $250,000 that was paid to KBW concurrently with the execution of the plan of merger and $500,000 payable promptly after the mailing of this proxy statement/prospectus. Pursuant to the KBW engagement agreement, Sterling has also agreed to reimburse KBW for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify KBW against certain liabilities, including liabilities under the federal securities laws.

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The Sterling Board of Directors Recommends That Sterling Shareholders Vote FOR Approval of the Plan of Merger (page 27)

The Sterling board of directors believes that the merger is in the best interests of Sterling and its shareholders and has approved the merger and the plan of merger. The Sterling board of directors recommends that Sterling shareholders vote FOR adoption of the plan of merger.

Sterling s Directors and Officers Have Financial Interests in the Merger That May Differ from Your Interests (page 36)

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

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

Holders of Sterling Common Stock Do Not Have Dissenters Rights (page 34)

Under Pennsylvania law, shareholders of a corporation are not entitled to exercise dissenters rights if shares of the corporation are listed on a national securities exchange or held beneficially or of record by more than 2,000 persons. Because shares of Sterling s common stock are quoted on the NASDAQ Global Select Market and Sterling has more than 2,000 shareholders, Sterling shareholders do not have the right to exercise dissenters rights or seek an appraisal of the value of their shares in connection with the merger.

Conditions That Must Be Satisfied or Waived for the Merger to Occur (page 51)

Currently, we expect to complete the merger in the first half of 2008. As more fully described in this document and in the plan of merger, 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 Sterling shareholders;
- the receipt of all regulatory consents and approvals in connection with the merger of Sterling into PNC and the merger of certain banking subsidiaries of PNC and Sterling (in each case unless the failure to obtain such consents and approvals would not reasonably be expected to have a material adverse effect on Sterling or PNC measured on a scale relative to Sterling) without a condition or a restriction that would have a material adverse effect on Sterling or PNC, with materiality being measured on a scale relative to Sterling; 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 Plan of Merger (page 52)

We may mutually agree to terminate the plan of merger before completing the merger, even after shareholder approval. In addition, either of us may decide to terminate the plan of merger, even after shareholder approval, if any order permanently prohibiting the merger becomes final and non-appealable or if the other party breaches the plan of merger 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 30 days following written notice (unless it is not possible to cure the breach). Either of us may terminate the plan of merger if the merger has not been completed by July 19, 2008, unless the reason the merger has not been completed by that date is a breach of the plan of merger by the company seeking to terminate the plan of merger. Either of us may terminate the plan of merger if the Sterling shareholders fail to approve the plan of merger at the special meeting.

PNC may terminate the plan of merger if the Sterling board of directors (1) fails to recommend that Sterling shareholders approve the merger or withdraws, qualifies, or modifies its recommendation (or resolves to take such action) in a manner adverse to PNC or (2) publicly recommends or endorses an alternative business combination proposal (or resolves to do so). PNC may also terminate the plan of merger if Sterling breaches its obligation to call and hold a shareholder meeting to consider the merger or its obligation to not solicit competing acquisition proposals.

Termination Fee (page 53)

In the event that PNC terminates the plan of merger because the Sterling board of directors publicly recommends or endorses an alternative business combination proposal in a manner adverse to PNC (or resolves to do so), Sterling will pay PNC a $7 million termination fee. If Sterling consummates an alternative transaction relating to such competing proposal at any time, or consummates any other alternative transaction before the twelve-month anniversary of the termination of the plan of merger, Sterling will pay PNC a $14 million termination fee.

In addition, we have agreed that if certain events occur related to an alternative business combination proposal and thereafter the plan of merger is terminated by:

- either Sterling or PNC because the Sterling shareholders do not approve the merger at the shareholder meeting;
- PNC because the Sterling board of directors fails to recommend that Sterling shareholders approve the merger or withdraws, qualifies, or modifies its recommendation in a manner adverse to PNC (or resolves to take such action);
- PNC because Sterling breaches its obligation to call and hold a shareholder meeting to consider the merger or its obligation to not solicit competing acquisition proposals; or
- PNC because of a willful breach by Sterling that cannot be cured or, if curable, is not cured within 30 days written notice to Sterling of the breach;

and in connection with any of the above-listed events:

- Sterling consummates an alternative transaction before the twelve-month anniversary of the termination of the plan of merger, Sterling will pay PNC a $21 million termination fee.
- Sterling enters into any agreement related to any acquisition proposal before the twelve-month anniversary of the termination of the plan of merger, Sterling will pay PNC a $7 million termination fee. If Sterling consummates an alternative transaction relating to such agreement, Sterling will pay PNC a $14 million termination fee.

Regulatory Approvals Required for the Merger (page 34)

Sterling and PNC have agreed to use their reasonable best efforts to obtain all regulatory approvals required to complete the transactions contemplated by the plan of merger. These approvals include approval from the Board of Governors of the Federal Reserve System, which we refer to as the Federal Reserve Board, the Office of the Comptroller of the Currency, which we refer to as the OCC, and state regulatory authorities, including the Pennsylvania Department of Banking and the Delaware State Bank Commissioner. PNC and Sterling 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 Sterling or PNC, measured on a scale relative to Sterling.

The Federal Reserve Board approved the transaction on January 25, 2008, the OCC approved the transaction on February 7, 2008, the Pennsylvania Department of Banking approved the transaction on September 17, 2007 and the Delaware State Bank Commissioner approved the transaction on December 31, 2007.

The Rights of Sterling Shareholders Who Receive Stock Consideration Will Be Different After the Merger (page 39)

The rights of Sterling shareholders are governed by Pennsylvania law and by Sterling s amended and restated articles of incorporation and amended and restated bylaws. The rights of PNC shareholders are governed by Pennsylvania law and by PNC s amended and restated articles of incorporation and amended and restated bylaws. After the completion of the merger, the rights of both shareholders will be governed by Pennsylvania law and PNC s amended and restated articles of incorporation and amended and restated bylaws. Beginning on page 60 of this document, there is a description of shareholder rights under each of the PNC and Sterling governing documents, and of the material differences between them.

Sterling Will Hold its Special Meeting on March 26, 2008 (page 20)

The special meeting will be held on March 26, 2008, at 10:30 a.m., EST, at Liberty Place Conference Center 313, West Liberty Street, Lancaster, PA 17603. At the special meeting, Sterling shareholders will be asked to:

- adopt the plan of merger;
- 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 adopt the plan of merger; and
- approve such other matters as may be appropriate in connection with the plan of merger.

Record Date. Only holders of record of Sterling common stock at the close of business on January 18, 2008 will be entitled to vote at the special meeting. Each share of Sterling common stock is entitled to one vote. As of the record date of January 18, 2008, there were approximately 29,509,681 shares of Sterling common stock entitled to vote at the special meeting.

Required Vote. A majority of the votes cast at the Sterling special meeting is required to approve the plan of merger, and a majority of the outstanding Sterling common stock entitled to vote is necessary to constitute a quorum in order to transact business at the special meeting.

As of the record date, directors and executive officers of Sterling and their affiliates had the right to vote approximately 1,494,410 shares of Sterling common stock, or 5.06% of the outstanding Sterling common stock entitled to be voted at the special meeting.

Information About the Companies (page 59)

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, with 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; Washington, DC; Maryland; Virginia; Ohio; Kentucky; and Delaware. PNC also provides certain global fund processing services internationally. PNC stock is listed on the NYSE under the symbol PNC. As of September 30, 2007, PNC had total consolidated assets of approximately $131.4 billion, total consolidated deposits of approximately $78.4 billion and total consolidated stockholders equity of approximately $14.5 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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Sterling Financial Corporation

Sterling Financial Corporation (NASDAQ: SLFI) is a diversified financial services company based in Lancaster, Pennsylvania. Sterling Banking Services Group affiliates offer a full range of banking services in south-central Pennsylvania, northern Maryland and northern Delaware. The group also offers correspondent banking services in the mid-Atlantic region to other companies within the financial services industry, and banking related insurance services. Sterling Financial Services Group affiliates provide specialty commercial financing; fleet and equipment leasing; and investment, trust and brokerage services. The principal executive offices of Sterling are located at 101 North Pointe Boulevard, Lancaster, Pennsylvania 17601 and its telephone number is (717) 581-6030.

For information about Sterling and issues facing it as a result of developments related to its subsidiary, Equipment Finance, LLC, please see Recent Developments Regarding Sterling beginning on page 68 and The Merger Background of the Merger beginning on page 23.

Recent Developments

PNC Earnings for Fourth Quarter and Year Ended December 31, 2007

On January 17, 2008, PNC announced its unaudited consolidated financial results for the quarter and year ended December 31, 2007. Net income for the year ended December 31, 2007 was $1.5 billion, or $4.35 per diluted share, compared with 2006 net income of $2.6 billion, or $8.73 per diluted share. Net income for 2006 included a $1.3 billion after-tax gain from the BlackRock/Merrill Lynch Investment Managers transaction. Net income for the fourth quarter of 2007 was $178 million, or $0.52 per diluted share, compared with $376 million, or $1.27 per diluted share, in the fourth quarter of 2006. The final audited consolidated financial results for the year ended 2007 may vary from our expectations and may be materially different from the preliminary consolidated financial results we are providing above due to the completion of the year end audit. Accordingly, you should not place undue reliance on the foregoing financial information.

Sterling Earnings for Fourth Quarter 2007

Although Sterling has not completed its final review of its fourth quarter 2007 results and, accordingly, you should not place undue reliance on the following financial information, it currently estimates that it will incur a net loss of between $2 million and $3 million for the fourth quarter of 2007.

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, 2002 through 2006 and as of and for the nine months ended September 30, 2006 and 2007. The results of operations for the nine months ended September 30, 2006 and 2007 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, 2006, as amended by Form 10-K/A, and PNC s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, as amended by Form 10-Q/A, which are incorporated by reference in this document and from which this information is derived. See Where You Can Find More Information on page 74.

PNC Summary of Consolidated Financial Data

	Nine Months Ended September 30,		Year Ended December 31,				
	2007(a)	2006	2006 (b),(c)	2005	2004	2003	2002
Earnings (in millions)							
Net interest income	$ 2,122	$ 1,679	$ 2,245	$ 2,154	$ 1,969	$ 1,996	$ 2,197
Provision for credit losses	127	82	124	21	52	177	309
Noninterest income	2,956	5,358	6,327	4,173	3,572	3,263	3,197
Noninterest expense	3,083	3,474	4,443	4,306	3,712	3,467	3,223
Income before minority interest and income taxes	1,868	3,481	4,005	2,000	1,777	1,615	1,862
Minority interest in income of BlackRock		47	47	71	42	47	41
Income taxes	579	1,215	1,363	604	538	539	621
Income from continuing operations	1,289	2,219	2,595	1,325	1,197	1,029	1,200
(Loss) Income from discontinued operations, net of tax							(16)
Income before cumulative effect of accounting change	1,289	2,219	2,595	1,325	1,197	1,029	1,184
Cumulative effect of accounting change, net of tax						(28)	
Net income	$ 1,289	$ 2,219	$ 2,595	$ 1,325	$ 1,197	$ 1,001	$ 1,184
Per common share data							

Basic earnings (loss)							
Continuing operations	$ 3.92	$ 7.60	$ 8.89	$ 4.63	$ 4.25	$ 3.68	$ 4.23
Discontinued operations							(0.05)
Before cumulative effect of accounting change	3.92	7.60	8.89	4.63	4.25	3.68	4.18
Cumulative effect of accounting change						(0.10)	
Net income	$ 3.92	$ 7.60	$ 8.89	$ 4.63	$ 4.25	$ 3.58	$ 4.18

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	Nine Months Ended September 30,		Year Ended December 31,				
	2007(a)	2006	2006 (b),(c)	2005	2004	2003	2002
Diluted earnings(loss)							
Continuing operations	$ 3.85	$ 7.46	$ 8.73	$ 4.55	$ 4.21	$ 3.65	$ 4.20
Discontinued operations							(0.05)
Before cumulative effect of accounting change	3.85	7.46	8.73	4.55	4.21	3.65	4.15
Cumulative effect of accounting change						(0.10)	
Net income	$ 3.85	$ 7.46	$ 8.73	$ 4.55	$ 4.21	$ 3.55	$ 4.15
Cash dividends declared	$ 1.81	$ 1.60	$ 2.15	$ 2.00	$ 2.00	$ 1.94	$ 1.92
Period end balances (in millions)							
Total assets	$ 131,366	$ 98,436	$ 101,820	$ 91,954	$ 79,723	$ 68,168	$ 66,377
Total deposits	78,409	64,572	66,301	60,275	53,269	45,241	44,982
Total borrowed funds	27,453	14,695	15,028	16,897	11,964	11,453	9,116
Total shareholders equity	14,539	10,758	10,788	8,563	7,473	6,645	6,859

(a) Amounts for 2007 reflect the impact of PNC s March 2, 2007 acquisition of Mercantile Bankshares Corporation.

(b) Noninterest income for 2006 included the pretax impact of the following: gain on the BlackRock/Merrill Lynch Investment Managers (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 2006 included the pretax impact of BlackRock/MLIM transaction integration costs of $91 million. An additional $10 million of integration costs, recognized in the fourth quarter of 2006, were included in noninterest income as a negative component of the asset management line. The after-tax impact of these items was as follows: BlackRock/MLIM transaction gain $1.3 billion; securities portfolio rebalancing loss $127 million; mortgage loan portfolio repositioning loss $31 million; and BlackRock/MLIM transaction integration costs $47 million.

The aggregate after-tax impact of these items increased net income for the year ended December 31, 2006 by $1.1 billion. On a per share basis, the aggregate after-tax impact of these items increased net income by $3.72 per basic common share or $3.67 per diluted common share.

(c) Due to the significant one-time adjustments for PNC during 2006, the results for that year may not be typical.

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SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF STERLING

Set forth below are highlights from Sterling s consolidated financial data as of and for the year ended December 31, 2006 and as of and for the nine months ended September 30, 2007. The results of operations for the nine months ended September 30, 2007 are not necessarily indicative of the results of operations for the full year or any other interim period. You should read this information in conjunction with Sterling s consolidated financial statements and related notes included in Annex A from which this information is derived.

Sterling Summary of Consolidated Financial Data

	Nine Months Ended September 30, 2007	Year Ended December 31, 2006 (Restated)(1)
Earnings (in millions)		
Net interest income	$ 56	$ 78
Provision for loan losses	7	17
Noninterest income	58	68
Noninterest expenses	122	132
Income (loss) before income taxes	(15)	(3)
Applicable income tax benefit	(8)	(5)
Net income (loss) from continuing operations(2)(3)	(7)	2
Income (loss) from discontinued operations, net of tax		(5)
Net income (loss)(2)(3)	$ (7)	$ (3)
Per Common Share Data		
Basic earnings (loss) per share		
Continuing operations	$ (0.25)	$ 0.06
Discontinued operations		(0.17)
Net income (loss)(2)(3)	$ (0.25)	$ (0.11)
Diluted earnings (loss) per share		
Continuing operations	$ (0.25)	$ 0.06
Discontinued operations		(0.17)
Net income (loss)(2)(3)	$ (0.25)	$ (0.11)
Cash dividends declared	$ 0.15	$ 0.58
Period end balances (in millions)		
Total Assets	$ 3,241	$ 3,077
Total Deposits	2,735	2,616
Total Borrowed Funds	340	284

Total Shareholders Equity	110	129

(1) The year ended December 31, 2006 consolidated financial statements have been restated to give effect to losses associated with the write-off of certain finance receivables within Sterling s subsidiary Equipment Finance, LLC. These losses arose due to the fraudulent activity at EFI, discussed under the heading Introduction in Annex A to this proxy statement/prospectus. The net effect of this restatement was a cumulative after-tax adjustment to January 1, 2006 stockholders equity of $162.0 million.

The year ended December 31, 2006 consolidated financial statements were restated as follows: a reduction to net interest income of $43.6 million, an increase in the provision for loan losses of $12.4 million, a reduction in noninterest income of $941,000, an increase in noninterest expenses of $5.7 million, and a reduction of net income of $39.8 million. Amounts as of December 31, 2006 have been restated as follows: a reduction in total loans, net of allowance for loan losses, of $281.0 million; a reduction of total assets of $203.0 million; and a reduction of stockholder s equity of $201.8 million. See Note 2 to the consolidated financial statements in Annex A for additional information regarding the effect of the fraudulent activities at EFI.

(2) Sterling incurred EFI-related investigation, legal, accounting and other costs, including losses related to the repurchase of previously sold loans and other losses related to fraudulent payments, of $14.0 million after taxes ($0.47 per share loss) and $7.1 million after taxes ($0.24 per share loss) for the nine months ended September 30, 2007 and the year ended December 31, 2006, respectively. Sterling also incurred merger-related expenses totaling $1.1 million after taxes ($0.04 per share loss) in the nine months ended September 30, 2007, which relate to the cost of the acceleration of the vesting of stock options and restricted stock upon the signing of the plan of merger and other costs associated with the pending merger with PNC.

(3) Sterling has not established a reserve or recorded any amounts for any of the litigation described under the heading Recent Developments Regarding Sterling.

COMPARATIVE PER SHARE DATA

The following table sets forth for PNC common stock and Sterling 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, 2006, 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 Sterling 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 55. The information in the following table is based, in the case of PNC, on, and should be read together with, the historical financial information that PNC has presented in its prior filings with the Securities and Exchange Commission, which we refer to as the SEC. See Where You Can Find More Information on page 74. In the case of Sterling, the information in the following table is based on Sterling s restated financial information for the periods presented. See Information About the Companies Sterling Financial Corporation on page 59.

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, 2007 and the year ended December 31, 2006 combines the historical income per share data of PNC and its subsidiaries and Sterling and its subsidiaries giving effect to the merger as if the merger had become effective on January 1, 2006, using the purchase method of accounting. Upon completion of the merger, the operating results of Sterling will be reflected in the consolidated financial statements of PNC on a prospective basis.

	PNC Historical (a),(b)	Sterling Historical (d),(e),(f)	Pro Forma Combined(c)	Pro Forma Equivalent Sterling Share
Earnings per share from continuing operations for the twelve months ended December 31, 2006:				
Basic	$ 8.89	$ 0.06	$ 8.71	$ 2.25
Diluted	8.73	0.06	8.56	2.21
Earnings (loss) per share from continuing operations for the nine months ended September 30, 2007:				
Basic	3.92	(0.25)	3.81	0.98
Diluted	3.85	(0.25)	3.75	0.97
Dividends Declared:				

For the year ended December 31, 2006	2.15	0.58	2.15	0.56
For the nine months ended September 30, 2007	1.81	0.15	1.81	0.47
Book Value:				
As of December 31, 2006	36.80	4.34	37.35	9.64
As of September 30, 2007	43.12	3.74	43.52	11.24

(a) Amounts for 2007 reflect the impact of PNC s March 2, 2007 acquisition of Mercantile Bankshares Corporation.

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(b) Noninterest income for 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 2006 included the pretax impact of BlackRock/MLIM transaction integration costs of $91 million. An additional $10 million of integration costs, recognized in the fourth quarter of 2006, were included in noninterest income as a negative component of the asset management line. The after-tax impact of these items was as follows: BlackRock/MLIM transaction gain $1.3 billion; securities portfolio rebalancing loss $127 million; mortgage loan portfolio repositioning loss $31 million; and BlackRock/MLIM transaction integration costs $47 million.

The aggregate after-tax impact of these items increased net income for the year ended December 31, 2006 by $1.1 billion. On a per share basis, the aggregate after-tax impact of these items increased net income by $3.72 per basic common share or $3.67 per diluted common share.

(c) Due to the significant one-time adjustments for PNC during 2006, the pro forma combined results for that year may not be typical. If the one-time adjustments are excluded, the difference between PNC s historical results and the pro forma combined results would decrease significantly.

(d) The year ended December 31, 2006 consolidated financial statements have been restated to give effect to losses associated with the write-off of certain finance receivables within Sterling s subsidiary Equipment Finance, LLC. These losses arose due to the fraudulent activity at EFI, discussed under the heading Introduction in Annex A to this proxy statement/prospectus. The net effect of this restatement was a cumulative after-tax adjustment to January 1, 2006 stockholders equity of $162.0 million.

The year ended December 31, 2006 consolidated financial statements were restated as follows: a reduction to net interest income of $43.6 million, an increase in the provision for loan losses of $12.4 million, a reduction in noninterest income of $941,000, an increase in noninterest expenses of $5.7 million, and a reduction of net income of $39.8 million. Amounts as of December 31, 2006 have been restated as follows: a reduction in total loans, net of allowance for loan losses, of $281.0 million; a reduction of total assets of $203.0 million; and a reduction of stockholder s equity of $201.8 million. See Note 2 to the consolidated financial statements in Annex A for additional information regarding the effect of the fraudulent activities at EFI.

(e) Sterling incurred EFI-related investigation, legal, accounting and other costs, including losses related to the repurchase of previously sold loans and other losses related to fraudulent payments, of $14.0 million after taxes ($0.47 per share loss) and $7.1 million after taxes ($0.24 per share loss) for the nine months ended September 30, 2007 and the year ended December 31, 2006, respectively. Sterling also incurred merger-related expenses totaling $1.1 million after taxes ($0.04 per share loss) in the nine months ended September 30, 2007, which relate to the cost of the acceleration of the vesting of stock options and restricted stock upon the signing of the plan of merger and other costs associated with the pending merger with PNC.

(f) Sterling has not established a reserve or recorded any amounts for any of the litigation described under the heading Recent Developments Regarding Sterling.

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 Report on Form 10-K filed by PNC for the year ended December 31, 2006 as updated by subsequently filed Forms 10-Q, 10-K/A and 10-Q/A, you should carefully consider the following factors in deciding whether to vote for adoption of the plan of merger.

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

Upon completion of the merger, each share of Sterling common stock will be converted into the right to receive merger consideration consisting of shares of PNC common stock and/or cash pursuant to the terms of the plan of merger. The value of the merger consideration to be received by Sterling shareholders will be based on the average closing price of PNC common stock on the NYSE for the five trading days ending on the day before the completion of the merger. This average price may vary from the closing price of PNC common stock on the date we announced the merger, on the date this document was mailed to Sterling shareholders and on the date of the meeting of the Sterling shareholders. Any change in the market price of PNC common stock prior to completion of the merger will affect the value of the merger consideration that Sterling shareholders will receive upon completion of the merger. Accordingly, at the time of the Sterling special meeting and prior to the election deadline, Sterling shareholders will not necessarily know or be able to calculate the amount of the cash consideration they would receive or the exchange ratio used to determine the number of any shares of PNC common stock they would receive upon completion of the merger. Sterling is not permitted to resolicit the vote of Sterling shareholders solely because of changes in the market price of either company s 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 Sterling 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 Sterling. However, to realize these anticipated benefits and cost savings, we must successfully combine the businesses of PNC and Sterling. 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. Upon completion of the merger, PNC would become subject to the litigation matters described under the heading Recent Developments at Sterling Civil Litigation to the extent such matters are still outstanding. PNC does not currently believe that the potential liability in connection with such matters would be material to its business.

PNC and Sterling 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 Sterling 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 Sterling or PNC Currently.

The businesses of PNC and Sterling 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 Sterling. For a discussion of

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the businesses of PNC and Sterling 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, and the discussion of Sterling s business and other information in Annex A.

Sterling Shareholders Will Have a Reduced Ownership and Voting Interest After the Merger and Will Exercise Less Influence Over Management.

Sterling s shareholders currently have the right to vote in the election of the Sterling board of directors and on other matters affecting Sterling. When the merger occurs, each Sterling shareholder that receives shares of PNC common stock will become a shareholder of PNC with a percentage ownership of the combined organization that is much smaller than the shareholder s percentage ownership of Sterling. In fact, it is expected that the former shareholders of Sterling as a group will own approximately 1% of the outstanding shares of PNC immediately after the merger. Because of this, Sterling s shareholders will have less influence on the management and policies of PNC than they now have on the management and policies of Sterling.

Sterling Will Be Subject to Business Uncertainties While the Merger Is Pending.

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on Sterling and consequently on PNC. These uncertainties may impair Sterling s ability to attract, retain and motivate key personnel until the merger is consummated, and could cause customers, vendors and others that deal with Sterling to seek to change existing business relationships with Sterling. Retention of certain employees may be challenging during the pendency of the merger, as certain employees may experience uncertainty about any future role with PNC. If key employees depart because of issues related to the uncertainty and difficulty of integration or a desire not to remain with PNC, PNC s business following the merger could be negatively affected.

Sterling Shareholders May Receive a Form of Consideration Different from What They Elect.

Although each Sterling shareholder may elect to receive all cash, all PNC common stock, or a combination thereof in the merger, the cash and stock elections are subject to proration and adjustment to preserve the proportion of the aggregate number of PNC shares to be issued to the aggregate cash consideration to be paid in the merger. As a result, even if you make an all-cash election or an all-stock election, you may nevertheless receive a mix of cash and stock consideration. In addition, if you elect to receive a combination of stock and cash, you may not receive the desired mix.

If You Are a Sterling Shareholder and You Tender Shares of Sterling Common Stock to Make an Election, You Will Not Be Able to Sell Those Shares, Unless You Revoke Your Election Prior to the Election Deadline.

If you are a registered Sterling shareholder and want to make a valid cash or stock election, you will have to deliver your stock certificates (or follow the procedures for guaranteed delivery), and a properly completed and signed form of election to the exchange agent. For further details on the determination of the election deadline, see The Plan of Merger Conversion of Shares; Exchange of Certificates and Book-Entry Shares; Elections as to Form of Consideration Form of Election. The election deadline will be the later of the day before the special meeting and the date the parties believe to be as near as practicable to five business days before the closing of the merger, unless otherwise agreed to by PNC and Sterling. You will not be able to sell any shares of Sterling common stock that you have delivered as part of your election unless you revoke your election before the deadline by providing written notice to the exchange agent. If you do not revoke your election, you will not be able to liquidate your investment in Sterling common stock for any reason until you receive cash and/or PNC common stock in the merger. In the time between the election deadline and the closing of the merger, the trading price of Sterling or PNC common stock may decrease, and you might otherwise want to sell your shares of Sterling common stock to gain access to cash, make other investments, or reduce the potential for a decrease in the value of your investment. The date that you will receive your merger consideration depends on the completion date of the merger, which is uncertain. The completion date of the merger might be later than expected due to unforeseen events, such as delays in obtaining regulatory approvals.

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 waivers, approvals or consents must be obtained from the Federal Reserve Board, various other bank regulatory and other authorities and the Financial Industry Regulatory Authority. These governmental entities may impose conditions on the completion of the merger or require changes to the terms of the merger. Although PNC and Sterling 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. The Federal Reserve Board approved the transaction on January 25, 2008, the OCC approved the transaction on February 7, 2008, the Pennsylvania Department of Banking approved the transaction on September 17, 2007 and the Delaware State Bank Commissioner approved the transaction on December 31, 2007. PNC is not obligated to complete the merger if the regulatory approvals received in connection with the completion of the merger include any condition or restrictions that would reasonably be expected to have a material adverse effect on Sterling or PNC, measured relative to Sterling, but PNC could choose to waive this condition.

Sterling s Executive Officers and Directors Have Financial Interests in the Merger that May Be Different from, or in Addition to, the Interests of Sterling Shareholders.

Sterling s executive officers and directors have financial interests in the merger that may be different from, or in addition to, the interests of Sterling shareholders. For example, the executive officers and certain key employees of Sterling may receive bonus or retention payments or new equity awards with respect to PNC common stock.

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

The Shares of PNC Common Stock to Be Received by Sterling Shareholders Receiving the Stock Consideration as a Result of the Merger Will Have Different Rights from the Shares of Sterling Common Stock.

Upon completion of the merger, Sterling shareholders who receive the stock consideration will become PNC shareholders and their rights as shareholders will be governed by the amended and restated articles incorporation and amended and restated bylaws of PNC. The rights associated with Sterling common stock are different from the rights associated with PNC common stock. See the section of this proxy statement/prospectus titled Comparison of Shareholders Rights beginning on page 60 for a discussion of the different rights associated with PNC common stock.

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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, Sterling 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, estimate, forecast, project and other similar words and expressions.

The forward-looking statements involve certain risks and uncertainties. The ability of either PNC or Sterling 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 under the heading Risk Factors beginning on page 15, as well as, among others, the following:

- those discussed and identified in public filings with the SEC made by PNC;
- completion of the merger is dependent on, among other things, receipt of shareholder 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 Sterling 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 Sterling s or PNC s existing businesses;
- 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; and
- additionally, with respect to Sterling s business:
  - operating, legal and regulatory risks;
  - economic, political and competitive forces impacting Sterling s various lines of business;
  - recently enacted, proposed and future banking legislation and regulations that have had, and will continue to have or may have, a significant impact on the financial services industry;
  - the risk that Sterling s analysis of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful;
  - the possibility that increased demand or prices for Sterling s financial services and products may not occur;
  - volatility in the levels of interest rates, as well as the difference between short- and long-term rates as reflected in the shape of the yield curve;

the possibility of a downturn in the real estate market in south-central Pennsylvania, northern Maryland and certain counties in Delaware, where Sterling s business activities and credit exposure are concentrated;

integration of Sterling s acquired affiliates may not occur as quickly or smoothly as anticipated, and projected synergies may not occur on the projected time frame or at all;

the risk that the fair values of the business segments will not continue to exceed their carrying value;

changes/volatility in the securities markets; and

other risks and uncertainties.

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

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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 Sterling 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 Sterling 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.

THE STERLING SPECIAL MEETING OF SHAREHOLDERS

This section contains information about the special meeting of Sterling shareholders that has been called to consider and adopt the plan of merger of Sterling 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 Sterling board of directors. The special meeting will be held on March 26, 2008, at 10:30 a.m., EST, at Liberty Place Conference Center, 313 West Liberty Street, Lancaster, PA 17603, subject to any adjournments or postponements.

Matters to Be Considered

The purpose of the special meeting is to vote on a proposal to adopt the plan of merger and related matters.

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 adopt the plan of merger.

Proxies

Each copy of this document mailed to holders of Sterling common stock is accompanied by a form of proxy with instructions for voting. If you hold stock in your name as a shareholder 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 shareholder 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 Sterling 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 shareholder 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 Sterling s Secretary) of a shareholder 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:

Sterling Financial Corporation
1097 Commercial Avenue, MC 294-953
East Petersburg, PA 17520
Attention: Corporate 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 adoption of the plan of 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 adopt the plan of merger.

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Sterling 401(k) Retirement Plan Participants

Sterling has engaged Fiduciary Counselors Inc. as an independent fiduciary to manage the Sterling common stock investment fund in the Sterling Financial Corporation 401(k) Retirement Plan, which we refer to as the 401(k) Plan. If you are a Sterling 401(k) Plan participant who, as of the record date, has shares of Sterling common stock allocated to your account under the 401(k) Plan, you are entitled to give voting instructions for those shares to Fiduciary Counselors. You also have the right, with respect to the shares of Sterling common stock allocated to your account, to elect to receive merger consideration consisting of cash, shares of PNC common stock, or a combination of both. The election procedures are described under the heading The Plan of Merger Consideration to Be Received in the Merger beginning on page 39. As explained in that section, regardless of whether you make a cash election or a stock election, you might nevertheless receive a mix of cash and stock due to proration and adjustment.

Fiduciary Counselors has retained Ellen Philip Associates to provide proxy tabulation services for the 401(k) Plan in connection with the merger. You will receive a separate voting instruction card and form of election for your 401(k) Plan shares, and Fiduciary Counselors will make sure that your voting instructions and election of merger consideration remain confidential. Fiduciary Counselors will instruct the trustee of the 401(k) Plan to vote the shares allocated to your account as you direct, provided that your instructions are not contrary to the fiduciary standards of the Employee Retirement Income Security Act of 1974, as amended. If you do not provide voting instructions to Fiduciary Counselors by the voting deadline, Fiduciary Counselors will determine how to vote the shares allocated to your account, and any other shares for which Fiduciary Counselors receives no voting instructions by the deadline. If a matter arises at the meeting, or at another time when Fiduciary Counselors has no practical means for receiving participant direction, Fiduciary Counselors will determine how to vote on that matter. To allow sufficient time for voting of the shares held by the 401(k) Plan, your voting instructions, whether by proxy, telephone or Internet, must be received by noon, EST, on March 24, 2008.

Solicitation of Proxies

Sterling will bear the entire cost of soliciting proxies from you. In addition to solicitation of proxies by mail, Sterling will request that banks, brokers and other record holders send proxies and proxy material to the beneficial owners of Sterling common stock and secure their voting instructions. Sterling will reimburse the record holders for their reasonable expenses in taking those actions. Sterling has also made arrangements with Georgeson, Inc. to assist in soliciting proxies and has agreed to pay them $8,500 plus reasonable expenses for these services. If necessary, Sterling may use several of its employees, officers or directors, who will not be specially compensated, to solicit proxies from Sterling shareholders, either personally or by telephone, facsimile, letter or other electronic means.

PNC and Sterling will share equally the expenses incurred in connection with the printing and mailing of this document.

Record Date

The close of business on January 18, 2008 has been fixed as the record date for determining the Sterling shareholders entitled to receive notice of and to vote at the special meeting. At that time, approximately 29,509,681 shares of Sterling common stock were outstanding, held by approximately 4,536 holders of record. Sterling shareholders are entitled to one vote on each matter considered and voted on at the special meeting for each share of Sterling common stock held of record at the close of business on the record date.

Voting Rights and Vote Required

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Sterling 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.

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Under applicable Pennsylvania law, a majority of the votes cast at the Sterling special meeting is required to approve the plan of merger. For purposes of determining the number of votes cast with respect to a matter, only those votes cast for and against a proposal are counted. Abstentions and any broker non-votes will be treated as shares that are present for purposes of determining the presence of a quorum but will not be counted for or against a proposal.

As of the record date, directors and executive officers of Sterling and their affiliates had the right to vote approximately 1,494,410 shares of Sterling common stock, or 5.06% of the outstanding Sterling common stock at that date.

Approval of any proposal to adjourn or postpone the meeting, if necessary, for the purpose of soliciting additional proxies may be obtained by approval of the holders of a majority of the shares of Sterling common stock present in person or represented by proxy at the special meeting, whether or not a quorum is present.

Recommendation of the Sterling Board of Directors

The Sterling board of directors has adopted the plan of merger and the transactions it contemplates, including the merger. The Sterling board of directors determined that the merger, plan of merger and the transactions contemplated by the plan of merger are advisable and in the best interests of Sterling and its shareholders and recommends that you vote FOR adoption of the plan of merger, FOR the approval of the adjournment, if necessary, and FOR the approval of other matters appropriate in connection with the plan of merger. See The Merger Reasons for the Merger; Recommendation of Sterling s Board of Directors for a more detailed discussion of the Sterling board of directors recommendation.

Attending the Meeting

All holders of Sterling common stock, including shareholders of record and shareholders who hold their shares through banks, brokers, nominees or any other holder of record, may attend the special meeting. Shareholders of record can vote in person at the special meeting. If you are not a shareholder 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.

THE MERGER

The following discussion describes certain aspects of the merger. We urge you to read carefully this entire document, including the plan of merger and the financial advisor opinion attached as Annexes to this document, for a more complete understanding of the merger.

Sterling s board of directors has adopted the plan of merger and approved the merger. The plan of merger provides for combining our companies through the merger of Sterling with and into PNC, with PNC as the surviving corporation. We expect to complete the merger of Sterling and PNC in the first half of 2008, although delays may occur.

Please see The Plan of Merger beginning on page 38 for additional and more detailed information regarding the legal documents that govern the merger, including information about the conditions to the merger and the provisions for terminating or amending the plan of merger.

Background of the Merger

The banking and financial services industry has seen significant consolidation and changes over the last several years. During that time, Sterling s board of directors has kept abreast of these developments, and Sterling has completed several acquisitions, as a result of which Sterling diversified its business and expanded its geographic reach. From time to time, other financial institutions have expressed interest in pursuing a merger-of-equals or acquisition transaction with Sterling, but until recently Sterling has not engaged in substantial discussions relating to such a transaction.

The decision to enter into the merger agreement is the result of an extensive deliberative process by Sterling s board of directors and was reached after an evaluation of Sterling s strategic alternatives. As Sterling has previously disclosed, in early April 2007, Sterling management received information suggesting irregularities in certain financing contracts at its commercial finance subsidiary, Equipment Finance LLC, which we refer to as EFI. EFI is a wholly owned subsidiary of BLC Bank, N.A., formerly known as Bank of Lancaster County, N.A., which is the principal banking subsidiary of Sterling. Sterling acquired EFI in February 2002. Upon receiving information regarding the irregularities, management immediately notified the chairman of the board of directors, the board s audit committee and Sterling s independent auditor, Ernst & Young LLP, and the audit committee hired legal counsel, Stradley Ronon Stevens & Young, LLP, to conduct an independent investigation. With the audit committee s approval, Stradley Ronon Stevens & Young engaged a forensic accounting firm, KPMG LLP, to assist in the investigation. Sterling also retained Promontory Financial Group, which we refer to as Promontory, to review its internal controls and procedures and assist with regulatory matters.

In its early stages, the investigation revealed evidence of a sophisticated loan scheme orchestrated deliberately by EFI officers and employees over an extended period of time to conceal credit delinquencies, falsify financing contracts and related documents, and subvert Sterling s established controls and reporting systems. Please see Recent Developments Regarding Sterling Results of the Independent Investigation for further information.

As a result of the events related to EFI, Sterling announced on April 19, 2007 that it would delay its first quarter earnings release and, on April 30, 2007, announced that Sterling s previously issued financial statements and earnings press releases and similar communications for fiscal periods commencing on or after January 1, 2004 should no longer be relied upon in light of these irregularities. Sterling also stated that the impact of the irregularities may be material for prior years, depending on the results of the investigation. In the period from February 2002 through December 31, 2006, EFI contributed an aggregate of approximately $56 million (or approximately 33%) to Sterling s aggregate consolidated reported net income of approximately $167.5 million.

As the investigation progressed, the board of directors and management began to evaluate the ramifications of the loan scheme at EFI. Sterling considered on an ongoing basis the liquidity of the company and its subsidiaries. On May 7, 2007, Keefe, Bruyette & Woods, Inc., which we refer to as KBW, first met with the board of directors, along with Promontory and senior management, to discuss Sterling s financial

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position and to discuss strategic options, which included remaining independent and raising additional capital, selling certain assets and/or business units, and entering into a business combination. After that meeting, KBW was requested to prepare a presentation for the board of directors analyzing Sterling s options.

On May 15, 2007, Sterling s management met with the board of directors to discuss capital and liquidity plans, including a plan to consolidate four of Sterling s subsidiary banks. As the board of directors had previously requested, KBW made a presentation to the board of directors analyzing Sterling s strategic options, including an equity capital raising and pursuing a business combination with a third party. After considering the strategic options available and KBW s experience, as more fully described under Opinion of Sterling s Financial Advisor, Sterling formally engaged KBW to assist it in identifying and evaluating its strategic options. In connection with the discussions, senior management recommended that Sterling assess the possibility of raising capital, and at the same time solicit offers from potential partners for a business combination. At that meeting, Sterling s board of directors formed a special committee, the Merger and Acquisition Committee, which we refer to as the Committee, and appointed as its members directors Terrence L. Hormel, Michael A. Carenzo and director, president and chief executive officer J. Roger Moyer, as well as Tito L. Lima, Sterling s chief financial officer, and Thomas P. Dautrich, chairman of BLC Bank. The Committee was directed to facilitate exploration of Sterling s strategic options and lead any discussions of a business combination, with decisions to be made only by the full board of directors.

Sterling s board of directors met again on May 22, 2007 to review the progress in analyzing and quantifying the estimated EFI-related losses. The board of directors also considered a plan for consolidation of four of Sterling s subsidiary bank charters to consolidate the capital at its subsidiary banks. In addition, the board of directors and management then discussed strategic options and progress in the review of potential strategic partners, including a timetable for contacting prospective partners.

On May 24, 2007, Sterling publicly reported that it had determined that, under U.S. generally accepted accounting principles, it would be required to record a material impairment of certain assets of EFI, which it expected to record as a cumulative after-tax charge to the financial statements for the year ended December 31, 2006, estimated to be in the range of $145 million to $165 million based upon the results of the investigation s preliminary findings.

This charge was expected to cause the capital ratios of Sterling and Bank of Lancaster County, the direct parent company of EFI, to decline to unacceptable levels. Therefore, also on May 24, 2007, Sterling implemented a plan to mitigate the effect on capital ratios by maximizing the use of regulatory capital of its subsidiary banks. This plan included the consolidation of three of Sterling s subsidiary banks into Bank of Lancaster County, which the OCC approved on an expedited basis as of May 25, 2007. The consolidated entity was renamed BLC Bank, N.A.

In connection with the efforts to manage Sterling s and its subsidiaries liquidity situation, management and the board of directors were mindful that EFI had funding arrangements from two third-party financial institutions for a total of $45 million, which were guaranteed by Sterling. One outstanding line matured on May 31, 2007. Due to EFI s financial position, Sterling negotiated a one-month extension of the maturity of that line to June 30, 2007 and sought a new line of credit to replace the maturing obligations.

In late May 2007, after discussions with the Committee, KBW contacted seventeen potential transaction partners on Sterling s behalf. Nine of the seventeen parties indicated possible interest in pursuing a transaction with Sterling. Subject to confidentiality agreements, KBW provided certain information about Sterling to those nine parties on May 31 and invited them to provide initial indications of interest. On June 8, 2007, Sterling s board of directors approved the engagement of Sullivan & Cromwell LLP as special counsel to advise on strategic options.

In response to KBW s contacts with potential transaction partners, indications of interest were received from financial institutions on June 15.

The Committee met on June 15 to discuss the indications of interest received and again on June 18 to determine its recommendation to the board of directors. Sterling s board of directors met to discuss the initial indications of interest on June 19. At that meeting, the board of directors discussed all strategic options available to Sterling, which included remaining independent with no capital raising, raising equity capital, selling certain assets or business units, and pursuing a business combination with a third party. Presentations were made by management, the Committee, KBW and Sullivan & Cromwell. The board of directors considered the possibility of raising equity capital and the large amount of capital that would need to be raised to meet Sterling s and its subsidiaries capital needs and the resulting significant dilution that Sterling s existing shareholders would suffer, as well as timing considerations due to the likely requirement for Sterling s financial restatement to be completed before capital could be publicly raised and the prospects for success. The presentations regarding a possible business combination with a third party also included discussion in detail of the proposals from each of the four institutions that had submitted initial indications of interest at a specific preliminary price or range of prices, financial and other information regarding Sterling, and the legal duties and responsibilities of the directors in evaluating the proposals. After considering Sterling s strategic options and the information presented by KBW, the board of directors authorized the Committee and Sterling s financial and legal advisors to invite the two financial institutions that had submitted the highest valued initial indications of interest (one of which was PNC) to conduct due diligence and submit final indications of interest. The board of directors also made clear that it would continue to consider the possibility of Sterling remaining as an independent institution.

Meanwhile, between May and July, several lawsuits, which are described in more detail under Recent Developments Regarding Sterling Civil Litigation on page 70, were filed against Sterling, EFI and certain of their directors and officers.

On June 26, 2007, Sterling secured a line of credit from Manufacturers and Traders Trust Company in the amount of $80 million, $70 million of which Sterling invested in BLC Bank as a capital infusion to provide funds to repay the loans described above. This investment also raised the capital levels of BLC Bank, and with the increase in capital provided by the consolidation of three other Sterling subsidiary banks into BLC Bank, provided enough capital to meet BLC Bank s immediate needs.

During the period from June 25 to July 13, 2007, the two selected potential transaction partners conducted extensive due diligence on Sterling. Sterling requested that final indications of interest be submitted no later than July 16, 2007, and provided both potential partners with the same draft merger agreement and related materials and requested that each raise and seek to resolve issues prior to submitting final indications.

Each of the potential transaction partners submitted revised indications of interest on July 16. PNC s proposal included two purchase prices, the higher of which PNC proposed to couple with a downward purchase price adjustment mechanic based on matters relating to EFI. The other party indicated a somewhat lower purchase price with no adjustment mechanism. The indications from both parties included a mixture of stock and cash, and neither indication contained a financing contingency. Both parties bids provided for a retention bonus pool for certain Sterling employees and addressed displacement and severance benefits, and both parties indicated a desire to offer Sterling s directors positions on local advisory boards following completion of a transaction.

The Committee and its advisors held a number of meetings on July 16 and July 17, and KBW continued to negotiate with both parties regarding price, timing and other terms and conditions. Sullivan & Cromwell began negotiations with both potential parties on a draft merger agreement.

PNC and the other party were asked to provide their final best offer. On July 17, PNC revised its offer, indicating a purchase price of $19.00 per share and the other institution increased its purchase price to $18.25 per share. PNC indicated that its revised offer was contingent upon executing a definitive merger agreement before the opening of trading on July 19.

In the evening of July 17, the Committee determined to move forward with negotiations with PNC and to cooperate as much as possible to meet PNC s deadline while remaining in contact with the second institution. A special meeting of the board of directors was called for the morning of July 18.

On the morning of July 18, the special meeting of the board of directors was called to order. Mr. Moyer provided an overview of the events of the prior days and weeks and the status of the bids, and Mr. Hormel described the involvement of the Committee since June 19, when the board of directors had voted to proceed to negotiate with the two institutions. Sterling s strategic options were again reviewed, and Sullivan & Cromwell discussed the duties of the board of directors when considering the bids. Sullivan & Cromwell also summarized the negotiations process to date, and KBW explained the bids and the bid history in detail. KBW noted that PNC s bid then had a value of $19.00 per share of Sterling common stock, based on the closing price of PNC s stock on July 17, 2007, with a mix of stock and cash consideration of 60%/40%, respectively. This was approximately 4% higher than the offer from the other bidder and an approximate 78% premium over Sterling s stock price, based on Sterling and PNC s closing stock prices on July 17. KBW also noted that the final PNC bid did not include a purchase price adjustment mechanism. PNC s bid was conditioned on entering into employment agreements with six senior executives of Sterling and included a retention bonus pool for other employees to be determined in consultation with Sterling. KBW noted PNC s required timetable, which involved execution of a definitive agreement before PNC publicly announced its second quarter earnings on the morning of July 19.

KBW then presented an analysis of the financial aspects of the bids, including the dividend impact for Sterling s shareholders, the historical performance of the bidders stock, the effects of the proposed mergers on the bidders, the bidders respective businesses and financial information, performance of the bidders stocks after announcing previous mergers, and the bidders branch footprints and potential overlap with Sterling s branches. KBW also discussed non-financial characteristics of the two bidders. KBW reminded the board of directors of KBW s financial analysis of Sterling s other strategic alternatives at the board of directors June 19 meeting.

Sullivan & Cromwell summarized the merger agreement that had been provided previously to the board members. Sullivan & Cromwell noted its belief that Sterling would be able to finalize the merger agreement terms with either bidder.

The meeting was recessed late in the morning, with the directive from the board of directors that the Committee, Sterling senior management and Sterling s advisors continue to negotiate with PNC during the day with a view toward signing a definitive merger agreement that night if definitive arrangements could be reached.

Late in the evening, the special meeting of the board of directors was reconvened. Sullivan & Cromwell reported that the merger agreement and related materials continued to be negotiated with PNC and that substantial progress had been made. It was reported that the employment agreements requested by PNC had been negotiated with five executives and that the sixth executive would not be executing an agreement, which was acceptable to PNC.

While Sullivan & Cromwell worked to finalize the merger agreement with PNC s counsel, KBW provided an update on stock market developments and the effects on the values of the two bids. In KBW s view, the price difference between the two bids had not changed significantly. KBW discussed the expected impact of the announcement of PNC s second quarter earnings on PNC s stock price and the deal value.

KBW provided an oral opinion that the merger consideration proposed by PNC was fair, from a financial point of view, to holders of the shares of Sterling common stock, as of July 18 and based upon and subject to the factors and assumptions stated in that opinion and in KBW s written opinion.

The meeting went into recess while negotiations with PNC continued. Later in the evening, the meeting was reconvened. Sullivan & Cromwell reported that a final agreement had been reached. After further discussion, and on the basis of that agreement, the board of directors agreed to accept the merger agreement proposed by PNC. One board member abstained from voting; all other members of the board of directors approved the merger agreement.

Early in the morning on July 19, the PNC board of directors held a special meeting at which members of PNC s senior management and PNC s outside legal and financial advisors made various presentations about, and the board discussed, the potential strategic combination with Sterling and the proposed terms of the merger. At this meeting, the

PNC board unanimously approved the merger agreement and the transactions contemplated by the merger agreement. Prior to the opening of the financial markets in New York City on July 19, 2007, Sterling and PNC executed the merger agreement and announced the transaction.

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

The Sterling board of directors believes that the merger is in the best interests of Sterling and its shareholders. **The Sterling board of directors therefore has approved the merger agreement and recommends that the Sterling shareholders vote FOR the adoption of the merger agreement.**

In reaching its decision, the board of directors, with advice from its financial and legal advisors, considered a number of factors, including the following:

Strategic Alternatives. The board of directors carefully considered all of the strategic alternatives available to Sterling, including pursuing a business combination with a third party, remaining independent, and attempting to raise equity capital. The board discussed these alternatives at its May 15, June 19, and July 18 special meetings and received advice from KBW as its financial advisor and from Sullivan & Cromwell as its special legal counsel. The Committee had also been fully engaged in the strategic decision-making process from May 15 to July 18. In comparing a business combination to the alternative of capital raising, the board of directors considered the significant dilution that existing Sterling shareholders would suffer as the result of raising equity capital, and also considered that Sterling would likely have to complete the restatement of its financial statements to proceed with raising capital, just as it would have to in a merger. Sterling would also continue to face the various significant legal and regulatory issues described in detail above under Background of the Merger and on pages 69-72 under Recent Developments Regarding Sterling Civil Litigation, Regulatory Matters and Other Investigations. The board of directors therefore concluded that the merger with PNC is the best strategic alternative, taking into account the range of possible shareholder values and the likelihood of completing a transaction and restoring value to Sterling s shareholders as quickly as possible.

Future Prospects. The board of directors concluded, after reviewing Sterling s business, operations, financial condition, earnings and prospects, and issues relating to the problems caused by the EFI-related matters and the likely resolution of those issues, and taking into account KBW s and Sterling management s and the Committee s due diligence review of PNC, that merging with PNC is a more desirable alternative for Sterling s shareholders than remaining an independent company. Among other things, the board of directors considered the capital issues facing Sterling and BLC Bank, the litigation described in more detail beginning on page 70 under Recent Developments Regarding Sterling Civil Litigation, and the regulatory issues faced by Sterling if it remains independent. Furthermore, the board of directors considered that the principal alternative to a business combination, raising equity capital, would heavily dilute existing Sterling shareholders, could require substantial reduction in expenses through, among other means, the termination of Sterling employees, as well as possible divestitures of certain of Sterling s business lines, and would likely require Sterling to complete the restatement of its financial statements before proceeding. The board of directors also considered the reputation and business practices and experience of PNC and its management as they might affect the business of Sterling and its subsidiaries, the prospects for Sterling as an independent entity, and the customers, depositors and employees of Sterling and its subsidiaries and the communities which they serve.

Merger Consideration. The board of directors considered the value of the consideration offered by PNC and the likely effects of price changes on the stock portion of the consideration between signing and closing and the fixed nature of the cash portion of the consideration, which would not fluctuate, and that the consideration, at the time of their decision, represented an approximate 79% premium over the market price of Sterling s common stock on July 18, 2007. The board of directors also considered the adequacy of the merger consideration, not only in relation to the current market price of Sterling s common stock, but also in relation to the historical, present and anticipated future operating results and financial position of Sterling, the value of

Sterling in a freely negotiated transaction and the prospects and future value of Sterling as an independent entity. The board of directors considered that PNC s bid was approximately 4% higher than the other bidder s and that other factors were consistent with approval of PNC s bid in relation to the other bidder.

Likelihood of Prompt Regulatory Approval and Closing. The board of directors assessed closing certainty, price certainty, and speed to closing with PNC and PNC s expected ability to work with Sterling through the restatement process and related issues. The board of directors considered PNC s recent acquisition history, including the successful consummation of its transaction with Riggs National Corporation and the timing between signing and closing of recent transactions, as well as the overlap of its branches with Sterling s branches compared to the other bidders. The board of directors also perceived PNC s interest in consummating a transaction with Sterling to be very high.

Social and Economic Impact. As required by Sterling s Articles of Incorporation, the board of directors considered the social and economic impact that the merger, if consummated, would have upon the customers, depositors and employees of Sterling and its subsidiaries and upon the communities which they serve. The board of directors viewed PNC s record in this area favorably, particularly its history of outstanding Community Reinvestment Act ratings.

Terms of the Merger Agreement. The merger agreement allows Sterling shareholders to elect to receive PNC stock or cash or a combination of PNC stock and cash for their Sterling shares, subject to the allocation procedures in the merger agreement. With the assistance of its legal and financial advisors, the board of directors considered these matters and the other terms of the merger agreement in its decision to approve and recommend the merger agreement.

KBW s Fairness Opinion and Analysis. The board of directors considered as favorable to its determination the opinion, analyses and presentations of KBW described under the heading Opinion of Sterling s Financial Advisor beginning on this page, including the oral opinion of KBW, which subsequently was confirmed in writing, that, as of the date of the written fairness opinion and based upon and subject to the factors and assumptions set forth therein, the aggregate merger consideration to be offered to Sterling s shareholders in the merger was fair from a financial point of view to the holders of such stock.

The reasons set forth above are not intended to be exhaustive, but include material facts considered by the board of directors in approving the merger agreement. In reaching its determination, the board of directors did not assign any relative or specific weights to different factors, and individual directors may have given different weights to different factors. Based on these reasons and others, the board of directors believes that the merger is in the best interests of Sterling and its shareholders, and, therefore, those directors voting unanimously approved the merger agreement, with one director abstaining from the vote.

Opinion of Sterling s Financial Advisor

On May 15, 2007, Sterling Financial Corporation executed an engagement agreement with KBW. KBW s engagement encompassed assisting Sterling as its financial advisor in evaluating and recommending strategic alternatives in connection with a possible business combination with select other institutions. Sterling selected KBW because KBW is a nationally recognized investment-banking firm with substantial experience in transactions similar to the merger and is familiar with Sterling, its directors and executive officers and its business. As part of its investment banking business, KBW is continually engaged in the valuation of financial businesses and their securities in connection with mergers and acquisitions.

On July 18, 2007, Sterling s board of directors held a meeting to evaluate the proposed merger of Sterling with and into PNC. At this meeting, KBW reviewed the financial aspects of the proposed merger and rendered an oral opinion that, as of such date, the consideration to be paid to Sterling shareholders in the merger was fair to such holders from a financial point of view. Sterling s board of directors approved the plan of merger at this meeting. As of July 19, 2007, KBW confirmed the oral opinion by delivery of a written opinion to Sterling s board of directors.

The full text of KBW s written opinion is attached as Annex C to this document and is incorporated herein by reference. Sterling s shareholders are urged to read the opinion in its entirety for a description of the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW. The description of the opinion set forth herein is qualified in its entirety by reference to the full text of such opinion.

KBW s opinion speaks only as of the date of the opinion. The opinion is directed to Sterling s board of directors and addresses only the fairness, from a financial point of view, of the consideration offered to the Sterling shareholders. It does not address the underlying business decision to proceed with the merger and does not constitute a recommendation to any Sterling shareholder as to how the shareholder should vote at the Sterling special meeting on the merger or any related matter.

In rendering its opinion, KBW:

- reviewed, among other things,
  - the plan of merger,
  - Annual Reports to shareholders and Annual Reports on Form 10-K of PNC,
  - Quarterly Reports on Form 10-Q of PNC, and
  - certain financial information regarding Sterling s financial condition and earnings;
- held discussions with members of senior management of Sterling and PNC regarding,
  - past and current business operations,
  - regulatory relationships,
  - financial condition, and
  - future prospects of the respective companies;
- reviewed the market prices, valuation multiples, publicly reported financial condition and results of operations for PNC and compared them with those of certain publicly traded companies that KBW deemed to be relevant;
- compared the proposed financial terms of the merger with the financial terms of certain other transactions that KBW deemed to be relevant;
- evaluated the potential pro forma impact of the merger on PNC, including cost savings, that management of PNC expects to result from a combination of the businesses of Sterling and PNC; and
- performed other studies and analyses that it considered appropriate.

In conducting its review and arriving at its opinion, KBW relied upon and assumed the accuracy and completeness of all of the financial and other information provided to or otherwise made available to KBW or that was discussed with, or reviewed by or for KBW, or that was publicly available. KBW did not attempt, or assume any responsibility, to verify such information independently. KBW relied upon the management of Sterling and PNC as to the reasonableness and achievability of the financial and operating forecasts and estimates (and assumptions and bases therefor) provided to KBW. KBW assumed, without independent verification, that the aggregate allowances for loan and lease losses for Sterling and PNC are adequate to cover those losses. KBW did not make or obtain any evaluations or appraisals of any assets or liabilities of Sterling or PNC, nor did they examine or review any individual credit files.

The estimates furnished to KBW and used by it in certain of its analyses were prepared by Sterling s senior management team. Such estimates were not prepared with a view towards public disclosure. The estimates were based on numerous variables and assumptions, which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the estimates. In its analysis, KBW used certain publicly available financial information and earnings estimates on PNC and made no attempt to independently verify their accuracy.

For purposes of rendering its opinion, KBW assumed that, in all respects material to its analyses:

the merger will be completed substantially in accordance with the terms set forth in the plan of merger;

the representations and warranties of each party in the plan of merger and in all related documents and instruments referred to in the plan of merger are true and correct;

each party to the plan of merger and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;

all conditions to the completion of the merger will be satisfied without any waivers; and

in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, that may be imposed, will have a material adverse effect on the future results of operations or financial condition of the combined entity or the contemplated benefits of the merger, including the cost savings, revenue enhancements and related expenses expected to result from the merger.

KBW further assumed that the merger will be accounted for as a purchase transaction under generally accepted accounting principles, and that the merger will qualify as a tax-free reorganization for United States federal income tax purposes. KBW s opinion is not an expression of an opinion as to the prices at which shares of Sterling common stock or PNC common stock will trade since the announcement of the proposed merger or the actual value of the PNC common shares when issued pursuant to the merger, or the prices at which the PNC common shares will trade following the completion of the merger.

In performing its analyses, KBW made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of KBW, Sterling and PNC. Any estimates contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the KBW opinion was among several factors taken into consideration by Sterling s board of directors in making its determination to approve the plan of merger and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of Sterling s board of directors with respect to the fairness of the consideration to be paid in the merger.

Summary of Analysis by KBW

The following is a summary of the material analyses presented by KBW to Sterling s board of directors, in connection with its written fairness opinion. The summary is not a complete description of the analyses underlying the KBW opinion or the presentation made by KBW to Sterling s board of directors, but summarizes the material analyses performed and presented in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, KBW did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The tables alone do not constitute a complete description of the financial analyses.

Summary of Proposal. The terms of the plan of merger call for each outstanding share of Sterling common stock to receive per share consideration of $7.60 in cash plus 0.1543 shares of PNC common stock. Sterling shareholders will have the right to elect to receive either stock or cash or a combination of stock and

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cash, subject to proration as described under The Plan of Merger Consideration to Be Received in the Merger Proration.

Selected Peer Group Analysis. Using publicly available information, KBW compared the financial performance, financial condition and market performance of PNC to the following depository institutions that KBW considered comparable to PNC.

Companies included in PNC s peer group were:

Wachovia Corporation	Regions Financial Corporation
Wells Fargo & Company	BB&T Corporation
U.S. Bancorp	Fifth Third Bancorp
SunTrust Banks, Inc.	KeyCorp
National City Corporation	Comerica Incorporated

To perform this analysis, KBW used financial information as of or for the three- or twelve-month period ended March 31, 2007. Market price information was as of July 13, 2007, and 2007 and 2008 earnings estimates were taken from First Call, a nationally recognized earnings estimate consolidator. Certain financial data prepared by KBW, and as referenced in the tables presented below, may not correspond to the data presented in PNC s historical financial statements as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented.

KBW s analysis showed the following concerning PNC s financial performance:

Financial Performance Measures:	**PNC**	**PNC Peer Group Median**
Latest Twelve Months Core Return on Average Equity(1)	13.9%	14.0%
Latest Twelve Months Core Return on Average Assets(1)	1.42%	1.32%
Net Interest Margin	2.95%	3.54%
Latest Twelve Months Efficiency Ratio	65%	58%

(1) Core income is defined as net income before extraordinary items, less the after-tax portion of investment securities gains or losses and nonrecurring items.

KBW s analysis showed the following concerning PNC s financial condition:

Financial Performance Measures:	**PNC**	**PNC Peer Group Median**
Tangible Equity / Tangible Assets	5.62%	6.40%
Loans / Deposits	82%	110%
Latest Twelve Months Net Charge-offs / Average Loans	0.28%	0.26%

Loan Loss Reserves / Loans	1.06%	1.08%
Non Performing Assets / Assets	0.18%	0.39%

KBW s analysis showed the following concerning PNC s market performance:

Financial Performance Measures:	**PNC**	**PNC Peer Group Median**
Price to Earnings Multiple, based on 2007 GAAP estimated earnings	13.1x	12.4x
Price to Earnings Multiple, based on 2008 GAAP estimated earnings	11.9x	11.6x
Price to Tangible Book Multiple Value	389%	308%
Dividend Yield	3.4%	4.2%

Comparable Transaction Analysis. KBW reviewed publicly available information related to select comparably sized acquisitions of bank holding companies nationwide announced after January 1, 2003, with

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aggregate transaction values between $250 million and $1.0 billion. The transactions included in the group were:

Acquiror	Acquiree
PNC Financial Services Group, Inc.	Yardville National Bancorp
Susquehanna Bancshares, Inc.	Community Banks, Inc.
TD Banknorth Inc.	Interchange Financial Services Corp.
New York Community Bancorp, Inc.	Atlantic Bank of New York
Fulton Financial Corporation	Columbia Bancorp
Community Banks, Inc.	PennRock Financial Services Corp.
PNC Financial Services Group, Inc.	Riggs National Corporation
Partners Trust Financial Group, Inc.	BSB Bancorp, Inc.
North Fork Bancorporation, Inc.	Trust Company of New Jersey
PNC Financial Services Group, Inc.	United National Bancorp
Mercantile Bankshares Corp.	F&M Bancorp

Transaction multiples for the merger were derived from an offer price of $19.00 per share for Sterling. Sterling s financial condition and estimated earnings per share were adjusted for the pro-forma impact of Equipment Finance, LLC, which we refer to as EFI, per company management. For each precedent transaction, KBW derived and compared, among other things, the implied ratio of price per common share paid for the acquired company to:

tangible book value per share of the acquired company based on the latest publicly available financial statements of the company available prior to the announcement of the acquisition;

the projected forward earnings per share of the acquired company publicly available prior to the time the transaction was announced;

tangible equity premium to core deposits based on the latest publicly available financial statements of the company available prior to the announcement of the acquisition; and

market premium based on the latest closing price 1-day prior to the announcement of the acquisition.

The results of the analysis are set forth in the following table:

Transaction Price to:	**PNC/Sterling Merger**	**Comparable Transactions Median**	**Comparable Transactions Maximum**	**Comparable Transactions Minimum**
Tangible Book Value	748%	261%	442%	175%
Projected 2007 Estimated Earnings per Share	19.9x	20.1x	22.1x	18.5x
Core Deposit Premium	20.7%	21.2%	33.5%	10.0%
Market Premium(1)	73.7%	16.7%	48.8%	(0.9)%

(1) Based on Sterling s closing price of $10.94 on July 13, 2007.

No company or transaction used as a comparison in the above analysis is identical to Sterling, PNC or the proposed merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

Discounted Cash Flow Analysis. KBW performed a discounted cash flow analysis to estimate a range for the implied equity value per share of Sterling common stock based on a continued independence scenario. In this analysis, KBW assumed discount rates ranging from 11.0% to 15.0% to derive (i) the present value of the estimated free cash flows that Sterling could generate over a five year period and (ii) the present value of Sterling s terminal value at the end of year five. Terminal values for Sterling were calculated based on a range of 12.5x to 14.5x estimated year six earnings per share. In performing this analysis, KBW used Sterling management s 2007 and 2008 earnings estimates. Based on management s estimates KBW assumed 10.0% earnings per share growth thereafter. Further, KBW assumed that Sterling would issue $75 million in common equity to increase its tangible common equity to tangible assets ratio to 5.50%. In determining cash flows available to shareholders, KBW used forecasted dividend payout ratios (percentages of earnings per share payable to shareholders), which assume the maintenance of a minimum ratio of tangible common equity to tangible assets of 5.50%.

Based on these assumptions, KBW derived an implied equity value per share of Sterling common stock ranging from $9.95 to $13.38.

The discounted cash flow analysis is a widely used valuation methodology, but the results of such methodology are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates, and discount rates. The analysis did not purport to be indicative of the actual values or expected values of Sterling common stock.

Forecasted Pro Forma Financial Analysis. KBW analyzed the estimated financial impact of the merger on PNC s 2008 estimated earnings per share and 2008 estimated cash earnings per share. Cash earnings per share is determined by adding per share amortization of intangible assets to earnings per share. For PNC, KBW used the First Call consensus estimate of earnings per share for 2008. For Sterling, KBW used management s estimates of earnings per share for 2008. In addition, KBW assumed that the merger will result in cost savings equal to PNC management s estimates. Based on its analysis, KBW determined that the merger would be slightly accretive to both PNC s estimated GAAP earnings per share and cash earnings per share in 2008.

Furthermore, the analysis indicated that PNC s Leverage Ratio, Tier 1 Risk Based Capital Ratio and Total Risk Based Capital Ratio would all remain well capitalized by regulatory standards. For all of the above analysis, the actual results achieved by PNC following the merger may vary from the projected results, and the variations may be material.

Other Analyses. KBW reviewed the relative financial and market performance of Sterling and PNC to a variety of relevant industry peer groups and indices. KBW also reviewed earnings estimates, balance sheet composition, historical stock performance and other financial data for PNC.

The Sterling board has retained KBW as an independent contractor to act as financial adviser to Sterling regarding the merger. As part of its investment banking business, KBW is continually engaged in the valuation of banking businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. As specialists in the securities of banking companies, KBW has experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of its business as a broker-dealer, KBW may, from time to time, purchase securities from, and sell securities to, Sterling and PNC. As a market maker in securities KBW may from time to time have a long or short position in, and buy or sell, debt or equity securities of Sterling and PNC for KBW s own account and for the accounts of its customers.

Sterling and KBW have entered into an agreement relating to the services to be provided by KBW in connection with the merger. Sterling has agreed to pay KBW, at the time of closing, a cash fee equal to 1.00% of the market value of the aggregate consideration offered in exchange for the outstanding shares of common stock and options of Sterling, minus $250,000 that was paid to KBW concurrently with the execution of the plan of merger and $500,000 payable promptly after the mailing of this proxy statement/prospectus. Pursuant to the KBW engagement agreement, Sterling also agreed to reimburse KBW for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify against certain liabilities, including liabilities under the federal securities laws.

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. Information about the current PNC directors and executive officers can be found in PNC s proxy statement dated March 23, 2007, which is incorporated by reference in this document. See Where You Can Find More Information on page 74.

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Public Trading Markets

PNC common stock is listed on the NYSE under the symbol PNC. Sterling common stock is quoted on the NASDAQ Global Select Market under the symbol SLFI. Upon completion of the merger, Sterling common stock will be delisted from NASDAQ and deregistered under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. 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 shareholder who is an affiliate of Sterling, as discussed in The Plan of Merger Resales of PNC Stock by Affiliates beginning on page 53.

Sterling Shareholders Do Not Have Dissenters Rights in the Merger

Under Pennsylvania law, shareholders of a corporation are not entitled to exercise dissenters rights if shares of the corporation are listed on a national securities exchange or held beneficially or of record by more than 2,000 persons. Because shares of Sterling s common stock are quoted on the NASDAQ Global Select Market and Sterling has more than 2,000 shareholders, Sterling shareholders do not have the right to exercise dissenters rights. If the plan of merger is adopted and the merger is completed, shareholders who voted against the adoption of the plan of merger will be treated the same as shareholders who voted for the adoption of the plan of merger and their shares will automatically be converted into the right to receive the merger consideration.

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 plan of merger. These approvals include approval from the Federal Reserve Board, the OCC, the Pennsylvania Department of Banking, the Delaware State Bank Commissioner and the Financial Industry Regulatory Authority, as well as various other federal and regulatory authorities. PNC and Sterling 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 August 8, 2007, 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 Sterling 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 Sterling s depository institutions has a satisfactory or better CRA rating.

The Federal Reserve Board approved the transaction on January 25, 2008.

OCC. PNC has filed an application with the Office of the Comptroller of the Currency to approve the merger of BLC Bank, National Association with and into PNC Bank, National Association, which is intended to become effective after the merger of Sterling with and into PNC, under the Bank Merger Act and the National Bank Act. In evaluating an application filed under the Bank Merger Act, the OCC uses substantially the same criteria as the Federal Reserve Board, as described above. The OCC approved the transaction on February 7, 2008.

Other Requisite Approvals, Notices and Consents. The merger is also subject to the prior approval of the Pennsylvania Department of Banking, the Delaware State Bank Commissioner and the Financial Industry Regulatory Authority. Applications or notifications may also be required to be filed with various other regulatory authorities in connection with the merger. The Pennsylvania Department of Banking approved the transaction on September 17, 2007 and the Delaware State Bank Commissioner approved the transaction on December 31, 2007.

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 Sterling on their subsidiaries. Private parties also may seek to take legal action under the antitrust laws under some circumstances. PNC and Sterling 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 Sterling will prevail.

In addition, the merger may be reviewed by the state attorneys general in the various states in which PNC and Sterling operate. Although PNC and Sterling 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 Sterling 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 Sterling. 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 PNC or Sterling, measured on a scale relative to Sterling.

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.

Sterling s Directors and Executive Officers Have Financial Interests in the Merger

Stock Incentive Programs

Under the plan of merger, each Sterling stock option and restricted share that was unvested, including those held by our directors and executive officers, became vested pursuant to the terms of the Sterling Financial Corporation 1996 Stock Incentive Plan and the Sterling Financial Corporation 2006 Equity Compensation Plan on the date that the plan of merger was executed. Each stock option that is not exercised before the completion of the merger will be converted, under the terms of the plan of merger, into an option to purchase a number of shares of PNC common stock as described under The Plan of Merger Treatment of Sterling Stock Options. As of January 18, 2008, Sterling executive officers as a group held Sterling stock options on 427,489 shares with an average exercise price of $16.83 and no restricted stock.

Employment Agreements

In conjunction with the merger, PNC entered into employment agreements with Sterling executive officers J. Roger Moyer, Jr., Tito L. Lima, J. Bradley Scovill, Thomas J. Sposito, II, Chad M. Clabaugh, Gregory S. Lefever, D. Kathleen Phillips, E. Dennis Ginder and Kathleen A. Prime, that will become effective as of the completion of the merger and supersede their existing employment agreements with Sterling.

Unless earlier terminated pursuant to the terms of their employment agreements with Sterling, the term of the new employment agreements will extend from completion of the merger until the following dates: for Messrs. Moyer, Sposito, Lefever and Ginder, the third anniversary of the completion of the merger; for Mr. Clabaugh, the second anniversary of the completion of the merger; for Mr. Scovill, 18 months after the completion of the merger; and for Mr. Lima, Ms. Phillips and Ms. Prime, the first anniversary of the completion of the merger. Under the terms of the employment agreements with PNC, these executive officers are entitled to the following: (i) an annual base salary at a rate of not less than the amount set forth below, (ii) an annual bonus with a target amount as set forth below (subject to achievement of PNC s and the executive s performance targets, except with respect to Mr. Lima, Ms. Phillips and Ms. Prime) and in an amount equal to at least the guaranteed minimum bonus amount set forth below, (iii) benefits generally available to similarly situated employees of PNC, (iv) with respect to Messrs. Moyer, Sposito, Lefever and Ginder, a grant of restricted stock on the date of the completion of the merger equal to the amount set forth below divided by the average of the reported high and low trading prices on the NYSE for a share of PNC common stock on the date of grant, (v) a restrictive covenant payment equal to the amount set forth below which will be payable on the 1st payroll date following the later of the date of the completion of the merger, or January 2, 2008, and (vi) a stay bonus equal to the amounts, and payable at the times, set forth below.

The following chart summarizes the material terms of the compensation payable under the employment agreements with PNC to each of the executive officers named above:

Name	Title	Restricted Share Value	Restrictive Covenant Payment	Stay Bonus Payment	Annual Base Salary	Annual Bonus Target	Guaranteed Minimum Bonus
Moyer	Market President of South Central	$ 300,000	$ 1,260,000	$50,000 at 1st anniversary	$ 440,000	$150,000	$ 100,000

	Pennsylvania					and $50,000 at 2nd anniversary					
Lima	Senior Vice President		None	$	666,106	$36,000 at 1st anniversary	$	240,000	None	$	36,000
Scovill	Executive Vice President of Retail Banking		None	$	935,156	$156,569 at 18 month anniversary	$	285,000	$71,250	$	42,750
Sposito	Executive Vice President of Retail Market Manager	$	250,000	$	525,000	$30,000 at 1st anniversary and $30,000 at 2nd anniversary	$	210,000	$52,500	$	31,500

Name	Title	Restricted Share Value	Restrictive Covenant Payment	Stay Bonus Payment	Annual Base Salary	Annual Bonus Target	Guaranteed Minimum Bonus
Clabaugh	Market Sales & Service Manager	None	$ 593,331	$20,000 at 1st anniversary and $20,000 at 2nd anniversary	$ 171,410	$42,852.50 at 1st anniversary and $42,852.50 at 2nd anniversary	$ 25,711.50
Lefever	Market President of Lancaster County	$ 150,000	$ 482,797	$20,000 at 1st anniversary and $20,000 at 2nd anniversary	$ 175,000	$43,750	$ 26,250
Phillips	Chief Information Officer	None	$ 367,926	$45,000 at 1st anniversary	$ 180,000	None	$ 45,000
Ginder	Senior Vice President Business Banking	$ 100,000	$ 294,086	$20,000 at 1st anniversary and $20,000 at 2nd anniversary	$ 170,000	$42,500	$ 25,500
Prime	Senior Vice President Human Resources	None	$ 278,967	$95,000 at 1st anniversary	$ 180,000	None	$ 45,000

Upon termination of one of the above-named executives by PNC without cause or by the executive for good reason (as each term is defined in the employment agreements), the executive will be entitled to receive a severance payment equal to the following, in a lump sum: (a) the remaining annual base salary for the term of employment, or, in the case of Ms. Phillips and Ms. Prime, an amount equal to $180,000, and (b) to the extent not paid, the aggregate of the restrictive covenant payment, the stay bonus payment, and the annual bonus (at the guaranteed minimum level) on the dates that those payments would otherwise have been paid. In addition, in the event of any such termination, any restricted shares that remain unvested will immediately vest. Severance amounts will be reduced to the extent that the amounts would be subject to the so-called golden parachute excise tax under Section 280G of the Internal Revenue Code of 1986, as amended.

The employment agreements include non-solicitation, no-hire, non-competition and confidentiality provisions. The officers agreed (a) to keep non-public trade secrets and other similar information confidential, and (b) during their employment and for 12 months following termination of employment with PNC, not to solicit customers and prospective customers of PNC, not to hire employees of PNC and not to compete with the business of PNC and its affiliates within 35 miles of any branch or office of PNC or its affiliates. In addition, under the terms of the plan of merger, PNC has agreed to (1) provide the executive officers (and all other employees) with credit for all of their years of service with Sterling and its predecessors for the purpose of eligibility, vesting and benefit accruals (other than benefit accruals under a defined benefit pension plan and as would result in duplication of benefits), (2) cause all pre-existing condition limitations and eligibility waiting periods under group health plans of PNC for the executives and their eligible dependents to be waived, and (3) credit any deductibles or out-of-pocket expenses incurred by the executives and their beneficiaries and dependents during the portion of the calendar year prior to their participation in PNC s health plans.

Advisory Boards

PNC currently plans to invite certain members of the board of directors of Sterling to serve on a regional advisory board of PNC Bank, National Association, after the completion of the merger. Those directors will receive compensation in amounts consistent with market practice for this type of arrangement.

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Indemnification and Insurance

The plan of merger requires PNC to indemnify and advance expenses to present and former directors and officers of Sterling and its subsidiaries against all costs or expense, judgments, fines, losses, claims, damages, penalties, amounts paid in settlement or other liabilities incurred in connection with any claim, action, suit, proceeding or investigation arising out of actions or omissions prior to the completion of the merger, to the extent provided under Sterling s amended and restated articles of incorporation or amended and restated bylaws or indemnification agreements in effect on the date of the plan of merger and, in addition, to the fullest extent permitted by law.

The plan of merger provides that, for a period of six years after completion of the merger, PNC will use its reasonable best efforts to provide directors and officers liability insurance to reimburse current and former directors and officers with respect to claims arising at or prior to the completion of the merger. The insurance will contain at least the same coverage and amounts and contain terms and conditions that are not less advantageous than the current coverage provided by Sterling, except that PNC is not required to incur annual premium expense greater than 250% of Sterling s current annual directors and officers liability insurance premium.

THE PLAN OF MERGER

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

Terms of the Merger

Each of the Sterling board of directors and the PNC board of directors has approved the plan of merger which provides for the merger of Sterling 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 Sterling common stock issued and outstanding at the effective time of the merger will be converted into either cash or PNC common stock, as described below. See Consideration To Be Received in the Merger.

The PNC amended and restated articles of incorporation will be the articles of incorporation, and the PNC amended and restated bylaws will be the bylaws, of the combined company after completion of the merger.

Closing and Effective Time of the Merger

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

- the plan of merger is adopted by Sterling shareholders;
- we obtain all regulatory consents and approvals in connection with the merger of Sterling into PNC and the merger of certain banking subsidiaries of PNC and Sterling (in each case unless the failure to obtain such consents or approvals would not reasonably be expected to have a material adverse effect on Sterling or PNC measured on a scale relative to Sterling) without a condition or a restriction that would have a material adverse effect on Sterling or PNC, with materiality being measured on a scale relative to Sterling; and
- all other conditions to the merger discussed in this document and the plan of merger are either satisfied or waived.

The merger will become effective when articles of merger are filed with 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 Pennsylvania law. In the plan of merger, 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 plan of merger, 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 completion of the merger until the first full week after the end of that quarter. It currently is anticipated that the completion of the merger will occur in the first half of 2008, but we cannot guarantee when or if the merger will be completed.

Consideration To Be Received in the Merger

As a result of the merger, each Sterling shareholder will have the right, with respect to each share of Sterling common stock held, to elect to receive merger consideration consisting of either cash or shares of PNC common stock, subject to adjustment as described below. The implied value of the merger consideration will fluctuate with the market price of PNC common stock and will be determined based on the average of the closing prices of PNC common stock for the five trading days ending on the day before the date of completion of the merger.

Whether a Sterling shareholder makes a cash election or a stock election, the value of the consideration that such shareholder will receive as of the completion date will be substantially the same and will be based on the average PNC closing price used to calculate the merger consideration.

Set forth below is a table showing the consideration that you would receive in a cash election, on the one hand, or in a stock election, on the other hand, under the merger consideration formula if the actual average of the closing prices of PNC common stock on the NYSE for the five trading days ending the day before the completion of the merger were equal to the hypothetical range contained in the table. The table does not reflect the fact that cash will be paid instead of fractional shares. **As described below, regardless of whether you make a cash election or a stock election, you may nevertheless receive a mix of cash and stock due to proration and adjustment.**

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Hypothetical Five-Day Average Closing Prices	Cash Election: Cash Consideration per Share	OR	Stock Election: Shares of PNC Common Stock	Stock Consideration per Share Market Value(*)
$50.00	$ 15.32		0.3064	$ 15.32
$51.00	$ 15.47		0.3033	$ 15.47
$52.00	$ 15.62		0.3004	$ 15.62
$53.00	$ 15.78		0.2977	$ 15.78
$54.00	$ 15.93		0.2950	$ 15.93
$55.00	$ 16.09		0.2925	$ 16.09
$56.00	$ 16.24		0.2900	$ 16.24
$57.00	$ 16.40		0.2877	$ 16.40
$58.00	$ 16.55		0.2853	$ 16.55
$59.00	$ 16.70		0.2831	$ 16.70
$60.00	$ 16.86		0.2810	$ 16.86
$61.00	$ 17.01		0.2789	$ 17.01
$62.00	$ 17.17		0.2769	$ 17.17
$63.00	$ 17.32		0.2749	$ 17.32
$64.00	$ 17.48		0.2731	$ 17.48
$65.00	$ 17.63		0.2712	$ 17.63
$66.00	$ 17.78		0.2694	$ 17.78
$67.00	$ 17.94		0.2678	$ 17.94
$68.00	$ 18.09		0.2660	$ 18.09
$69.00	$ 18.25		0.2645	$ 18.25
$70.00	$ 18.40		0.2629	$ 18.40
$71.00	$ 18.56		0.2614	$ 18.56
$72.00	$ 18.71		0.2599	$ 18.71
$73.00	$ 18.86		0.2584	$ 18.86
$74.00	$ 19.02		0.2570	$ 19.02
$75.00	$ 19.17		0.2556	$ 19.17

* Market value based on hypothetical five-day average closing price on the NYSE of PNC common stock.

The examples above are illustrative only. The value of the merger consideration that you actually receive will be based on the actual average closing price of PNC common stock on the NYSE for the five trading days ending the day before the completion of the merger, as described below. The actual average closing price may be outside the range of the amounts set forth above, and as a result, the actual value of the merger consideration per share of PNC common stock may not be shown in the above table.

Sterling shareholders must return their properly completed and signed form of election to the exchange agent prior to the election deadline. If you are a Sterling shareholder and you do not return your form of election by the election deadline or improperly complete or do not sign your form of election, you will receive cash, shares of PNC common stock or a mixture of cash and shares of PNC common stock, based on what is available after giving effect to the valid elections made by other shareholders, as well as the adjustment described below.

If you are a Sterling shareholder, you may specify different elections with respect to different shares held by you (for example, if you have 100 shares, you could make a cash election with respect to 50 shares and a stock election with respect to the other 50 shares).

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Cash Election

The plan of merger provides that each Sterling shareholder who makes a valid cash election will have the right to receive, in exchange for each share of Sterling common stock held by such holder, an amount in cash equal to the Per Share Consideration (determined as described below), without interest, subject to proration and adjustment as described below. We sometimes refer to this cash amount as the cash consideration. For example, if the average of the closing prices of PNC common stock on the NYSE for the five trading days ending the day before the completion of the merger is $63.29, the cash consideration would be approximately $17.37.

The Per Share Consideration is the amount, rounded to the nearest whole cent, obtained by adding (A) $7.60 and (B) the product, rounded to the nearest ten-thousandth, of 0.1543 and the PNC Closing Price.

The PNC Closing Price is the average of the closing sale prices of PNC common stock on the NYSE for the five trading days immediately preceding the completion date of the merger.

Stock Election

The plan of merger provides that each Sterling shareholder who makes a valid stock election will have the right to receive, in exchange for each share of Sterling common stock held, a fraction of a share of PNC common stock equal to the Per Share Stock Consideration (determined as described below), subject to proration and adjustment as described below. We sometimes refer to such fraction of a share of PNC common stock as the stock consideration. If the average of the closing prices of PNC common stock on the NYSE for the five trading days ending the day before the completion of the merger is $63.29, the stock consideration would be 0.2745 of a share of PNC common stock.

The Per Share Stock Consideration is defined in the plan of merger as the quotient obtained by dividing the Per Share Consideration (determined as described above) by the PNC Closing Price (determined as described above).

No fractional shares of PNC common stock will be issued to any holder of Sterling common stock upon completion of the merger. For each fractional share that would otherwise be issued, PNC will pay cash in an amount equal to the fraction multiplied by the PNC Closing Price. No interest will be paid or accrued on cash payable to holders in lieu of fractional shares.

Non-Election Shares

If you are a Sterling shareholder and you do not make an election to receive cash or PNC common stock in the merger, your elections are not received by the exchange agent by the election deadline, your forms of election are improperly completed and/or are not signed, or you do not send together with your forms of elections your certificates representing shares of Sterling common stock (or a properly completed notice of guaranteed delivery followed by delivery of the certificates within three trading days), you will be deemed not to have made an election. Shareholders not making an election may be paid in cash, PNC common stock or a mix of cash and shares of PNC common stock depending on, and after giving effect to, the number of valid cash elections and stock elections that have been made by other Sterling shareholders using the proration adjustment described below.

Proration

The total number of shares of PNC common stock that will be issued in the merger would be approximately 4.56 million and the cash that would be paid would be approximately $224.27 million, based on the number of Sterling shares outstanding on January 18, 2008. If the number of shares of Sterling common stock outstanding increases prior to the date of completion of the merger due to the exercise of outstanding options to purchase or receive shares of Sterling common stock, the aggregate number of shares of PNC common stock to be issued in the merger and the aggregate amount of cash to be paid will be increased accordingly.

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The cash and stock elections are subject to proration and adjustment to preserve the proportion of the aggregate number of shares of PNC common stock to be issued to the aggregate cash consideration to be paid in the merger. As a result, even if you make an all cash election or an all stock election, you may nevertheless receive a mix of cash and stock consideration.

Adjustment if Stock Election is Oversubscribed

Cash may be paid to Sterling shareholders who make stock elections if the stock election is oversubscribed. The shares of Sterling common stock for which valid stock elections are made are known as the stock election shares. The number of shares of Sterling common stock that will be converted into shares of PNC common stock in the merger is equal to the stock conversion number, which is equal to the aggregate number of shares to be exchanged in the merger minus the number obtained by dividing (x) the aggregate number of shares to be exchanged in the merger multiplied by $7.60 by (y) the Per Share Consideration. If the stock election shares are greater than the stock conversion number, the stock election is oversubscribed, in which case:

Sterling shareholders making a cash election, and those shareholders who failed to make valid elections, will receive merger consideration consisting only of cash for each share of Sterling common stock;

the exchange agent will allocate from among the stock election shares pro rata to the holders of those shares in accordance with their respective numbers of stock election shares, a sufficient number of stock election shares, referred to as converted stock election shares, so that the difference between (1) the number of stock election shares less (2) the number of the converted stock election shares equals as closely as practicable the stock conversion number, and each converted stock election share will be, as of the effective time of the merger, converted into the right to receive the cash consideration; and

each other stock election share that is not a converted stock election share will be converted into the right to receive the stock consideration.

Example A. Oversubscription of Stock Election

Assuming that:

the average price of PNC s common stock on the NYSE for the five trading days preceding the completion of the merger is $60.11,

there are 29,109,000 shares of Sterling issued and outstanding,

there are 20,000,000 stock election shares, and

no election is made with respect to all other outstanding shares,

then the stock conversion number is approximately 16,003,052 and a Sterling shareholder making a stock election with respect to 1,000 shares would receive the stock consideration with respect to 800 shares (1,000 x 16,003,052 ¸ 20,000,000) and the cash consideration with respect to the remaining 200 shares. Therefore, the Per Share Consideration would be $16.88 ($7.60 + (0.1543 x $60.11)) and that Sterling shareholder would receive approximately 224 shares of PNC common stock (800 x $16.88 ¸ $60.11) and approximately $3,376.00 in cash (200 x $16.88), which does not include cash that would be received for fractional shares.

Adjustment if Cash Election is Oversubscribed

PNC common stock may be issued to Sterling shareholders who make cash elections if the cash election is oversubscribed, in which case:

each stock election share will be converted into the right to receive the stock consideration;

the exchange agent will allocate from among the shares with respect to which no valid election has been made, referred to as non-election shares, pro rata to the holders of non-election shares in accordance with their respective numbers of non-election shares, a sufficient number of non-election shares so that the sum of that number and the number of stock election shares equals as closely as practicable the stock conversion number, and each such allocated non-election share, each referred to as a stock-selected non-election share, will be converted into the right to receive the stock consideration, except that if the sum of all non-election shares and stock election shares is equal to or less than the stock conversion number, all non-election shares will be stock-selected non-election shares;

if the sum of stock election shares and non-election shares is less than the stock conversion number, the exchange agent will allocate from among the shares with respect to which a valid cash election was made, referred to as cash election shares, pro rata to the holders of cash election shares in accordance with their respective numbers of cash election shares, a sufficient number of cash election shares so that the sum of that number, the number of all stock election shares, and the number of all non-election shares equals as closely as practicable the stock conversion number, and each such allocated cash election share, each referred to as a converted cash election share, will be converted into the right to receive the stock consideration; and

each cash election share that is not a stock-selected non-election share or a converted cash election share will be converted into the right to receive the cash consideration.

Example B. Oversubscription of Cash Election

Assuming that:

the average price of PNC s common stock on the NYSE for the five trading days preceding the completion of the merger is $60.11,

there are 29,109,000 shares of Sterling issued and outstanding,

there are 20,000,000 cash election shares, and

and no election is made with respect to all other outstanding shares,

then the stock conversion number is approximately 16,003,052. The Sterling shareholders that made no valid election would receive only stock consideration, which would leave approximately 6,894,052 shares that need to receive the stock consideration (16,003,052 9,109,000). A Sterling shareholder making a cash election with respect to 1,000 shares would receive the stock consideration with respect to approximately 345 shares (1,000 x 6,894,052 ¸ 20,000,000) and the cash consideration with respect to the remaining 655 shares. Therefore, the Per Share Consideration would be $16.88 ($7.60 + (0.1543 x $60.11)) and that Sterling shareholder would receive approximately 96 shares of PNC common stock (345 x $16.88 ¸ $60.11) and approximately $11,056.40 in cash (655 x $16.88), which does not include cash that would be received for fractional shares.

Adjustment if the Stock Election Equals the Stock Conversion Number

If the number of stock election shares is equal to the stock conversion number, the stock election is sufficient. If the stock election is sufficient, then:

a Sterling shareholder making a cash election will receive the cash consideration for each share of Sterling common stock as to which he or she made a cash election;

a Sterling shareholder making a stock election will receive the stock consideration for each share of Sterling common stock as to which he or she made a stock election; and

a Sterling shareholder who made no election or who did not make a valid election with respect to any of his or her shares will receive the cash consideration for each share of Sterling common stock for which he or she made no election or did not make a valid election.

401(k) Plan Participants

Fiduciary Counselors will instruct the trustee of the 401(k) Plan to elect cash or PNC common stock as merger consideration as you direct. If you do not return a properly completed form of election by the deadline, you will be treated as if you had elected to receive PNC common stock. The merger consideration will be allocated to your account in the 401(k) Plan and will be subject to the same rules that apply to other portions of your 401(k) Plan account. Any merger consideration you receive in cash will be allocated initially to the Vanguard LifeStrategy Income Fund. Any merger consideration you receive in PNC common stock will be allocated initially to the PNC common stock fund, which will replace the Sterling common stock fund in the 401(k) Plan. You may transfer all or part of the merger consideration to any other available investment funds in the 401(k) Plan by following the normal investment transfer procedures. However, no participant in the 401(k) Plan will be permitted to direct contributions or investment transfers into the PNC common stock fund after the merger. Regardless of whether you elect cash or PNC common stock, the merger consideration will not be subject to tax until it is distributed from your 401(k) Plan account.

Treatment of Sterling Stock Options

Each outstanding option to acquire Sterling common stock granted under Sterling s stock option and incentive plans will be converted automatically at the effective time of the merger into an option to purchase PNC common stock and will continue to be governed by the terms of the Sterling stock plan and related grant agreements under which it was granted, except that:

- the number of shares of PNC common stock subject to the converted stock options will be equal to the product of the number of shares of Sterling common stock subject to the Sterling stock option and the Per Share Stock Consideration (determined as described above under the heading Consideration To Be Received in the Merger), rounded down to the nearest whole share; and

- the exercise price per share of PNC common stock subject to the converted stock option will be equal to the exercise price per share of Sterling common stock under the Sterling stock option divided by the Per Share Stock Consideration, rounded up to the nearest whole cent.

Conversion of Shares; Exchange of Certificates and Book-Entry Shares; Elections as to Form of Consideration

The conversion of Sterling common stock into the right to receive the merger consideration will occur automatically at the effective time of the merger. As promptly as reasonably practicable after completion of the merger, the exchange agent will exchange certificates and book-entry shares representing shares of Sterling common stock for merger consideration, without interest, to be received in the merger pursuant to the terms of the plan of merger. Computershare will be the exchange agent in the merger and will receive your form of election, exchange certificates for the merger consideration and perform other duties as explained in the plan of merger.

If any PNC shares are to be issued, or cash payment made, in a name other than that in which the Sterling stock certificates or book-entry shares surrendered in exchange for the merger consideration are registered, the person requesting the exchange must pay any transfer or other taxes required by reason of the issuance of the new PNC shares or the payment of the cash consideration in a name other than that of the registered holder of the Sterling stock certificate surrendered, or must establish to the satisfaction of PNC or Computershare that any such taxes have been paid or are not applicable.

Form of Election

The form of election and related transmittal materials are being mailed to Sterling shareholders separately following the mailing of this document. The form of election and related documents will allow you to make cash or stock elections or a combination of both.

The plan of merger provides that, unless otherwise agreed to by PNC and Sterling, the election deadline will be 5:00 p.m., EST, on the later of the day prior to the Sterling shareholders meeting, and the date that the parties believe to be as near as practicable to five business days prior to the anticipated closing. PNC and Sterling have agreed that the election deadline will be 5:00 p.m., EST, on March 25, 2008, which is the day prior to the Sterling shareholders meeting.

If you wish to elect the type of merger consideration you will receive in the merger, you should carefully review and follow the instructions that will accompany the form of election. Shareholders who hold their shares of Sterling common stock in street name or through a bank, broker or other nominee should follow the instructions of the bank, broker or other nominee for making an election with respect to such shares of Sterling common stock. Shares of Sterling common stock as to which the holder has not made a valid election prior to the election deadline will be treated as though they had not made an election.

To make a valid election, each Sterling shareholder must submit a properly completed form of election, together with stock certificates, so that it is actually received by the exchange agent at or prior to the election deadline in accordance with the instructions on the form of election. Neither PNC nor the exchange agent is under any obligation to notify you of any defect in a form of election. A form of election will be properly completed only if accompanied by certificates (or book-entry transfer of uncertificated shares) representing all shares of Sterling common stock covered by the form of election (or appropriate evidence as to the loss, theft or destruction, appropriate evidence as to the ownership of that certificate by the claimant, and appropriate and customary indemnification, as will be described in the form of election). If you are a Sterling shareholder and you cannot deliver your stock certificates to the exchange agent by the election deadline, you may deliver a notice of guaranteed delivery promising to deliver your stock certificates, as will be described in the form of election, so long as (1) the guarantee of delivery is from a firm which is a member of any registered national securities exchange or a commercial bank or trust company in the United States and (2) the actual stock certificates are in fact delivered to the exchange agent within three trading days of execution of the guarantee of delivery.

Generally, an election may be revoked or changed, but only by written notice received by the exchange agent prior to the election deadline accompanied by a properly completed and signed revised form of election. If an election is revoked, or the plan of merger is terminated, and any certificates have been transmitted to the exchange agent, the exchange agent will promptly return those certificates to the shareholder who submitted those certificates via first-class mail or, in the case of shares of Sterling common stock tendered by book-entry transfer into the exchange agent s account at the Depository Trust Company, or DTC, by crediting to an account maintained by such shareholder with DTC promptly following the termination of the merger or revocation of the election. Sterling shareholders will not be entitled to revoke or change their elections following the election deadline. As a result, if you have made elections, you will be unable to revoke your elections or sell your shares of Sterling common stock during the interval between the election deadline and the date of completion of the merger.

Shares of Sterling common stock as to which the holder has not made a valid election prior to the election deadline, including as a result of revocation, will be deemed non-election shares. If it is determined that any purported cash election or stock election was not properly made, the purported election will be deemed to be of no force or effect and the holder making the purported election will be deemed not to have made an election for these purposes, unless a proper election is subsequently made on a timely basis.

Letter of Transmittal

Soon after the completion of the merger, the exchange agent will mail a letter of transmittal to only those persons who were Sterling shareholders at the effective time of the merger and who have not previously submitted a form of election and properly surrendered shares of Sterling common stock to the exchange agent. This mailing will contain instructions on how to surrender shares of Sterling common stock (if these shares have not already been surrendered) in exchange for the merger consideration the holder is entitled to receive under the plan of merger.

If a certificate for Sterling common stock has been lost, stolen or destroyed, the exchange agent will issue the consideration properly payable under the plan of merger upon receipt of appropriate evidence as to that loss, theft or destruction, appropriate evidence as to the ownership of that certificate by the claimant, and appropriate and customary indemnification.

Withholding

The exchange agent will be entitled to deduct and withhold from the cash consideration or cash instead of fractional shares payable to any Sterling shareholder the amounts it 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 shareholders from whom they were withheld.

Dividends and Distributions

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

Prior to the effective time of the merger, Sterling 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:

- dividends paid by any Sterling subsidiary to another Sterling subsidiary or its parent company consistent with past practice;
- dividends on preferred stock of subsidiaries, the common stock of which is owned directly or indirectly by Sterling; and
- the acceptance of shares of Sterling common stock in payment of the exercise of a stock option granted under a Sterling stock option plan, to the extent that such stock options may be exercised.

Representations and Warranties

The plan of merger contains customary representations and warranties of Sterling and PNC relating to their respective businesses. With the exception of certain representations that must be true and correct in all material respects, no representation or warranty will be deemed untrue or incorrect as a consequence of the existence of any fact, circumstance or event unless that fact, circumstance or event, individually or when taken together with all other facts, circumstances or events inconsistent with any representation, has had or is reasonably likely to materially impair the ability of the company making the representation to consummate the merger, or is materially adverse to the business, financial condition or results of operations of the company making the representation and its subsidiaries, taken as a whole. In determining whether any such materially adverse effect has occurred or is reasonably likely to occur, the parties will disregard effects resulting from (1) events, conditions or trends in economic, business or financial conditions generally or affecting the bank or bank holding company businesses generally (including changes in interest rates and changes in the markets for securities), except to the extent the event, condition or trend has a disproportionate adverse effect on such party, (2) changes in generally accepted accounting principles or regulatory accounting requirements generally affecting the banking or bank holding company businesses but not uniquely relating to such party, (3) changes in laws, regulations, or interpretations of laws or regulations generally affecting the banking or bank holding company businesses, but not uniquely relating to such party, (4) actions or omissions of a party taken with the prior written consent of the other party in contemplation of the transactions contemplated by the plan of merger or actions that are taken by the parties, consistent with the terms of the plan of merger, to consummate the transactions contemplated by the plan of merger, (5) changes in national or international political or social conditions including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack upon or within the United States, or any of its territories, possessions or diplomatic or consular offices or upon any military installation, equipment or personnel of the United States, or (6) announcement of the plan of merger or the merger. The representations and warranties in the plan of merger do not survive the effective time of the merger.

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

- corporate matters, including due organization and qualification;
- capitalization;
- power and authority to execute, deliver and perform its obligations under the plan of merger;
- shareholder vote requirement;
- required government filings and consents;
- the absence of conflicts with, or violations of, (1) organizational documents, (2) applicable law or (3) material agreements, indentures or other instruments, in each case as a result of the merger or entry into the plan of merger;
- financial reports and regulatory documents;
- absence of material adverse changes;
- legal proceedings;
- regulatory investigations and orders;
- compliance with applicable law;
- broker s fees payable in connection with the merger;
- environmental liabilities;
- tax matters;
- derivative instruments;
- insurance coverage; and
- the inapplicability of state takeover laws.

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

- its subsidiaries;
- material contracts, exclusivity arrangements, and other certain types of contracts;
- employee matters, including employee benefit plans;

- labor matters; and
- absence of related party transactions.

PNC also has made representations and warranties to Sterling regarding the availability of cash to pay the cash portion of the merger consideration and the authorization and valid issuance of the PNC common stock to pay the stock portion of the merger consideration.

The representations and warranties described above and included in the plan of merger were made by each of PNC and Sterling 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 Sterling in connection with negotiating the terms of the plan of merger, and may have been included in the plan of merger for the purpose of allocating risk between PNC and Sterling rather than to establish matters as facts. The plan of merger 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 Sterling, PNC or their respective businesses. Accordingly, the representations and warranties and other provisions of the plan of merger 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 74.

Covenants and Agreements

Each of Sterling 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 Sterling agreed to use its reasonable best efforts in good faith to take all actions and to do all things to permit the completion of the merger as soon as possible. Each of the parties has also agreed not to take any action that would prevent or delay the merger from qualifying as a reorganization for tax purposes, or, except as required by law, to take any action that is reasonably likely to result in any of the conditions to the merger not being satisfied or that is a material violation of the plan of merger.

Sterling has agreed that, with certain exceptions and except with PNC s prior written consent (which is not to be unreasonably withheld, delayed or conditioned), Sterling will not, and will not permit any of its subsidiaries to, among other things, undertake the following actions:

- to operate its business other than in the ordinary course of business or fail to use reasonable efforts to preserve intact its business organization and assets and maintain its rights, franchises and existing relations with customers, suppliers, employees and business associates;

- issue, sell or otherwise permit to become outstanding, or dispose of or encumber or pledge or propose the creation of, any additional shares of Sterling common stock other than pursuant to rights existing on the date of the plan of merger;

- permit any shares of Sterling common stock to become subject to new grants or other rights;

- 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 and Book-Entry Shares; Elections as to Form of Consideration Dividends and Distributions;

- take certain actions relating to director, officer or employee agreements, compensation, benefits, hiring and promotion;

- undertake certain corporate transactions, such as mergers and acquisitions, or other transactions, such as sales of assets or incurrence or waivers of indebtedness outside the ordinary course of business or to the extent such actions are material to Sterling and its subsidiaries as a whole;

- amend it articles of incorporation or bylaws or similar governing documents;

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

- other than in the ordinary course, and subject to certain other limitations, enter into, renew, amend in any respect or terminate any contract or agreement;

settle any claim, action or proceeding, other than payments in cash in the ordinary course of business consistent with past practice that do not exceed $100,000 individually or $250,000 in the aggregate, and that do not create negative precedent for claims that are likely to be material to Sterling or, after the closing, PNC;

make any capital expenditures in excess of $50,000 per project or related series of projects or $250,000 in the aggregate, other than in the ordinary course of business;

make, change, or revoke any material tax election, adopt or change any taxable year or period, change any material tax accounting method, file any material amended tax return, settle any material tax claim or surrender any material claim for a refund of taxes;

- file any application to open, relocate or close any, or open or close any, branch or automated banking facility; or

- agree to do any of the actions prohibited by the preceding bullets.

Sterling has agreed to use its reasonable best efforts in good faith to restate, complete or provide, as applicable, financial statements or such other financial and other information, including the audit opinion of its outside independent accountants, as necessary to cause the registration statement (of which this proxy statement/prospectus is a part) to be declared effective by the SEC and the proxy statement to be cleared with the SEC as soon as practicable. As promptly as practicable and prior to the completion of the merger, Sterling agrees that it will complete the restatement of its financial statements and the review of the loan portfolio of its subsidiary, EFI. Sterling also agrees to use its reasonable best efforts to facilitate the completion of the investigation and resulting report to Sterling s audit committee described under Recent Developments Regarding Sterling Results of the Independent Investigation, which has since been completed.

PNC has agreed that, except with Sterling s prior written consent (which is not to be unreasonably withheld, delayed or conditioned), PNC will not, and will not permit any of its subsidiaries to:

- amend its organizational documents in a way that would affect Sterling s shareholders adversely relative to other holders of PNC common stock; or

- declare or pay any extraordinary or special dividend or make any other extraordinary or special distributions with respect to its stock.

PNC also agrees to take certain actions in order to assume at the time of the consummation of the merger Sterling s obligations with respect to its outstanding trust preferred securities and also with respect to certain of Sterling s other debt obligations.

The plan of merger also contains mutual covenants relating to the preparation of this document and the holding of the special meeting of Sterling shareholders, access to information of the other company, notification to the other party of certain matters and public announcements with respect to the transactions contemplated by the plan of merger. Sterling and PNC have also agreed to use reasonable best efforts to prepare as promptly as possible all documentation, to effect all filings and to obtain all third party and governmental permits, consents, approvals and authorizations necessary to consummate the transactions contemplated by the plan of merger. 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 on PNC or Sterling, measured relative to Sterling.

Bank Mergers

PNC and Sterling have agreed to enter into a merger agreement pursuant to which BLC Bank, N.A. will merge with and into PNC Bank, National Association and a merger agreement pursuant to which Delaware Sterling Bank & Trust Company will merge with and into PNC Bank, Delaware. The bank mergers are intended to become effective after the closing of the merger of PNC and Sterling.

Reasonable Best Efforts of Sterling to Obtain the Required Shareholder Vote

Sterling has agreed to take all actions to hold a meeting of its shareholders as promptly as practicable for the purpose of obtaining shareholder approval of the plan of merger. Sterling s board of directors may withdraw, modify, or condition its recommendation to approve the plan of merger only if Sterling 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 breach its fiduciary obligations under applicable law. Notwithstanding the foregoing, the plan of merger requires Sterling to submit the plan of merger to a shareholder vote even if its board of directors no longer recommends approval of the plan of merger, in which event the board may communicate its basis for its lack of a recommendation to shareholders.

Agreement Not to Solicit Other Offers

Sterling also has agreed that it, its subsidiaries and their officers and directors will not, and Sterling will use all reasonable best efforts to cause its employees and agents not to, directly or indirectly, initiate, solicit or encourage any inquiries or the making or implementation of any Acquisition Proposal (as defined below) or engage in any discussions or negotiations concerning, or provide confidential information with respect to, an Acquisition Proposal.

However, prior to the special meeting, Sterling is permitted to consider and participate in discussions and negotiations with respect to an Acquisition Proposal only if the Sterling board of directors determines in good faith (after consultation with outside legal counsel and financial advisors) that such action is required in order to comply with its fiduciary duties and Sterling has first entered into a confidentiality agreement with the party proposing the Acquisition Proposal on terms comparable to the confidentiality agreement with PNC.

Sterling has agreed:

- to notify PNC within one day after receipt of any Acquisition Proposal or any inquiry that could reasonably lead to an Acquisition Proposal, or any material change to any Acquisition Proposal, or any request for nonpublic information relating to Sterling or any of its subsidiaries or for access to the properties, books or records of Sterling or any of its subsidiaries by any person or entity that informs the board of directors of Sterling that it is considering making, or has made, an Acquisition Proposal, and to provide PNC with relevant information regarding such inquiry, proposal, modification or amendment;

- to keep PNC fully informed of the identity of the person making, the material terms of, and the status and details of any Acquisition Proposal and any related developments;

- to cease any existing discussions or negotiations with any persons with respect to any Acquisition 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 Acquisition Proposal within the 12 months prior to the date of the plan of merger to return or destroy such information;

- to use reasonable best efforts to enforce any existing confidentiality or standstill agreements, and to take all steps necessary to terminate any approval that may have been given under any such provisions authorizing any person to make an Acquisition Proposal; and

- not to approve or take any action to render inapplicable to any Acquisition Proposal any anti-takeover provision under the Pennsylvania Business Corporation Law or any similar takeover laws.

Acquisition Proposal means any proposal or offer as to any of the following (other than the merger) involving Sterling or any of its significant subsidiaries:

- any merger, consolidation, share exchange, business combination, or other similar transaction;

- any sale, lease, exchange, pledge, transfer or other disposition of 25% or more of the consolidated assets or liabilities of Sterling or any of its significant subsidiaries in a single transaction or series of transactions;

- any tender offer or exchange offer for, or other acquisition of, 25% or more of the outstanding shares of capital stock of Sterling or any of its significant subsidiaries; or any public announcement of a proposal, plan or intention to do, or any agreement to engage in, any of the actions listed in the foregoing bullets.

Expenses and Fees

In general, each of PNC and Sterling will be responsible for all expenses incurred by it in connection with the negotiation and completion of the transactions contemplated by the plan of merger. However, the costs and expenses of copying, printing and mailing this document will be borne equally by Sterling and PNC.

Employee Matters

PNC has agreed to honor all Sterling compensation and benefit plans in accordance with their terms, subject to any amendments or termination required by the plan of merger or permitted by the terms of the applicable plans. If any Sterling employee compensation or benefits are changed or terminated by PNC, PNC will provide those Sterling employees who continue to be employed by PNC following the merger with compensation and benefits that are, in the aggregate, substantially similar to the compensation and benefits provided to similarly situated employees of PNC.

In addition, PNC has agreed, to the extent any Sterling employee participates in PNC compensation and benefit plans following the merger, to recognize each such employee s service with Sterling prior to the completion of the merger for purposes of eligibility, vesting and benefit accruals (other than benefit accruals under defined benefit pension plans or that would result in a duplication of benefits). For one year following the merger, Sterling employees who continue to be employed by PNC following the merger will participate in PNC s Displaced Employee Assistance Plan and will receive severance benefits equal to the greater of (i) the benefits payable under PNC s Displaced Employee Assistance Plan or (ii) the benefits payable under Sterling s Corporate Severance Package Merger and Acquisition Related Downsizing had it not been terminated. Following the one year anniversary of the merger, such continuing employees will participate in PNC s Displaced Employee Assistance Plan.

PNC has agreed to waive any coverage limitations for pre-existing conditions under any PNC health plans, to the extent such limitation would have been waived or satisfied under a corresponding Sterling plan and to give credit for any co-payment and deductibles paid under a corresponding Sterling health plan for purposes of satisfying any applicable deductible and out-of-pocket requirements under any health plan of PNC.

However, PNC has no obligation to continue the employment of any Sterling employee, except Sterling employees that have entered into separate employment agreements with PNC, for any period following the merger and may review employee benefits programs from time to time and make such changes as it deems appropriate.

Indemnification and Insurance

The plan of merger requires PNC to indemnify and advance expenses to present and former directors and officers of Sterling and its subsidiaries against all costs or expense, judgments, fines, losses, claims, damages, penalties, amounts paid in settlement or other liabilities incurred in connection with any claim, action, suit, proceeding or investigation arising out of actions or omissions prior to the completion of the merger, to the extent provided under Sterling s amended and restated articles of incorporation or amended and restated bylaws or indemnification agreements in effect on the date of the plan of merger and, in addition, to the fullest extent permitted by law.

The plan of merger provides that, for a period of six years after completion of the merger, PNC will use its reasonable best efforts to provide directors and officers liability insurance to reimburse current and former directors and officers with respect to claims arising at or prior to the completion of the merger. The insurance will contain at least the same coverage and amounts and contain terms and conditions that are not less advantageous than the current coverage provided by Sterling, except that PNC is not required to incur annual premium expense greater than 250% of Sterling 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 Sterling shareholders;

the receipt of all regulatory consents and approvals in connection with the merger of Sterling into PNC and the merger of certain banking subsidiaries of PNC and Sterling (in each case unless the failure to obtain such consents and approvals would not reasonably be expected to have a material adverse effect on Sterling or PNC measured on a scale relative to Sterling) without a condition or a restriction that would have a material adverse effect on Sterling or PNC, with materiality being measured on a scale relative to Sterling;

the absence of any law, statute, rule, regulation, judgment, decree, injunction or other order by any court or other governmental entity, which is in effect and prohibits completion of the merger;

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 receipt of all permits and other authorizations under United States securities laws and other authorizations necessary to complete the merger and to issue the shares of PNC common stock in connection with the merger.

Each of PNC s and Sterling 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 Sterling of a legal opinion with respect to certain United States federal income tax consequences of the merger;

the truth and correctness of the representations and warranties of each other party in the plan of merger, subject to the materiality standard provided in the plan of merger; and

the performance by each other party in all material respects of their obligations under the plan of merger 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.

Termination of the Plan of Merger

The plan of merger 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 the other party breaches the plan of merger in a way that would entitle the party seeking to terminate the agreement not to consummate the merger, unless the breach is capable of being, and is, cured within 30 days of notice of the breach;

if the merger has not been completed by July 19, 2008, unless the failure to complete the merger by that date is due to the terminating party s breach of the plan of merger;

if the Sterling shareholders fail to approve the merger at the special meeting; or

if there is any final, non-appealable order permanently enjoining or prohibiting the completion of the merger.

In addition, PNC may terminate the plan of merger if the Sterling board of directors (1) fails to recommend that Sterling shareholders approve the merger or withdraws, qualifies, or modifies its recommendation (or resolves to take such action) in a manner adverse to PNC or (2) publicly recommends or endorses an Acquisition Proposal (as defined above in Agreement Not to Solicit Other Offers), or resolves to do so. PNC may also terminate the plan of merger if Sterling breaches its obligation to call and hold a shareholder meeting to consider the merger or its obligation not to solicit competing acquisition proposals.

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

Termination Fee

In the event that PNC terminates the plan of merger because the Sterling board of directors publicly recommends or endorses an Acquisition Proposal (as defined above in Agreement Not to Solicit Other Offers) in a manner adverse to PNC (or resolves to do so), Sterling will pay PNC a $7 million termination fee. If Sterling consummates an alternative transaction relating to such Acquisition Proposal at any time, or consummates any other alternative transaction before the twelve-month anniversary of the termination of the plan of merger, Sterling will pay PNC a $21 million termination fee, less any termination fee previously paid.

In addition, we have agreed that if certain events occur relating to an alternative business combination proposal and thereafter the plan of merger is terminated by:

either Sterling or PNC because the Sterling shareholders do not approve the merger at the shareholder meeting;

PNC because the Sterling board of directors fails to recommend that Sterling shareholders approve the merger or withdraws, qualifies, or modifies its recommendation in a manner adverse to PNC (or resolves to take such action);

PNC because Sterling breaches its obligation to call and hold a shareholder meeting to consider the merger or its obligation to not solicit competing acquisition proposals; or

PNC because of a willful breach by Sterling that cannot be cured or, if curable, is not cured within 30 days written notice to Sterling of the breach;

and in connection with any of the above-listed events:

Sterling consummates an alternative transaction before the twelve-month anniversary of the termination of the plan of merger, Sterling will pay PNC a $21 million termination fee.

Sterling enters into any agreement related to any Acquisition Proposal before the twelve-month anniversary of the termination of the plan of merger, Sterling will pay PNC a $7 million termination fee. If Sterling consummates an alternative transaction relating to such agreement, Sterling will pay PNC a $14 million termination fee.

Amendment, Waiver and Extension of the Plan of Merger

Subject to applicable law, the parties may amend the plan of merger by written agreement. At any time prior to the completion of the merger, each of PNC and Sterling, to the extent legally allowed, may waive in whole or in part any conditions to that party s obligation to complete the merger.

Resales of PNC Stock by Affiliates

Shares of PNC common stock to be issued to Sterling shareholders in the merger have been registered under the Securities Act, and may be traded freely and without restriction by those shareholders not deemed to be affiliates (as that term is defined under the Securities Act) of Sterling. Any subsequent transfers of shares, however, by any person who is an affiliate of Sterling at the time the merger is submitted for a vote of the Sterling shareholders 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 Sterling is a person who directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, Sterling. These restrictions are expected to apply to the directors and executive officers of Sterling and the holders of 10% or more of the outstanding Sterling 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 Sterling.

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

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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 Sterling 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. Consolidated 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 Sterling.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

The following section describes the material United States federal income tax consequences of the merger to U.S. holders (as defined below) of Sterling common stock. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (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 Sterling 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, 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 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.

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

This discussion assumes that a U.S. holder holds Sterling common stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). 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 such holder s particular circumstances or to U.S. holders subject to special treatment under the United States federal income tax laws (including, for example, insurance companies, dealers or brokers in securities or currencies, traders in securities who elect mark-to-market treatment, tax-exempt organizations, financial institutions, mutual funds, entities or arrangements treated as partnerships for United States federal income tax purposes (and holders holding Sterling common stock through such entities or arrangements), United States expatriates, holders liable for the alternative minimum tax, U.S. holders who hold Sterling common stock as part of a hedging, straddle, constructive sale, conversion or other integrated transaction, holders whose functional currency for United States federal income tax purposes is not the U.S. dollar, and U.S. holders who acquired their Sterling common stock through the exercise of employee stock options or other compensation arrangements). In addition, the discussion does not address any aspects of foreign, state, local, estate or gift taxation that may be applicable to a U.S. holder.

Holders of Sterling common stock should consult with their own tax advisors as to the particular tax consequences to them of the merger, including the applicability and effect of the alternative minimum tax and any state, local or foreign and other tax laws.

Tax Consequences of the Merger Generally

PNC and Sterling have structured the merger to 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, to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code and that each of PNC and Sterling will be a party to the reorganization within the meaning of Section 368(b) of the Code. It is a condition to Sterling s obligation to complete the merger that Sterling receive an opinion of its counsel, Sullivan & Cromwell LLP, dated the closing date of the merger, to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code and that each of PNC and Sterling will be a party to the reorganization within the meaning of Section 368(b) of the Code. These opinions will be based on facts, representations and assumptions set forth or referred to in the opinions and on representation letters from PNC and Sterling.

These tax opinions are not binding on the Internal Revenue Service or any court, and neither PNC nor Sterling 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 the conclusions set forth below.

Assuming the merger qualifies as a reorganization within the meaning of Section 368(a) of the Code, the material United States federal income tax consequences of the merger to U.S. holders of Sterling common stock are, in general, as follows:

U.S. Holders Who Receive Solely PNC Common Stock. If, pursuant to the merger, a U.S. holder exchanges all of its shares of Sterling common stock solely for shares of PNC common stock, such holder generally will not recognize gain or loss, except with respect to cash received instead of fractional shares of PNC common stock (as discussed below). The aggregate adjusted tax basis of the shares of PNC common stock received (including any fractional shares deemed received and exchanged for cash) will be equal to the aggregate adjusted tax basis in the shares of Sterling common stock surrendered. The holding period of the PNC common stock received (including any fractional shares deemed received and exchanged for cash) will include the holding period of the Sterling common stock surrendered in the merger.

U.S. Holders Who Receive Solely Cash. If, pursuant to the merger, a U.S. holder exchanges all of its shares of Sterling common stock solely for cash, such holder generally will recognize capital gain or loss equal to the difference between the amount of cash received and such holder s adjusted tax basis in the Sterling common stock surrendered. The gain or loss recognized will be long-term capital gain or loss if, as of the effective date of the merger, the U.S. holder s holding period in the Sterling common stock surrendered exceeds one year. The deductibility of capital losses is subject to limitations. If a U.S. holder acquired different blocks of Sterling common stock at different times or different prices, such U.S. holder must determine its tax basis and holding period separately with respect to each such block of Sterling common stock. In some cases, if the U.S. holder actually or constructively owns PNC common stock immediately before the merger, and holds it after the merger, the 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 cash received would be treated as dividend income. In such cases, U.S. holders that are corporations should consult their tax advisors regarding the potential applicability of the extraordinary dividend provisions of the Code.

U.S. Holders Who Receive a Combination of PNC Common Stock and Cash. If, pursuant to the merger, a U.S. holder exchanges its shares of Sterling common stock for a combination of PNC common stock and cash (other than cash received in lieu of a fractional share), such holder generally will recognize gain (but not loss) in an amount equal to the lesser of (1) the sum of the amount of cash and the fair market value of the PNC common stock received, minus the adjusted tax basis of the Sterling common stock surrendered in exchange therefor, and (2) the amount of cash received by the holder. If a U.S. holder of Sterling common stock acquired different blocks of Sterling common stock at different times or different prices, the holder should consult the holder s tax advisor regarding the manner in which gain or loss should be determined. Any recognized gain generally will be long-term capital gain if, as of the effective date of the merger, the U.S. holder s holding period with respect to the Sterling common stock surrendered exceeds one year. In some cases, if the U.S. holder actually or constructively owns PNC common stock other than PNC common stock received in the merger, the recognized gain 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 dividend income. In such cases, U.S. holders that are corporations should consult their tax advisors regarding the potential applicability of the extraordinary dividend provisions of the Code. The aggregate tax basis of the PNC common stock received (including any fractional shares deemed received and exchanged for cash) by a U.S. holder that exchanges its shares of Sterling common stock for a combination of PNC common stock and cash will be equal to the aggregate adjusted tax basis of the shares of Sterling common stock surrendered, reduced by the amount of cash received by the holder (excluding any cash received instead of fractional shares of PNC common stock) and increased by the amount of gain, if any, recognized by the holder (excluding any gain recognized with respect to cash received instead of fractional shares of PNC common stock) on the exchange. The holding period of the PNC common stock received (including any fractional shares deemed received and exchanged for cash) will include the holding period of the Sterling common stock surrendered. U.S. holders receiving a combination of PNC common stock and cash should consult their tax advisors regarding the manner in which cash and PNC common stock should be allocated among the holder s shares of Sterling common stock and the manner in which the above rules would apply in the holder s particular circumstances.

Cash Instead of Fractional Shares

A U.S. holder who receives cash instead of a fractional share of PNC common stock generally will be treated as having received such fractional share pursuant to the merger and then as having received cash in exchange for such fractional share. Gain or loss generally will be recognized based on the difference between the amount of cash received instead of the fractional share and the tax basis allocated to such fractional share of PNC common stock. Such 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 fractional share (including the holding period for the shares of Sterling common stock surrendered therefor) is greater than one year.

Information Reporting and Backup Withholding

Cash payments received in the merger may, under certain circumstances, be subject to information reporting and backup withholding (currently at a rate of 28%), 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 holder under the backup withholding rules are not additional tax and will be allowed as a refund or credit against the holder s United States federal income tax liability, provided that the required information is timely furnished to the Internal Revenue Service.

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, with 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; Washington, DC; Maryland; Virginia; Ohio; Kentucky; and Delaware. PNC also provides certain global fund processing services internationally. PNC stock is listed on the NYSE under the symbol PNC. As of September 30, 2007, PNC had total consolidated assets of approximately $131.4 billion, total consolidated deposits of approximately $78.4 billion and total consolidated stockholders equity of approximately $14.5 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 74.

Sterling Financial Corporation

Sterling Financial Corporation (NASDAQ: SLFI) is a diversified financial services company based in Lancaster, Pennsylvania. Sterling Banking Services Group affiliates offer a full range of banking services in south-central Pennsylvania, northern Maryland and northern Delaware. The group also offers correspondent banking services in the mid-Atlantic region to other companies within the financial services industry, and banking related insurance services. Sterling Financial Services Group affiliates provide specialty commercial financing; fleet and equipment leasing; and investment, trust and brokerage services. The principal executive offices of Sterling are located at 101 North Pointe Boulevard, Lancaster, Pennsylvania 17601 and its telephone number is (717) 581-6030. For more information about Sterling, see Annex A, Supplemental Information Regarding Sterling Financial Corporation.

The information about Sterling provided in this proxy statement/prospectus does not include financial statements and related financial information covering the entire period typically required by SEC regulations. In lieu thereof, Sterling, with the concurrence of the SEC staff, has included in this proxy statement/prospectus audited financial statements as of and for the year ended December 31, 2006, and as of and for the nine-month period ended September 30, 2007. Other financial information of Sterling, including under the heading Selected Consolidated Historical Financial Data of Sterling on page 11 and Comparative Per Share Data on page 13 and in Management s Discussion and Analysis of Financial Condition and Results of Operations in Annex A, also is limited to this time period. Sterling believes, in light of the information provided in this proxy statement/prospectus and the difficulties facing Sterling, that the omitted information is not a material omission in the proxy statement/prospectus.

COMPARISON OF SHAREHOLDERS RIGHTS

PNC and Sterling are both incorporated under Pennsylvania law. Any differences, therefore, in the rights of holders of PNC common stock and Sterling common stock arise primarily from differences in their respective articles of incorporation and bylaws. Upon completion of the merger, the articles of incorporation and bylaws of PNC in effect immediately prior to the effective time of the merger will be the articles of incorporation and bylaws of the combined company. Consequently, after the effective time of the merger, the rights of former Sterling shareholders will be determined by reference to the PNC amended and restated articles of incorporation and amended and restated bylaws, which we may refer to as its articles of incorporation and bylaws, respectively. The material differences between the rights of holders of PNC common stock and Sterling common stock resulting from the differences in their governing corporate instruments are summarized below. This summary contains a list of the material differences but is not meant to be relied upon as an exhaustive list or a detailed description of the provisions discussed and is qualified in its entirety by reference to the Pennsylvania Business Corporation Law (PBCL) and the governing instruments of PNC and Sterling, to which you are referred. The governing instruments are subject to amendment in accordance with their terms. Copies of the governing corporate instruments are available, without charge, to any person, including any beneficial owner to whom this document is delivered, by following the instructions listed under Where You Can Find More Information.

Authorized Capital

PNC

PNC is authorized under its articles of incorporation to issue 800,000,000 shares of common stock, par value $5.00 per share, and 20,000,000 shares of preferred stock, par value $1.00 per share. As of February 8, 2008, 340,738,424 shares of PNC common stock were issued and outstanding and 318,883 shares of preferred stock were issued and outstanding.

Sterling

Sterling is authorized under its articles of incorporation to issue 70,000,000 shares of common stock, par value $5.00 per share, and 10,000,000 shares of preferred stock, without par value. As of January 18, 2008, 29,509,681 shares of Sterling common stock were issued and outstanding and no shares of preferred stock were issued and outstanding.

Number of Directors

PNC

The board of directors of PNC has 18 directors. The bylaws of PNC provide that the number of directors will be not less than 5 nor more than 36.

Sterling

Sterling s bylaws provide that its board of directors is composed of between one and 25 directors. Presently, the board of directors has 12 members.

Vacancies

PNC

Vacancies on PNC s board of directors, including vacancies resulting from an increase in the number of directors, may be filled by a majority of the remaining directors though less than a quorum.

Sterling

Sterling s bylaws provide that vacancies on Sterling s board of directors, for whatever reason, including vacancies resulting from death, resignation, retirement, or an increase in the number of directors, may be filled by a majority vote of the remaining directors, even if less than a quorum. Any director elected by Sterling s board of directors to fill a vacancy shall hold office until the next annual meeting of shareholders to elect his successor.

Special Meetings of the Board

PNC

Special meetings of PNC s board of directors may be called by the chairman of the board of directors, the chief executive officer, the president, any vice chairman, or at the written request of any three directors.

Sterling

Special meetings of the board of directors may be called by the chairman of the board of the directors, by the president, or at the request of three or more directors.

Stockholder Rights Plans

PNC

While the PBCL authorizes a corporation to adopt a shareholder rights plan, PNC does not have a shareholder rights plan currently in effect.

Sterling

Sterling does not have a shareholder rights plan.

Classified Board of Directors and Cumulative Voting

PNC

Pennsylvania law permits classified boards but PNC has not adopted one.

Sterling

Sterling s board of directors is divided into three classes, each serving three-year terms, so that as nearly as possible of one-third of the directors are elected at each annual meeting of shareholders. The board, however, does not have to maintain exact equality of the number of directors in each class.

Removal of Directors

PNC

PNC s articles of incorporation do not expressly provide for removal of directors. The PBCL provides that any director may be removed by a vote of shareholders entitled to elect directors. Shareholder removal of directors is restricted if the board of directors is classified, if shareholders vote cumulatively when electing directors, or if the bylaws contain provisions addressing shareholder removal of directors, but none of these restrictions apply to PNC. Directors may remove a fellow director if he or she has been judicially declared of unsound mind, has been convicted of an offense punishable by imprisonment for more than one year or has failed to accept the office, or upon any other proper cause that the bylaws may specify. A court may remove a director upon application in a derivative suit in cases of fraudulent or dishonest acts, gross abuse of authority or discretion, or for any other proper cause.

Sterling

Sterling s articles of incorporation provide that the affirmative vote of holders of a majority of the outstanding Sterling stock entitled to vote in the election of directors can remove any director or the entire board of directors from office with cause. An affirmative vote of the holders of at least 75% of the outstanding Sterling stock entitled to vote in the election of directors can remove directors without cause.

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Special Meetings of Stockholders

PNC

Special meetings of the shareholders may be called, at any time, only by the board of directors, the chairman of the board, the president or a vice chairman of the board. While the PBCL provides generally that in addition to the foregoing persons, a group of shareholders entitled to cast at least 20% of the votes that all shareholders are entitled to cast at the particular meeting may call a special meeting, this provision does not apply to, among others, corporations, such as PNC, that have a class of voting shares registered under the Exchange Act, which we refer to as registered corporations. Only business brought before the meeting (1) pursuant to PNC s notice of such meeting, (2) by the presiding officer or (3) at the direction of a majority of the board, may be conducted at such special meeting of shareholders.

Sterling

Sterling s chief executive officer or the executive committee of the board of directors or the board of directors, pursuant to a resolution adopted by the affirmative vote of a majority of the board of directors, may each call a special meeting of shareholders. Shareholders may not call special meetings.

Notice of Meetings of Shareholders

PNC

PNC s bylaws require at least five days written notice of meetings of shareholders.

Sterling

Sterling s bylaws require at least ten days written notice of meetings of shareholders.

Actions by Stockholders without a Meeting

PNC

Under the PBCL, an action may be authorized by the shareholders of a registered corporation without a meeting by less than unanimous consent only if permitted by its articles of incorporation. PNC s articles of incorporation do not authorize such action.

Sterling

Sterling s articles of incorporation and bylaws provide that no action required to be taken or which may be taken at any annual or special meeting of the shareholders or of a class of the shareholders of the corporation may be taken without a duly called meeting. Additionally, the power of Sterling s shareholders to consent in writing to action without a meeting is specifically denied, except that action may be taken without a meeting, if: (1) the number of shareholders of record is three or less, and (2) a consent in writing setting forth the action so taken is signed by all of the shareholders of record and is filed with Sterling s secretary.

Amendment of Articles of Incorporation and Bylaws

PNC

PNC s articles of incorporation do not expressly provide for amendment. Under the PBCL, an amendment to the articles of incorporation can be proposed by adoption of a resolution by the PNC board. An amendment must be submitted to a vote and approved by a majority of the shareholders entitled to vote thereon and, if any class or series of shares is entitled to vote thereon as a class, the affirmative vote of a majority of the votes cast in each such class vote, except for amendments on matters specified in Section 1914(c) of the PBCL that do not require shareholder approval.

PNC s bylaws may be altered, amended, added to or repealed by a vote of a majority of the PNC board at any regular meeting of the PNC board or at any special meeting of the PNC board called for that purpose.

However, PNC s articles of incorporation provide that the authority to make, amend, and repeal bylaws, while vested in the PNC board, is subject to the power of the shareholders to change such action. Moreover, the PNC board may not adopt or change a bylaw on certain subjects committed expressly to the shareholders by Section 1504(b) of the PBCL.

Sterling

A majority of the board of directors and a majority of the outstanding shares, voting together, can amend Sterling s articles of incorporation. In addition, Sterling s articles of incorporation may be amended by the affirmative vote of not less than 75% of the outstanding common stock.

The power to make, amend, alter, change or repeal Sterling s bylaws is vested in the board of directors. This authority, however, is subject to the power of Sterling s shareholders to make, amend, alter, change or repeal Sterling s bylaws by an affirmative vote of not less than 75% of the outstanding stock entitled to vote.

Preemptive Rights

PNC

PNC shareholders do not have preemptive rights.

Sterling

Each Sterling shareholder has the preemptive right to purchase: (1) shares of the $5.00 par value Sterling common stock which are to be issued for cash, and (2) any other securities or obligations to be issued for cash by Sterling which are entitled to vote in the election of directors. The Sterling board of directors has full, complete and exclusive authority to establish the terms and conditions upon which such preemptive rights shall be extended to and may be exercised by shareholders.

These preemptive rights do not apply with respect to sales of treasury stock, the sale or issuance of shares pursuant to a dividend reinvestment plan, the sale or issuance of shares to employees of Sterling pursuant to any compensation plan, or the issuance of shares pursuant to a merger, consolidation or other business acquisition transaction.

Anti-Takeover Provisions

PNC

PNC is subject to certain anti-takeover provisions of the PBCL.

Control Transactions: If any person or group acquires at least 20% of the voting stock of PNC (with certain exceptions for continuous ownership, shares acquired through stock splits or stock dividends, underwriting shares, shares held solely of record on behalf of a beneficial owner, and shares acquired in transactions exempt from the registration requirements of the Securities Act), each other holder of the voting stock of PNC is entitled to an appraisal procedure under which the controlling shareholder is required to pay each other holder the fair value of his shares. Fair value is determined taking into account all relevant factors, including an increment representing a proportion of any value payable for acquisition of control of the corporation. The minimum fair value is the highest price per share paid by the controlling person or group within the 90-day period ending on and including the date of the control transaction.

Business Combinations: PNC is prohibited from engaging in any business combination with an interested shareholder at any time, unless:

the business combination transaction or the transaction that caused the person to become an interested shareholder was approved by PNC s board of directors prior to the time the person became an interested shareholder;

the business combination is approved by the holders of all of the outstanding common shares;

the business combination is approved by the holders of a majority of the outstanding voting stock, excluding shares held by the interested shareholder, at a shareholders meeting called for such purpose no earlier than five years after the interested shareholder s share acquisition date; or

all of the following conditions are met: (1) the aggregate consideration paid by the interested shareholder meets certain minimum per share requirements, is in cash or the same form as the interested shareholder has used to acquire the largest number of shares acquired in the past and is distributed promptly; (2) the interested shareholder has not become the beneficial owner of additional shares of common stock between the date the interested shareholder became an interested shareholder and the business combination; and (3) the business combination (A) is approved by the holders of a majority of the outstanding voting stock, excluding shares held by the interested shareholder, at a meeting called for this purpose no earlier than three months after the interested shareholder became (and if at the time of the meeting the interested shareholder remains) the beneficial owner of at least 80% of the outstanding voting stock, or (B) is approved by a majority of votes cast by shareholders at a meeting called for this purpose no earlier than five years after the interested shareholder became an interested shareholder.

A business combination includes transactions such as mergers, sales and leases of assets, issuances of securities, reclassifications of securities and similar transactions. An interested shareholder generally is any person who, together with certain affiliates, beneficially owns 20% or more of PNC s voting stock.

A corporation can expressly elect not to be governed by the PBCL s control transaction and business combination provisions by amending its articles of incorporation with board of directors and shareholder approval, or, under certain conditions, its bylaws, but PNC has not so opted out.

Control Share Acquisition: The PBCL prevents a person or group acquiring different levels of voting power (20%, 33% and 50%) from voting any shares over the applicable threshold, unless disinterested shareholders approve such voting rights. PNC has opted out of this provision.

Disgorgement: The PBCL requires that any person or group that publicly announces that it may acquire control of a corporation, or that acquires or publicly discloses an intent to acquire 20% or more of the voting power of a corporation, to disgorge to the corporation any profits that it receives from sales of the corporation s equity securities purchased over the prior 18 months. PNC has opted out of this provision.

Constituency statute: The PBCL expands the factors and groups (including shareholders) which a corporation s board of directors can consider in determining whether an action is in the best interests of the corporation.

Sterling

Sterling is subject to the same provisions of the PBCL relating to business combinations and control transactions as is PNC, with the following differences.

Control Transactions: Sterling has likewise not opted out of this provision.

Business Combinations: In addition to, and not instead of, the rights under the business combination provisions of the PBCL, Sterling s articles of incorporation require an affirmative vote of 75% of the outstanding shares entitled to vote to approve a business combination with an interested shareholder, or a 662/3% vote if the business combination was approved by a board resolution adopted by a majority of the continuing directors.

A business combination is defined similarly to the definition in the PBCL, except that certain size thresholds are lower than in the PBCL. An interested shareholder is defined similarly to the definition in the PBCL, except that a person, together with certain affiliates, must beneficially own 15% or more of Sterling s voting stock. A continuing director means any member of Sterling s board of directors who is unaffiliated with and is not a representative of an interested shareholder and who was a member of Sterling s board of directors prior to the time that any interested shareholder became an interested shareholder, and (b) any successor of a continuing director who is unaffiliated with and is not a representative of an interested shareholder and who is recommended to succeed a continuing director by a majority of the continuing directors then members of Sterling s board of directors.

Control Share Acquisition: Sterling has not opted out of this provision.

Disgorgement: Sterling has not opted out of this provision.

Constituency statute: In addition to the constituency statute under the PBCL, Sterling s articles of incorporation require, rather than permit, that Sterling s board of directors give due consideration to various financial, legal, social and economic factors and various non-shareholder constituencies when evaluating whether certain acquisition proposals are in the best interests of Sterling.

Sterling has the following additional anti-takeover provision in its articles of incorporation.

Redemption right: If any person acquires beneficial ownership of 30% or more of the outstanding Sterling common stock, Sterling must within 30 days thereafter extend to each Sterling shareholder, other than such person, together with certain affiliates, an offer to redeem at any time within 60 days of the date of such offer, all or any part of the Sterling common stock owned by him at a redemption price per share equal to the greatest of book value per share, the highest price paid by the acquiring person for Sterling common stock within the past 18 months, or the highest trading price of Sterling common stock within the past 18 months.

Sterling is not required to extend a redemption offer to any shareholder if a majority of the continuing directors, by resolution adopted before the person involved has acquired beneficial ownership of 15% or more of the outstanding Sterling common stock, approves the acquisition by such person of 30% or more of the outstanding Sterling common stock.

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COMPARATIVE MARKET PRICES AND DIVIDENDS

PNC common stock is listed on the NYSE (trading symbol: PNC) and Sterling common stock is listed on the NASDAQ Global Select Market (trading symbol: SLFI) as more fully discussed below under the heading Listing of Sterling Common Stock on the NASDAQ Global Select Market. The following table sets forth the high and low sales prices of shares of PNC common stock and Sterling common stock as reported on the NYSE and NASDAQ, respectively, and the quarterly cash dividends declared per share for the periods indicated.

	PNC Common Stock			Sterling Common Stock		
	High	**Low**	**Dividend**	**High**	**Low**	**Dividend**
2006						
First Quarter	$ 71.42	$ 61.78	$ 0.50	$ 22.00	$ 19.50	$ 0.14
Second Quarter	72.00	65.30	0.55	21.90	19.74	0.14
Third Quarter	73.55	68.09	0.55	22.79	20.75	0.15
Fourth Quarter	75.15	67.61	0.55	24.20	21.31	0.15
2007						
First Quarter	76.41	68.60	0.55	24.05	21.02	0.15
Second Quarter	76.15	70.31	0.63	22.44	9.25	0.00
Third Quarter	75.99	64.00	0.63	18.10	10.20	0.00
Fourth Quarter	74.56	63.54	0.63	18.48	15.18	0.00
2008						
First Quarter (through February 8, 2008)	67.23	53.10	0.63	16.65	13.00	0.00

For a discussion of restrictions on the ability of Sterling to pay dividends, please refer to Annex A, Supplemental Information Regarding Sterling Financial Corporation Business Supervision and Regulation.

On July 18, 2007, the last full trading day before the public announcement of the plan of merger, the high and low sales prices of shares of PNC common stock as reported on the NYSE were $73.87 and $72.60, respectively. On February 8, 2008, the last full trading day before the date of this document, the high and low sale prices of shares of PNC common stock as reported on the NYSE were $64.37 and $62.50, respectively.

On July 18, 2007, the last full trading day before the public announcement of the plan of merger, the high and low sales prices of shares of Sterling common stock as reported on NASDAQ were $10.71 and $10.30, respectively. On February 8, 2008, the last full trading day before the date of this document, the high and low sale prices of shares of Sterling common stock as reported on NASDAQ were $16.39 and $15.73, respectively.

As of February 8, 2008, the last date prior to printing this document for which it was practicable to obtain this information, there were approximately 49,219 registered holders of PNC common stock and approximately 4,466 registered holders of Sterling common stock.

PNC shareholders and Sterling shareholders are advised to obtain current market quotations for PNC common stock and Sterling common stock. The market price of PNC common stock and Sterling common stock will fluctuate between the date of this document and the completion of the merger. No assurance can be given concerning the market price of PNC common stock or Sterling common stock before or after the effective date of the merger.

Listing of Sterling Common Stock on the NASDAQ Global Select Market

Because Sterling has not filed its Quarterly Report on Form 10-Q for the quarters ended March 31, 2007, June 30, 2007, and September 30, 2007, it is not in compliance with the continuing listing requirements set forth in NASDAQ Marketplace Rule 4310(c)(14). Based on a plan for regaining compliance with this requirement, Sterling presented a plan to the NASDAQ Listing Qualifications Panel, which we refer to as the

Panel, on June 28, 2007. The Panel, on August 14, 2007, granted Sterling s request for continued listing of its common stock on the NASDAQ Global Select Market until November 12, 2007. On October 3, 2007, the NASDAQ Listing and Hearing Review Council, which we refer to as the Council, called Sterling s case for review. Because Sterling was not able to satisfy the terms of its plan for regaining compliance by November 12, the Panel, on November 13, 2007, issued a decision to delist Sterling s common stock from the NASDAQ Global Select Market. However, during the pending review of Sterling s case by the Council, the delisting decision was stayed and Sterling s common stock continues to be listed and traded on the NASDAQ Global Select Market. On January 22, 2008, the Council granted an extension for delisting Sterling s common stock until March 24, 2008, at which time Sterling must be compliant with the NASDAQ listing requirements, or its common stock will be delisted as of March 26, 2008.

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RECENT DEVELOPMENTS REGARDING STERLING

In connection with the preliminary results of the independent investigation described in more detail under The Merger Background of the Merger and below under Results of the Independent Investigation, Sterling initially reported on May 24, 2007 that Sterling expected to record a cumulative after-tax charge to the December 31, 2006 financial statements of approximately $145 million to $165 million.

On November 14, 2007, Sterling reported that, as Sterling worked toward finalizing its evaluation of the impact of the loan scheme, the audit committee, upon the recommendation of management, through its Disclosure Committee concluded on November 13, 2007 that an additional cumulative after-tax charge of approximately $35 million may be necessary under generally accepted accounting principles. This additional charge related to certain financing contracts delinquent more than 120 days that would be charged off completely, regardless of underlying collateral values and payments from customers, and previously recorded goodwill related to the EFI acquisition that Sterling deemed impaired. Sterling believes that a portion of these assets will be recovered as a result of Sterling s collection and repossession efforts. With this additional charge, Sterling s current cumulative after-tax estimate of the write-down of assets is approximately $200 million.

The independent investigation has been completed. Stradley Ronon Stevens & Young, LLP, the law firm engaged by the audit committee to conduct the independent investigation, presented the findings of the investigation to Sterling s audit committee on November 12, 2007 and to the board of directors on November 13, 2007.

Results of the Independent Investigation

The independent investigation into irregularities at EFI was initiated in April 2007 when Sterling management received information suggesting irregularities related to certain financing contracts at EFI. Upon receiving information about the irregularities, management immediately notified the chairman of the board of directors, the board s audit committee, and Sterling s independent auditors, Ernst & Young LLP, and the audit committee hired legal counsel, Stradley Ronon Stevens & Young LLP, to conduct an independent investigation. With the audit committee s approval, Stradley Ronon Stevens & Young engaged a forensic accounting firm, KPMG LLP, to assist in the investigation. The investigators conducted approximately 100 interviews of current and former EFI and Sterling employees, reviewed approximately 300 boxes of documents, reviewed nearly 700,000 electronic documents, and reviewed information pertaining to more than 4,000 active and inactive EFI loans dating back to 2002, when Sterling acquired EFI.

The investigators concluded that two of EFI s senior officers, its chief operating officer and its executive vice president, with the assistance of a number of other EFI employees, certain customers, and other third parties, perpetuated a fraud scheme that subverted virtually every aspect of EFI s loan process, including its internal controls. This confirmed the initial findings Sterling announced on May 24, 2007.

In addition, the investigators reported there was no evidence that any member of Sterling management or any non-EFI personnel of Sterling or its affiliates participated in or had any knowledge of the scheme.

Sterling s board of directors adopted a number of corrective measures, most of which have been completed, for the purpose of remediating and preventing any repetition of the events at EFI.

Restatement Status and Related Matters

Sterling has completed the restatement of its financial statements as of and for the year ended December 31, 2006 and has completed its financial statements as of and for the nine months ended September 30, 2007, and these financial statements have been audited by Ernst & Young LLP. If the merger is not completed, Sterling expects to continue to work to complete the restatement of all of its financial statements required to become current in its reporting obligations under the federal securities laws and regulations and NASDAQ listing rules.

In the event the merger is not completed, Sterling believes that it would experience serious operational difficulties and other negative consequences. Sterling would be required to implement its alternative liquidity and capital plans, including taking the actions set forth in its corrective action plans submitted to its primary banking regulators, in order to return BLC Bank to well managed and well capitalized status. Sterling would continue not to pay dividends to its shareholders or on trust preferred securities until capital levels are restored and would need to raise significant amounts of capital in a dilutive manner. If Sterling were not successful in executing one or more of its alternatives to raise a sufficient amount of capital or improve the liquidity position at Sterling, serious consequences could occur, including: enforcement actions from bank regulatory authorities and other governmental authorities; the loss of employees; responses to and defenses of the actions and litigation described below under Civil Litigation and that may arise in the future; responses to requests by governmental entities for information and documents and entering into related agreements, orders or settlements; remedial measures, including, changes to Sterling s management and/or policies and internal controls and procedures; and actions with respect to Sterling s capital levels. If all strategic alternatives in the corrective action plans fail, bank regulatory enforcement and remedial action may be possible against Sterling and/or its subsidiaries, which may include restricting ongoing business and operations and may possibly result in civil money penalties.

Regulatory Matters

As noted in The Merger Background of the Merger, Sterling and BLC Bank experienced capital constraints resulting from the financial irregularities at EFI. In May 2007, as a result of regulatory, supervisory, and examination activities related to the EFI situation, Sterling and BLC Bank became subject to requirements that they obtain approval of the Federal Reserve Board and the OCC, respectively, prior to adding new directors or employing new senior executive officers and that they refrain from making golden parachute payments as defined in applicable regulations without prior regulatory approval. Under applicable regulations, BLC Bank also became subject to restrictions on its ability to pay dividends and management fees, restrictions on asset growth and expansion, and restrictions on deposit interest rates and brokered deposits.

Sterling is registered with the Federal Reserve Board as a financial holding company under the amendments of the Gramm-Leach-Bliley Act of 1999 to the Bank Holding Company Act of 1956. Under these provisions, a financial holding company is granted certain advantages in regulatory procedures and powers, which we refer to as GLB Procedures and Powers. Among other things, to qualify as a financial holding company, each of the holding company s insured depository institution subsidiaries must be well managed and well capitalized as defined in applicable regulations. As a result of supervisory, regulatory, and examination activities, Sterling was advised by the Federal Reserve Board that Sterling no longer satisfies financial holding company requirements for purposes of the GLB Procedures and Powers due to BLC Bank s undercapitalized and less than well managed status. Pursuant to regulations applicable to financial holding companies, Sterling submitted a plan on August 7, 2007 to enhance management and improve the overall condition of BLC Bank by December 17, 2007, or such longer period as may be permitted by the Federal Reserve Board. In light of the pending merger, on December 6, 2007, Sterling submitted a request to the Federal Reserve Board for an extension of the December 17 compliance date until June 14, 2008 to achieve the required enhancements, which the Federal Reserve Board granted on January 8, 2008. The action plan includes the implementation of a comprehensive enterprise risk management plan, the continued centralized oversight of EFI, the implementation of a plan to centralize controls at Sterling s other financial services group subsidiaries, and the continued implementation of Sterling s liquidity and capital plans.

Pursuant to regulations applicable to financial holding companies, Sterling also submitted a plan to restore BLC Bank s capital to specified levels by February 4, 2008, or such longer period as may be permitted by the Federal Reserve Board. In light of the pending merger, on December 6, 2007, Sterling submitted a request to the Federal Reserve Board for an extension until June 14, 2008 to achieve the specified capital levels, which the Federal Reserve Board granted on January 8, 2008. In its capital restoration plan, and in addition to the restrictions noted above, Sterling committed that, until specified capital levels are achieved, Sterling will not pay dividends either to its shareholders or on trust preferred securities and will not engage in any new activities or make new investments permissible pursuant to the GLB Procedures and Powers without prior approval of the Federal Reserve Board.

Until Sterling is able to satisfy the financial holding company requirements, Sterling may also be subject to limitations on its current activities. The failure to satisfy the requirements in its management and capital restoration plans in a timely fashion could result in Sterling s loss of Sterling s financial holding company status and additional consequences described in Annex A.

Quantitative measures that have been established by regulation to ensure capital adequacy require Sterling and its banking subsidiaries to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and Tier 1 capital to risk-weighted assets. Sterling management believes that, as of September 30, 2007, Sterling and BLC Bank did not meet the minimum capital adequacy requirements to which they were subject. For the period ended December 31, 2006, management believes that Sterling and Bank of Lancaster County did not meet the minimum capital adequacy requirements due to the restatement of prior period losses related to EFI. As a result, under applicable regulations and in addition to the restrictions described above, BLC Bank must submit a capital restoration plan to the OCC within a specified period of time and Sterling must execute a guarantee to the effect the BLC Bank will comply with the capital restoration plan. BLC Bank also will be required to pay higher assessments for FDIC deposit insurance than depository institutions that are better capitalized. See also Management s Discussion and Analysis of Financial Condition and Results of Operations Capital in Annex A.

Civil Litigation

Based upon the facts and circumstances known to Sterling and its counsel regarding the pending or threatened civil litigation described below, Sterling has not established a reserve or accrued liability for any amount in its September 30, 2007 balance sheet.

Securities Class-Action Lawsuits in Federal Court

Several putative class-action lawsuits have been filed on behalf of persons who acquired Sterling common stock during the period from April 27, 2004 through May 24, 2007. Each complaint alleges, in substance, that Sterling s public statements and filings fraudulently omitted information and included fraudulent misrepresentations, in April and May 2007, about the improprieties at EFI and their impact upon Sterling s earnings, and that the price for Sterling stock was fraudulently inflated during the class period because of the omissions and misrepresentations. Each complaint alleges claims (1) under Section 10(b) of the Exchange Act, and (2) against Controlling Persons or Controlling Defendants, under Section 20(a) of the Exchange Act. The specific lawsuits are listed below:

Steve Macrina v. J. Roger Moyer, Jr., Thomas Dautrich, George W. Graner, Equipment Finance LLC, and Bank of Lancaster, N.A., 07 Civ. 4108 (Southern District of New York) (filed May 25, 2007)

Raymond D. Buckwalter v. Sterling Financial Corporation, Equipment Finance LLC, J. Roger Moyer, Jr., Thomas Dautrich, George W. Graner, Bradley Scovill, and John Doe Defendants 1-20, 2:07-cv-02171-LS (Eastern District of Pennsylvania) (filed May 29, 2007)

Brian Johnson v. J. Roger Moyer, Jr., J. Bradley Scovill and Tito Lima, 1:07-cv-04652 (Southern District of New York) (filed June 1, 2007)

Castle Strategic Trading, LLC v. J. Roger Moyer, Jr., Thomas Dautrich, George W. Graner, Equipment Finance LLC, and Bank of Lancaster, N.A., 07 Civ. 5594 (Southern District of New York) (filed June 12, 2007)

Jeffrey M. Cooley v. Sterling Financial Corporation, J. Roger Moyer, Jr., J. Bradley Scovill and Tito Lima, 07 CV 5671 (Southern District of New York) (filed June 14, 2007)

Kevin Simpson v. Sterling Financial Corporation, Bank of Lancaster County, N.A., Equipment Finance LLC, J. Roger Moyer, Jr., Tito Lima, J. Bradley Scovill, George W. Graner, Thomas Dautrich, and John Doe NOS. 1-20, 2:07-cv-02171-LS (Eastern District of Pennsylvania) (filed June 20, 2007)

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Miller et al v. Sterling Financial Corp., Equipment Finance LLC, J. Roger Moyer, Jr., Thomas Dautrich, George W. Graner, J. Bradley Scovill, and John Doe NOS. 1-20, 2:07-cv-02694-LS (Eastern District of Pennsylvania) (filed June 28, 2007)

Kenneth G. Stoudt et al v. Sterling Financial Corp., Equipment Finance LLC, J. Roger Moyer, Jr., Thomas Dautrich, George W. Graner, J. Bradley Scovill, and Tito L. Lima, 2:07-cv-02914-LS (Eastern District of Pennsylvania) (filed July 16, 2007)

Frederica F. Haas et al v. Sterling Financial Corp., Equipment Finance LLC, J. Roger Moyer, Jr., Thomas Dautrich, George W. Graner, J. Bradley Scovill, and Tito L. Lima, 2:07-cv-03094-LS (Eastern District of Pennsylvania) (filed July 30, 2007)

On October 30, 2007, the Judicial Panel on Multidistrict Litigation ordered that the lawsuits filed originally in New York be transferred to the U.S. District Court for the Eastern District of Pennsylvania and, with the consent of that court, assigned to the Honorable Lawrence F. Stengel for coordinated pretrial proceedings.

At a status conference on December 18, 2007, Judge Stengel appointed the Public Employees Retirees Association of New Mexico and the New Mexico Educational Retirement Board as lead plaintiffs. On consent, the court also gave plaintiffs 60 days to file a consolidated amended complaint, and Sterling another 60 days to respond by motion or otherwise.

Certain Sterling shareholders who are members of the purported class and who received Sterling common shares as consideration in transactions where Sterling acquired the entity have informed Sterling that they are considering filing claims against Sterling in addition to those asserted in the purported securities class action for breach of contract and federal and state securities law violations.

Potential Shareholder Derivative Litigation

Sterling received a shareholder demand letter, dated June 6, 2007, from Brian M. Felgoise, an attorney acting on behalf of then-undisclosed shareholders. Mr. Felgoise demanded that (1) the Sterling board of directors appoint a Special Litigation Committee to investigate and remediate possible breaches of duties by certain unnamed officers and directors during the period from April 2004 through May 24, 2007, and (2) that Sterling file suit against these unnamed individuals to recover damages, including bonuses, the costs of investigations, and the proceeds of insider trading. Mr. Felgoise stated that he would commence litigation on behalf of Sterling if it did not take the demanded steps within 90 days.

In response to Sterling s request for additional information, Mr. Felgoise disclosed that he represents Judy Horowitz, identified as a Pennsylvania resident and Sterling shareholder since 1990. Mr. Felgoise also stated that an investigation should be directed at those individuals who were members of the board of directors of Sterling and who were responsible for the financial reporting for Sterling. Mr. Felgoise also requested that the board of directors investigate whether the aforementioned individuals have properly disclosed all of the material factors regarding the sale to PNC, whether the price of $565 million in cash and stock is fair and reasonable, and whether any other bids were solicited, received and/or rejected.

On August 29, 2007, Sterling informed Mr. Felgoise that, prior to his June 6, 2007 demand letter, Sterling had commenced an internal investigation into the improprieties at EFI, and that the board of directors would determine what kinds of measures, in addition to the actions previously announced, may be appropriate upon the completion of this independent investigation. The response also informed Mr. Felgoise that Sterling s sale to PNC was approved by the board of directors and properly disclosed in the Company s documents and public filings. In his response on

September 18, 2007, Mr. Felgoise requested additional details about the internal investigation; on October 16, 2007, Sterling informed Mr. Felgoise that the independent investigation was being conducted by the law firm of Stradley Ronon Stevens & Young, with the assistance of KPMG, and that Sterling expected the investigation to conclude in 2007.

Civil Litigation in State Court

On September 24, 2007, Univest National Bank & Trust Co. filed suit against EFI and Sterling, in the Court of Common Pleas of Montgomery County, Pennsylvania. Univest alleges that, beginning in 2005, it purchased from EFI 31 loans with a present value of $6.2 million, and that the loans had a higher rate of delinquency than was represented to it by Sterling and EFI. Univest brings claims of (1) breach of contract against EFI; (2) rescission for negligent misrepresentation/nondisclosure against EFI and Sterling; (3) fraudulent misrepresentation against EFI and Sterling; (4) breach of fiduciary duty against EFI; (5) conversion against EFI; (6) aiding and abetting breach of fiduciary duty against Sterling; and (7) conspiracy against EFI and Sterling. Univest seeks damages of $1,987,224.76, along with punitive damages, costs, interest, and other relief as the court deems appropriate.

On December 10, 2007, Woodlands Bank filed suit against Sterling and EFI in the Court of Common Pleas of Lycoming County, Pennsylvania for claims allegedly arising out of Woodlands purchase of certain equipment loans from EFI. Woodlands asserts the following claims against Sterling and/or EFI: (1) breach of contract; (2) rescission for negligent misrepresentation/non-disclosure; (3) fraudulent misrepresentation; (4) breach of fiduciary duty; (5) conversion; and (6) aiding and abetting breach of fiduciary duty. Woodlands seeks $7,848,210.99 (the alleged value of the 55 outstanding equipment loans purchased by Woodlands), plus interest, costs, and attorneys fees for its claims of breach of contract and rescission. In addition to that relief, Woodlands also seeks punitive damages and costs of the suit for its other claims.

On November 28, 2007, First Commonwealth Bank filed a writ of summons with respect to Sterling and EFI in the Court of Common Pleas of Indiana County, Pennsylvania in connection with claims allegedly arising out of First Commonwealth s purchase of certain equipment loans from EFI. A complaint has not been filed in this action.

On June 5, 2007, EFI received a letter from NexTier Bank demanding that EFI immediately repurchase all loans assigned by EFI to NexTier Bank pursuant to a master assignment agreement. According to the demand letter, the loan in question had an aggregate outstanding principal balance, as of June 1, 2007, of approximately $1.2 million.

On December 27, 2007, Sterling and EFI received a letter from counsel for Farmers and Merchants Trust Company of Chambersburg, which we refer to as F&M, demanding that EFI immediately repurchase from F&M all of the outstanding loans purchased by F&M pursuant to three specified loan purchase agreements.

Other Investigations

The SEC is conducting a non-public investigation into the EFI situation. Sterling is cooperating with the SEC and providing information in response to SEC requests. The United States Attorney s Office for the Eastern District of Pennsylvania also is investigating the EFI situation. Sterling is cooperating with that investigation and providing information in response to the United States Attorney s Office s requests.

LEGAL MATTERS

The validity of the PNC common stock to be issued in connection with the merger will be passed upon for PNC by George P. Long, III, Senior Counsel and Corporate Secretary of PNC. Certain U.S. federal income tax consequences relating to the merger will also be passed upon for PNC by Wachtell, Lipton, Rosen & Katz, and for Sterling by Sullivan & Cromwell LLP.

EXPERTS

The consolidated financial statements of PNC incorporated in this proxy statement/prospectus by reference from PNC s Annual Report on Form 10-K/A Amendment No. 1 and management s report on the effectiveness of internal control over financial reporting incorporated by reference in this proxy statement/prospectus from PNC s Annual Report on Form 10-K/A Amendment No. 2, for the year ended December 31, 2006 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports which are incorporated herein by reference (which reports (1) express an unqualified opinion on the consolidated financial statements and include explanatory paragraphs relating to the restatement of the consolidated statements of cash flows, PNC s adoption of Statement of Financial Accounting Standard No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)* and PNC s use of the equity method of accounting to recognize its investment in BlackRock, Inc, (2) express an unqualified opinion on management s assessment regarding the effectiveness of internal control over financial reporting, and (3) express an unqualified opinion on the effectiveness of internal control over financial reporting), and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of Sterling as of and for the year ended December 31, 2006, and as of and for the nine-month period ended September 30, 2007, appearing in this proxy statement/prospectus and registration statement have been audited by Ernst & Young LLP, an independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

OTHER MATTERS

According to the Sterling articles of incorporation and bylaws, business to be conducted at a special meeting of shareholders may only be brought before the meeting pursuant to a notice of meeting. Included within the notice of meeting must be a statement of the general nature of the business to be transacted at the special meeting.

Sterling 2008 Annual Meeting Shareholder Proposals

Sterling will hold a 2008 annual meeting of shareholders only if the merger is not completed as contemplated by the plan of merger. If it is determined that the merger will not be completed as contemplated by the plan of merger, Sterling will provide notice of the date fixed for the annual meeting, as well as the deadline for submitting shareholder proposals for such meeting and to have shareholder proposals included in Sterling s proxy statement.

Householding Information

Pursuant to SEC rules, Sterling sends a single proxy statement to multiple shareholders who share the same address and who have the same last name, unless we receive instructions to the contrary from one or more of the shareholders. This method of delivery is known as householding. Upon written or oral request, a separate copy of the proxy statement, as applicable, will be delivered promptly to a shareholder at a shared address to which a single copy of the documents was previously delivered or, if you wish to receive a separate proxy statement and/or annual report in the future, please call Shareholder Relations at (717) 735-4066 or send a written request to Shareholder Relations, Sterling Financial Corporation, 101 North Pointe Boulevard, Lancaster, Pennsylvania 17601.

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COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

The PNC bylaws provide for indemnification for current and former directors, officers, employees, or agents serving at the request of the corporation to the fullest extent permitted by Pennsylvania law. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

WHERE YOU CAN FIND MORE INFORMATION

PNC has filed with the SEC a registration statement under the Securities Act that registers the distribution to Sterling shareholders of the shares of PNC common stock to be issued in connection with the merger. The registration statement, including the attached exhibits and schedules, contains additional relevant information about PNC and PNC stock. The rules and regulations of the SEC allow us to omit certain information included in the registration statement from this document.

You may read and copy this information at the Public Reference Room of the SEC at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the SEC s Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet website that contains reports, proxy statements and other information about issuers, like PNC and Sterling, who file electronically with the SEC. The address of the site is www.sec.gov. The reports and other information filed by PNC with the SEC are also available at PNC s internet website. The address of the site is www.pnc.com. The reports and other information filed by Sterling with the SEC are also available at Sterling s internet website. The address of the site is www.sterlingfi.com. We have included the web addresses of the SEC, PNC, and Sterling as inactive textual references only. Except as specifically incorporated by reference into this document, information on those websites is not part of this document.

The SEC allows PNC to incorporate by reference information in this document. This means that PNC can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be a part of this document, except for any information that is superseded by information that is included directly in this document.

This document incorporates by reference the documents listed below that PNC previously filed with the SEC. They contain important information about PNC and its financial condition.

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PNC SEC Filings (SEC File No. 001-09718; CIK No. 0000713676)	**Period or Date Filed**
Annual Report on Form 10-K	Year ended December 31, 2006 (as amended by Form 10-K/A filed on February 4, 2008 and Form 10-K/A filed on February 6, 2008)
Quarterly Reports on Form 10-Q	Quarters ended March 31, 2007 (as amended by Form 10-Q/A filed on February 4, 2008), June 30, 2007 (as amended by Form 10-Q/A filed on February 4, 2008) and September 30, 2007 (as amended by Form 10-Q/A filed on February 4, 2008)
Current Reports on Form 8-K	Filed on January 10, 2007, January 24, 2007, February 2, 2007, February 9, 2007, February 20, 2007, March 6, 2007, March 7, 2007, March 8, 2007, March 28, 2007, March 30, 2007, April 30, 2007, June 13, 2007, June 14, 2007, July 3, 2007, July 19, 2007, July 25, 2007, August 13, 2007, October 1, 2007, January 22, 2008 and February 4, 2008 (two filings) (other than the portions of those documents not deemed to be filed)
The description of PNC common stock set forth in a registration statement filed pursuant to Section 12 of the Exchange Act and any amendment or report filed for the purpose of updating those descriptions	

In addition, PNC also incorporates by reference additional documents that it files with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended, between the date of this document and the date of the Sterling special meeting. These documents include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements.

Sterling is currently not eligible to incorporate in this document by reference any documents that it filed, or may file in the future, with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended.

PNC has supplied all information contained or incorporated by reference in this document relating to PNC, as well as all pro forma financial information, and Sterling has supplied all information relating to Sterling.

Documents incorporated by reference, as well as certain other documents described in this proxy statement/prospectus, are available from PNC and Sterling without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit in this document. You can obtain documents incorporated by reference in this document and certain other documents described in this document 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: Shareholder Relations

Sterling Financial Corporation
101 North Pointe Boulevard
Lancaster, Pennsylvania 17601-4133
Attention: Shareholder Relations
Telephone: (717) 735-4066

Telephone: (800) 843-2206
Email: investor.relations@pnc.com

***Sterling shareholders requesting documents should do so by March 19, 2008 to receive them before the special meeting*. You will not be charged for any of these documents that you request. If you request any incorporated documents or certain other documents from PNC or Sterling, PNC or Sterling will mail them to you by first class mail or another equally prompt means after it receives your request.**

Neither PNC nor Sterling has authorized anyone to give any information or make any representation about the merger or our companies that is different from, or in addition to, that contained in this document or in any of the materials that have been incorporated in this document. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this document or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you. The information contained in this document speaks only as of the date of this document unless the information specifically indicates that another date applies.

This document contains a description of the representations and warranties that each of PNC and Sterling made to the other in the plan of merger. Representations and warranties made by PNC, Sterling and other applicable parties are also set forth in contracts and other documents (including the plan of merger) that are attached or filed as exhibits to this document or are incorporated by reference into this document. These representations and warranties were made as of specific dates, may be subject to important qualifications and limitations agreed to between the parties in connection with negotiating the terms of the plan of merger, and may have been included in the plan of merger for the purpose of allocating risk between the parties rather than to establish matters as facts. These materials are included or incorporated by reference only to provide you with information regarding the terms and conditions of the plan of merger, and not to provide any other factual information regarding Sterling, PNC or their respective businesses. Accordingly, the representations and warranties and other provisions of the plan of merger should not be read alone, but instead should be read only in conjunction with the other information provided elsewhere in this document or incorporated by reference into this document.

ANNEX A

Supplemental Information Regarding Sterling Financial Corporation

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INTRODUCTION

Restatement of the Financial Information

This annex to the proxy statement/prospectus includes, with respect to Sterling Financial Corporation (which we refer to as Sterling, the company, we, or us), a restatement of its consolidated balance sheet as of December 31, 2006 and the related consolidated statements of operations, stockholders equity and cash flows for the year ended December 31, 2006. Sterling s decision to restate these financials is the result of a voluntary, independent investigation that was initiated by Sterling and conducted by the audit committee of the board of directors as a result of significant fraudulent activity that occurred in its forestry commercial financing subsidiary, Equipment Finance, LLC (EFI) (which we refer to in this annex as the EFI Matter). The restatement is to correct the financial statements for fraudulent activities identified at EFI as more fully described in Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 2, Restatement of the Consolidated Financial Statements to the consolidated financial statements.

On April 30, 2007, Sterling announced that the previously issued financial statements included in its reports on Form 10-K, Form 10-Q and Form 8-K filed by Sterling from January 1, 2004 through April 19, 2007, and the reports on the audited financial statements and related internal controls issued by its independent registered public accounting firm, Ernst & Young LLP, and all earnings releases issued and similar communications issued by Sterling for 2004 through 2006, should no longer be relied upon due to the expected material impact of the irregularities. The financial information included in this report supersedes the previously issued financial statements for 2006 and management s discussion and analysis thereof.

For purposes of providing comparative analysis in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this annex, balance sheet line items as of December 31, 2006 are compared to the balance sheet items as at September 30, 2007. Results of operations, changes in shareholders equity, cash flows, and average balances, for the 12-month period ended December 31, 2006 are compared to the 12-month period ended September 30, 2007 (which includes the unaudited three months ended December 31, 2006, plus the nine months ended September 30, 2007).

Independent Investigation

On April 19, 2007, Sterling announced that in early April 2007, Sterling management received information suggesting irregularities in certain financing contracts at EFI. Upon receiving information regarding the irregularities, management immediately notified the chairman of the board of directors, the board s audit committee, and Sterling s independent auditors, Ernst & Young LLP and the audit committee hired legal counsel, Stradley Ronon Stevens & Young, LLP (which we refer to as Stradley Ronon), to conduct an independent investigation. With the audit committee s approval, Stradley Ronon engaged a forensic accounting firm, KPMG LLP, to assist in the investigation (we refer to Stradley Ronon and KPMG as the investigators). Sterling also retained Promontory Financial Group to review its internal controls and procedures and related matters.

On May 24, 2007, Sterling publicly reported that it had determined that, under U.S. generally accepted accounting principles, it would be required to record a material impairment of certain assets of EFI, which it expected to record as a cumulative after-tax charge to the financial statements for the year ended December 31, 2006, estimated to be in the range of $145 million to $165 million based upon the results of the investigation s preliminary findings. These assets included EFI financing contracts, interest associated with those contracts, and potential goodwill attributable to EFI.

On November 14, 2007, Sterling reported that, as Sterling worked toward finalizing its evaluation of the impact of the EFI Matter, the audit committee, upon the recommendation of management, through its disclosure committee, concluded on November 13, 2007 that an additional cumulative after-tax charge of approximately $35 million may be necessary under U.S. generally accepted accounting principles. This additional charge related to certain financing contracts delinquent more than 120 days that would be charged off completely, regardless of underlying collateral values and payments from customers, and previously recorded goodwill related to the EFI acquisition that Sterling deemed impaired.

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The independent investigation has been completed. Stradley Ronon presented its findings of the independent investigation to Sterling s audit committee on November 12, 2007 and to the board of directors on November 13, 2007.

Results of the Independent Investigation

The investigators conducted approximately 100 interviews of current and former EFI and Sterling employees, reviewed approximately 300 boxes of documents, reviewed nearly 700,000 electronic documents, and reviewed information pertaining to more than 4,000 active and inactive EFI loan documents dating back to 2002, when Sterling acquired EFI.

The investigators concluded that two of EFI s senior officers, its chief operating officer, and its executive vice president, with the assistance of a number of other EFI employees, certain customers and other third parties, perpetuated a fraud scheme that subverted virtually every aspect of EFI s loan process, including its internal controls. The investigators concluded that these employees colluded to misapply cash receipts, underwrite contracts to third parties that did not have the financial wherewithal to repay the loan, and used various deceptive methods to conceal credit delinquencies, non-accrual finance receivables, repossession information, and other loan quality monitoring statistics in order to deceive Sterling management and other parties utilizing such information to evaluate the performance of EFI. The investigators concluded that a significant amount of EFI finance receivables were either completely invalid or were in a significant non-performing status.

In addition, the investigators reported that there was no evidence that any member of Sterling management or any non-EFI personnel of Sterling or any of its affiliates participated in or had any knowledge of the scheme.

Sterling s board of directors adopted a number of corrective measures, most of which have been completed, for the purpose of remediating and preventing any repetition of the events at EFI.

BUSINESS

Sterling Financial Corporation is a $3.2 billion financial holding company headquartered in Lancaster, Pennsylvania. Sterling was incorporated in Pennsylvania in 1987. Through its banking and non-banking subsidiaries, Sterling provides a full range of banking and financial services to individuals and businesses through the following four business segments: Community Banking and Related Services; Leasing; Commercial Finance; and Trust and Investment Services. The Other segment includes the parent company and discontinued operations.

In October 2006, Sterling completed the acquisition of Bay Net Financial, Inc. and its wholly owned thrift subsidiary, Bay Net A Community Bank. At the date of acquisition, Bay Net Financial, Inc. was merged into Sterling, and Bay Net A Community Bank merged with Sterling s wholly owned subsidiary, First National Bank of North East. The resulting bank changed its name to Bay First Bank, N.A. as part of the bank merger. Sterling acquired Bay Net Financial, Inc. in order to enhance its banking franchise in Cecil, Harford and neighboring counties of Maryland.

On December 27, 2006, Sterling announced changes to its Insurance Related Services segment that resulted in the divestiture of three related lines of business associated with this segment. On December 26, 2006, Sterling entered into a definitive agreement to sell Corporate Healthcare Strategies, LLC and Professional Services Group. On December 27, 2006, Sterling entered into a definitive agreement to sell certain insurance assets of its personal property and casualty insurance agency, Lancaster Insurance Group, LLC. Sterling closed on each of these transactions on December 31, 2006. As a result of these actions, Sterling discontinued operations in the Insurance Related Services segment and this segment is no longer reportable.

All prior period results included herein have been reclassified to conform to the current presentation which displays the operating results of the divested businesses as discontinued operations. These

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reclassifications had no effect on net income or stockholders equity. Unless otherwise noted, the remaining discussion and tabular data relate only to Sterling s continuing operations.

Community Banking and Related Services

The Community Banking and Related Services segment provides financial services to consumers, businesses, financial institutions and governmental units in south central Pennsylvania, northern Maryland and northern Delaware. These services include providing various types of loans to customers, accepting deposits, mortgage banking and other traditional banking services. Major revenue sources include net interest income and service fees on deposit accounts. Expenses include personnel and branch network support charges. The Community Banking and Related Services segment lends money to the Leasing and Commercial Finance segments, which represents the inter-segment eliminations.

As a result of the EFI Matter, the capital levels of Sterling and its banking subsidiary Bank of Lancaster County, N.A., the direct parent of EFI, were significantly depleted. In order to rebuild capital levels at Bank of Lancaster County, Sterling, on May 25, 2007, merged its banking subsidiaries Bank of Hanover and Trust Company, Pennsylvania State Bank, and Bay First Bank, N.A. into Bank of Lancaster County, which changed its name to BLC Bank, N.A. (which we refer to as BLC Bank). Each of the branches of the respective former banks continue to operate under their respective pre-merger trade name, as divisions of BLC Bank, with the same personnel and the same types of products and services. These actions were taken as part of the capital restoration plan which Sterling developed to address the events at EFI, as more fully discussed in the main body of the proxy statement/prospectus under the heading Recent Developments Regarding Sterling.

The Community Banking and Related Services segment at September 30, 2007 was comprised of our banking affiliates, as summarized below (dollars in millions).

Bank Name	**# of Offices**	**Markets Served**	**Loans**	**Deposits**	**Assets**
BLC Bank, N.A.(1)	67	Adams County, PA Berks County, PA Chester County, PA Cumberland County, PA Dauphin County, PA Lancaster County, PA Lebanon County, PA York County, PA Carroll County, MD Cecil County, MD Harford County, MD	$ 2,356	$ 2,696	$ 3,304
Delaware Sterling Bank & Trust Company	1	New Castle County, DE	13	47	51

(1) For the purpose of this table, BLC Bank, N.A. includes only the banking subsidiaries, which include Bank of Hanover and Trust Company, Pennsylvania State Bank, Bay First Bank and Bank of Lancaster County.

In addition to its network of 68 office locations, the Community Banking and Related Services segment delivers its services through alternative delivery channels, including the ATM network, Internet and telephone banking.

The Community Banking and Related Services segment s geographic market is comprised of diverse economies in Pennsylvania, Maryland and Delaware with agriculture, manufacturing, tourism, government, healthcare, technology, education and financial services all contributing to the overall strength of the economy. No single sector dominates the region s economy.

The banks are subject to regulation and periodic examination by their regulators, including the Office of the Comptroller of the Currency for BLC Bank, N.A. and the Delaware Office of the State Bank Commissioner and the FDIC for the state chartered, non-member bank, Delaware Sterling Bank & Trust Company. The Federal Deposit Insurance Corporation, to the maximum extent provided by law, insures the banks deposits.

At September 30, 2007, the Community Banking and Related Services segment represented approximately 85% of Sterling s consolidated assets, and had net income of $9.3 million for the nine months ended September 30, 2007. The Community Banking and Related Services segment has absorbed $15.3 million or 78.6% of the investigation costs associated with the EFI Matter during this period.

Leasing

Town & Country Leasing, LLC, a wholly owned subsidiary of BLC Bank, represents the sole affiliate within the Leasing segment. This segment provides fleet management, equipment financing and leasing alternatives to customers headquartered primarily in Pennsylvania and surrounding states. Through its customers branch offices, the Leasing segment conducts business in all 50 states.

At September 30, 2007, the Leasing segment represented approximately 9% of Sterling s consolidated assets, and had net income of $2.1 million for the nine months ended September 30, 2007. Major revenue sources include net interest income and rental income on operating leases. Expenses include personnel, support and depreciation charges on operating leases.

Commercial Finance

Equipment Finance, LLC, a wholly owned subsidiary of BLC Bank, represents the sole affiliate within the Commercial Finance segment. Prior to the discovery of financial irregularities in April 2007, EFI specialized in financing forestry and land-clearing equipment for the soft wood pulp business utilized primarily in the paper industry through equipment dealers. EFI s primary area of operation is the southeastern United States.

On April 19, 2007, Sterling announced that it had received information suggesting irregularities in certain financing contracts at EFI. For further discussion of ongoing matters with respect to EFI, please refer to the discussion in the main body of the proxy statement/prospectus under the heading Recent Developments Regarding Sterling.

At September 30, 2007, the Commercial Finance segment represented approximately 4% of Sterling s consolidated assets, which is comprised primarily of a current and deferred tax asset associated with the losses incurred due to the EFI Matter discussed earlier, and the segment had a net loss of $12.1 million for the nine months ended September 30, 2007. The major remaining revenue source is recovery income from management s collections of previously charged-off loans. Operating expenses include personnel and support charges.

Trust and Investment Services

The Trust and Investment Services segment consists of Sterling Financial Trust Company, Church Capital Management, LLC (which we refer to as Church Capital) and Bainbridge Securities, Inc. Church Capital is an investment advisor registered with the Securities and Exchange Commission (which we refer to as the SEC) and Bainbridge Securities is a broker dealer and member firm of the Financial Industry Regulatory Authority (commonly known as FINRA) that offers complementary products and services to the more traditional wealth management services.

This segment includes both corporate asset and personal wealth management services. The corporate asset management business provides retirement planning services, investment management, custody and other corporate trust services to small to medium size businesses in Sterling s market area. Personal wealth management services include investment management, brokerage, estate and tax planning, as well as trust management and administration for high net worth individuals and their families.

For the nine-month period ended September 30, 2007, the Trust and Investment Services segment had net income of $1.4 million. In addition, the Trust and Investment Services segment had assets under administration of approximately $2.8 billion. Major revenue sources include management and estate fees and commissions on security transactions. Expenses primarily consist of personnel and support charges, as well as amortization of intangible assets.

Other

The parent company and discontinued operations are included in the Other category of the Segment Reporting footnote (Note 24). Sterling s major sources of operating funds, as a parent company, are dividends received from its subsidiaries and reimbursement of operating expenses from its subsidiaries. In addition, in 2007, the parent company obtained a 364-day $80.0 million line of credit from Manufacturers and Traders Trust Company (hereafter referred to as M&T Bank), secured by the stock of BLC Bank, and drew upon $70.0 million of it to provide additional capital to BLC Bank. Sterling s expenses are primarily operating expenses. Dividends that Sterling pays to its shareholders are funded primarily by dividends paid to Sterling by its subsidiaries. Due to the EFI Matter and the related negative impact on capital, BLC Bank is precluded from paying dividends to Sterling until capital levels at BLC Bank have been restored to well capitalized after which payment of dividends will be conditioned on approval by BLC Bank s primary regulator.

For more detailed financial information pertaining to our operating segments, please refer to Note 24 of the Consolidated Financial Statements.

Sterling and its subsidiaries do not have any portion of their businesses dependent on a single or limited number of customers, the loss of which would have a material adverse effect on their businesses. No substantial portions of their loans or investments are concentrated within a single industry or group of related industries, although a significant amount of loans are secured by real estate located in south central Pennsylvania and northern Maryland. The businesses of Sterling and its subsidiaries are not seasonal in nature.

Competition

The financial services industry in Sterling s market areas is highly competitive, including competition from commercial banks, savings banks, credit unions, finance companies and non-bank providers of financial services. Several of Sterling s competitors have legal lending limits that exceed those of Sterling s subsidiaries, as well as funding sources in the capital markets that exceed Sterling s availability. The increased competition has resulted from a changing legal and regulatory climate, as well as from the economic climate.

Environmental Compliance

Although we believe our operations are in material compliance with applicable environmental laws and regulations, risks of significant costs and liabilities are inherent in the lending environment, and we cannot assure that significant costs and liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly strict environmental laws and regulations and enforcement policies, and claims for damages to property or persons resulting from our customer s properties for which we provided loans, could result in substantial costs and possible liability to us. We believe that changes in environmental laws and regulations will not have a material adverse effect on our financial position, results of operations or cash flows in the near term.

Supervision and Regulation

Bank holding companies and banks operate in a highly regulated environment and are regularly examined by federal and state regulatory authorities. The following discussion highlights various federal and state laws and regulations and the potential impact of such laws and regulations on Sterling and its subsidiaries. To the extent that this information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory or regulatory provisions themselves. Proposals to change laws and regulations are frequently introduced in Congress, the state legislatures, and before the various regulatory agencies. Sterling cannot determine the likelihood or timing of any such proposals or legislation or the impact they may have on Sterling and its subsidiaries. A change in law, regulations or regulatory policy may have a material effect on the business of Sterling and its subsidiaries. As discussed elsewhere in this document, as a result of the losses related to the EFI Matter, Sterling s and Bank of Lancaster County s capital were significantly depleted. In response, Sterling developed a capital restoration plan. First, Sterling merged four of its subsidiary banks and BLC Bank in May 2007 into one charter, BLC Bank, in order to consolidate capital. Second, Sterling obtained an $80.0 million 364-day line of credit from M&T Bank, secured by the stock of BLC Bank, $70.0 million of which was drawn upon and contributed to BLC Bank as capital.

In addition to the following discussion of the supervision and regulation to which Sterling and its subsidiary banks are subject, please refer to the discussion in the main body of the proxy statement/prospectus under the headings Recent Developments Regarding Sterling, and The Merger Background of the Merger with regard to the capital and liquidity issues resulting from the EFI Matter and its regulatory consequences.

Bank Holding Company Regulation

Sterling is a bank holding company that has also elected to become a financial holding company. As a bank holding company, Sterling is subject to the regulations of the Board of Governors of the Federal Reserve System (which we refer to as the Federal Reserve) under the Bank Holding Company Act of 1956, as amended (which we refer to as the BHC Act). Bank holding companies are required to file periodic reports with, and are subject to examination by, the Federal Reserve. The BHC Act requires a bank holding company to serve as a source of financial and managerial strength to its banking subsidiaries, which may result in providing adequate capital funds to the banks during periods of financial stress or adversity.

The BHC Act prohibits Sterling from acquiring direct or indirect control of more than 5% of the outstanding voting stock of any bank or thrift, or substantially all of the assets of any bank or thrift, or merging with another bank holding company, without the prior approval of the Federal Reserve. The BHC Act allows interstate bank acquisitions and interstate branching by acquisition and consolidation subject to certain limitations. The Pennsylvania Department of Banking also must approve any similar consolidation. Pennsylvania law permits Pennsylvania financial holding companies to control an unlimited number of banks.

In addition, the BHC Act restricts our non-banking activities to those that are determined by the Federal Reserve to be financial in nature, incidental to such financial activity, or complementary to a financial activity. The BHC Act does not place geographic restrictions on the activities of non-bank subsidiaries of financial holding companies.

The Federal Deposit Insurance Corporation Improvement Act requires a bank holding company to guarantee the compliance of any insured depository institution subsidiary that may become undercapitalized, as defined by regulations, with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency, up to specified limits.

Financial Services Modernization Legislation

In November 1999, the Gramm-Leach-Bliley Act of 1999, or the GLB Act, was enacted. As a result of the passage of the GLB Act, new opportunities became available to financial institution holding companies as a result of the removal of restrictions under a regulatory framework that had its origin in the Great Depression of the 1930s. In addition, the GLB Act also contains provisions that expressly preempt any state law restricting the establishment of financial affiliations, primarily related to insurance.

The general effect of the GLB Act is to permit banks, other depository institutions, insurance companies and securities firms to enter into combinations that result in a single financial services organization that offer customers a wider array of financial services and products through a new entity known as a financial holding company. Financial activities is broadly defined to include not only banking, insurance and securities activities, but other activities incidental to such financial activities or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

The GLB Act also permits national banks to engage in expanded activities through the formation of financial subsidiaries.

Since April 2001, Sterling has been registered with the Federal Reserve as a financial holding company and has utilized the opportunities available under the GLB Act (amendment) to expand into a diversified holding company. Sterling acquired Equipment Finance, LLC in February 2002, Church Capital Management LLC and Bainbridge Securities, Inc. in October 2003, Stoudt Advisors in May 2004, Lancaster Insurance Group, LLC in June 2004, and the assets of Infinity Investment Advisors in December 2005. Sterling also acquired several banks during that time.

Nevertheless, the GLB Act may have the result of increasing the amount of competition that Sterling faces from larger institutions and other types of companies offering financial products, many of which may have substantially more financial resources than does Sterling.

As noted above, Sterling is registered with the Federal Reserve as a financial holding company under the GLB Act. Among other things, to qualify as a financial holding company, each of the holding companies insured depository institution subsidiaries must be well managed and well capitalized as defined in applicable regulations. In this regard, Sterling has been advised by the Federal Reserve that Sterling no longer satisfies the requirements to be eligible to be a financial holding company. Pursuant to regulations applicable to financial holding companies, Sterling submitted a plan to enhance management and improve the overall condition of BLC Bank. The action plan includes the implementation of a comprehensive enterprise risk management plan, the continued centralized oversight of EFI, the implementation of a plan to centralize controls at Sterling s other financial services group subsidiaries, and the continued implementation of Sterling s liquidity and capital plans

Pursuant to regulations applicable to financial holding companies, Sterling also submitted a plan to restore BLC Bank s capital to specified levels. In its capital restoration plan, and in addition to the restrictions noted above, Sterling committed that, until specified capital levels are achieved, Sterling will not pay dividends either to its shareholders or on trust preferred securities and will not engage in any new activities or make new investments permissible pursuant to the GLB Act without prior approval of the Federal Reserve.

Until Sterling is able to satisfy the financial holding company requirements, Sterling may also be subject to limitations on its current activities. The failure to satisfy the requirements in its management and capital restoration plans in a timely fashion could result in Sterling s loss of Sterling s financial holding company status and additional consequences.

USA Patriot Act of 2001

On October 26, 2001, the USA Patriot Act of 2001 was enacted. The USA Patriot Act contains the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (which we refer to as the IMLAFA), which sets forth anti-money laundering measures affecting insured depository institutions, broker-dealers and other financial institutions. The IMLAFA requires U.S. financial institutions to adopt policies and procedures to combat money laundering and grants the Secretary of the Treasury broad authority to establish regulations and to impose requirements and restrictions on the operations of financial institutions.

Sarbanes-Oxley Act of 2002

In July 2002, the Sarbanes-Oxley Act of 2002 was enacted. The Sarbanes-Oxley Act represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity securities registered under, or that file reports under, the Securities Exchange Act of 1934. In particular, the Sarbanes-Oxley Act established: (i) new requirements for audit committees addressing independence, expertise and responsibilities; (ii) additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) new standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) new and increased civil and criminal penalties for violations of the securities laws. Many of the provisions were effective immediately, while other provisions became effective over a period of time and are subject to rulemaking by the SEC and the Public Company Accounting Oversight Board. Because Sterling s common stock is registered with the SEC, it is subject to this Act.

Since 2002, the SEC and the NASDAQ have issued new regulations affecting our corporate governance and heightening our disclosure requirements. The new requirements include enhanced proxy statement disclosures on corporate governance and executive compensation, stricter independence requirements for the board of directors and its committees, posting of various SEC reports on our website, and documentation, testing and analysis of our internal controls and procedures.

Regulation W

Sterling and its banking affiliates are subject to Regulation W, which provides guidance on permissible activities and transactions between a bank and its affiliated companies. In general, subject to certain specified exemptions, a bank and its subsidiaries cannot engage in covered transactions (as defined below) with affiliates:

- that amount to more than 10% of the bank s capital and surplus, in the case of covered transactions with any one affiliate; and
- that amount to more than 20% of the bank s capital and surplus, in the case of covered transactions with all affiliates.

In addition, a bank and its subsidiaries may engage in covered transactions and other specified transactions only on terms and under circumstances that are substantially the same, or at least as favorable to the bank or its subsidiary, as those prevailing at the time for comparable transactions with nonaffiliated companies. A covered transaction includes:

- a loan or extension of credit to an affiliate;
- a purchase of, or an investment in, securities issued by an affiliate;
- a purchase of assets from an affiliate, with some exceptions;
- the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; and
- the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, under Regulation W:

- a bank and its subsidiaries may not purchase a low-quality asset from an affiliate;
- covered transactions and other specified transactions between a bank or its subsidiaries and an affiliate must be on terms and conditions that are consistent with safe and sound banking practices; and
- with some exceptions, each loan or extension of credit by a bank to an affiliate must be secured by collateral with a market value ranging from 100% to 130%, depending on the type of collateral, of the amount of the loan or extension of credit.

Check 21

The Check Clearing for the 21st Century Act, or Check 21 as it is commonly known, became effective on October 28, 2004. Check 21 facilitates check collection by creating a new negotiable instrument called a substitute check that permits, but does not require, banks to replace original checks with substitute checks or information from the original check and process the check information electronically. Banks that do not use substitute checks must comply with certain notice and recredit rights. Check 21 is expected to cut the time and cost involved in physically transporting paper items and reduce float (i.e., the time between the deposit of a check in a bank and payment), especially in cases in which items were not already being delivered same-day or overnight.

Dividends

Sterling is a legal entity separate and distinct from its subsidiary banks and non-bank subsidiaries. Its revenues, on a parent company only basis, result almost entirely from dividends paid to Sterling by its subsidiaries. Federal and state laws regulate the payment of dividends by our subsidiaries, as outlined in the Supervision and Regulation Regulation of the Banks section below.

Further, Federal Reserve policy dictates that bank holding companies should pay dividends only out of current earnings. Federal banking regulators also have the authority to prohibit banks and bank holding companies from paying a dividend if they deem such payment to be an unsafe or unsound practice.

As a direct result of the events at EFI, as discussed under the headings Introduction and Business, BLC Bank did not meet the minimum capital adequacy requirements to be deemed to be well capitalized due to the significance of the losses incurred at EFI. Sterling developed a capital restoration plan, in consultation with its banking regulators, to restore its capital and BLC Bank s capital. As part of this plan, BLC Bank is restricted from paying dividends to Sterling until such time as Sterling s capital levels are restored. Further, Sterling is restricted from paying dividends to its shareholders until such time as Sterling s capital levels are restored.

FDIC Insurance

The subsidiary banks are subject to Federal Deposit Insurance Corporation assessments. The FDIC has adopted a risk-related premium assessment system. Under this system, FDIC insurance premiums are assessed based on capital and supervisory measures.

Under the risk-related premium assessment system, the FDIC, on a semiannual basis, assigns each institution to one of three capital groups, well capitalized, adequately capitalized, or under capitalized, and further assigns such institution to one of three subgroups within a capital group corresponding to the FDIC s judgment of its strength based on supervisory evaluations, including examination reports, statistical analysis, and other information relevant to gauging the risk posed by the institution. Only institutions with a total risk-based capital to risk-adjusted assets ratio of 10% or greater, a Tier 1 capital to risk-adjusted assets ratio of 6% or greater, and a Tier 1 leverage ratio of 5% or greater, are assigned to the well-capitalized group. As of September 30, 2007, BLC Bank and Delaware Sterling Bank & Trust Company qualify as under capitalized and well capitalized respectively, under these regulatory standards. As such, BLC Bank is subject to certain restrictions. See the section entitled Recent Developments Regarding Sterling Regulatory Matters in the main body of the proxy statement/prospectus.

Federal Deposit Insurance Reform Act of 2005

The Federal Deposit Insurance Reform Act of 2005 (which we refer to as the Reform Act) was signed into law on February 8, 2006 and amended current laws regarding the federal deposit insurance system. The legislation merged the Bank Insurance Fund and the Savings Association Insurance Fund to form the Deposit Insurance Fund (which we refer to as the DIF), eliminated any disparities in bank and thrift risk-based premium assessments, reduced the administrative burden of maintaining and operating two separate funds and established certain new insurance coverage limits and a mechanism for possible periodic increases. The legislation also gave the FDIC greater discretion to identify the relative risks all institutions present to the DIF and to set risk-based premiums.

Major provisions in the legislation include:

- merging the Savings Association Insurance Fund and Bank Insurance Fund, which became effective March 31, 2006;

maintaining basic deposit and municipal account insurance coverage at $100,000 but providing for a new basic insurance coverage for retirement accounts of $250,000. Insurance coverage for basic deposit and retirement accounts could be increased for inflation every five years in $10,000 increments beginning in 2011;

providing the FDIC with the ability to set the designated reserve ratio within a range of between 1.15% and 1.50%, rather than maintaining 1.25% at all times regardless of prevailing economic conditions;

providing a one-time assessment credit of $4.7 billion to banks and savings associations in existence on December 31, 1996, which may be used to offset future premiums with certain limitations;

requiring the payment of dividends of 100% of the amount that the insurance fund exceeds 1.5% of the estimated insured deposits and the payment of 50% of the amount that the insurance fund exceeds 1.35% of the estimated insured deposits (when the reserve is greater than 1.35% but no more than 1.5%); and

providing for a new risk-based assessment system that allows the FDIC to establish separate risk-based assessments for large and small members of the DIF.

On November 2, 2006, the FDIC set the designated reserve ratio for the deposit insurance fund at 1.25% of estimated insured deposits, and adopted final regulations to implement the risk-based deposit insurance assessment system mandated by the Reform Act, which is intended to more closely tie each bank s deposit insurance assessments to the risk it poses to the deposit insurance fund. Under the new risk-based assessment system, the FDIC will evaluate each institution s risk based on three primary factors: supervisory ratings for all insured institution, financial ratios for most institutions, and long-term debt issuer ratings for large institutions that have them. An institution s assessment rate will depend upon the level of risk it poses to the deposit insurance system as measured by these factors. The new rates for most institutions will vary between 5 and 7 cents for every $100 of domestic insurable deposits.

The new assessment rates took effect on January 1, 2007. However, the Reform Act provides credits to institutions that paid high premiums in the past to bolster the FDIC s insurance reserves, as a result of which the FDIC has announced that a majority of banks will have assessment credits to initially offset a portion of their premiums in 2007. Institutions that are not well capitalized will have certain limitations on the amount of assessment credits that can be applied against the 2007 premiums.

As discussed earlier, BLC Bank s current capital level is categorized as undercapitalized. BLC Bank is regulated by Office of the Comptroller of the Currency (which we refer to as the OCC). As a result of the losses related to the EFI Matter, Sterling s and BLC Bank s capital were significantly depleted. Until such time as BLC Bank has restored its capital to a level satisfactory to the OCC, BLC Bank is restricted from paying dividends to Sterling which has had a negative impact on Sterling s dividend policy. In the second quarter of 2007, Sterling announced that it had suspended, for an indeterminate amount of time, the payment of dividends to its shareholders. This action was taken primarily because Sterling relies on receiving dividends from BLC Bank to pay such dividends.

Regulation of Banks

The operations of Sterling s banking subsidiaries are subject to federal and state statutes, and are subject to the regulations of the OCC, the FDIC and the Delaware Office of the State Bank Commissioner.

The OCC, the primary supervisory authority over national banks, and the FDIC, the primary regulator of state chartered banks, regularly examine the subsidiary banks in such areas as reserves, loans, investments, management practices, electronic banking and other aspects of operations. These examinations are designed for the protection of the banks depositors rather than our shareholders. The subsidiary banks must file quarterly and annual reports with the FDIC and Federal Reserve.

The National Bank Act requires Sterling s subsidiary national banks to obtain the prior approval of the OCC for the payment of dividends if the total of all dividends declared by the bank in one year would exceed the bank s net profits, as defined and interpreted by regulation, for the two preceding years, less any required transfers to surplus. In addition, the banks may only pay dividends to the extent that their retained net profits, including the portion transferred to surplus, exceed statutory bad debts, as defined by regulation. Under Pennsylvania statutes, a state chartered bank is restricted, unless prior regulatory approval is obtained, in the amount of dividends that it may declare in relation to its accumulated profits, less any required transfer to surplus. These restrictions have not had, nor are they expected to have, any impact on our dividend policy.

Sterling and our subsidiary banks are affected by the monetary and fiscal policies of government agencies, including the Federal Reserve and FDIC. Through open market securities transactions and changes in its discount rate and reserve requirements, the Federal Reserve exerts considerable influence over the cost and availability of funds for lending and investment. The impact of monetary and fiscal policies on future business and earnings of Sterling cannot be predicted at this time.

Regulation of Other Subsidiaries

Sterling Financial Trust Company, a wholly owned subsidiary of BLC Bank, is required by the Pennsylvania Department of Banking to maintain a minimum of $1 million in cash and securities.

Bainbridge Securities, Inc., a wholly owned subsidiary of Sterling, is subject to regulation by FINRA.

Other

From time to time, various federal and state legislation is proposed that could result in additional regulation of, and restrictions on, the business of Sterling and its subsidiaries, or otherwise change the business environment. Management cannot predict whether any future legislation will have a material effect on the business of Sterling.

Products and Services with Reputation Risk

Sterling and its subsidiaries offer a diverse range of financial and banking products and services. In the event one or more customers and/or governmental agencies become dissatisfied or object to any product or service offered by Sterling or any of its subsidiaries, negative publicity with respect to any such products or services, whether legally justified or not, could have a negative impact on Sterling s reputation. The discontinuance of any product or service, whether or not any customer or governmental agency has challenged any such product or service, could have a negative impact on Sterling s reputation.

Employees

As of September 30, 2007, Sterling had approximately 1,000 full-time equivalent employees. None of these employees are represented by a collective bargaining agreement.

PROPERTIES

As of September 30, 2007, Sterling and its affiliates occupy 76 office locations in Lancaster, York, Adams, Lebanon, Berks, Chester, Bucks, Cumberland and Dauphin Counties, Pennsylvania, Cecil, Carroll and Harford Counties, Maryland and New Castle County, Delaware. The majority of these offices are utilized by the banking affiliates to service the needs of their retail and business customers. Offices at 42 locations are occupied under leases, and at five locations the affiliate owns the building, but leases the land. The remainder of the locations is owned by one of the bank affiliates.

Included in the above locations are the corporate headquarters, located in Lancaster, Pennsylvania, and operations centers located in East Petersburg and Hanover, Pennsylvania, which are owned by the bank affiliates. A portion of space in the Lancaster and East Petersburg buildings is leased to third parties.

All real estate owned by the subsidiary banks is free and clear of encumbrances. The leases of the subsidiary banks expire intermittently over the years through 2028, and most are subject to one or more renewal options. During 2007, aggregate annual rentals for real estate were approximately 1.72% of our operating expenses.

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LEGAL PROCEEDINGS

As described in the main body of the proxy statement/prospectus under the heading Recent Developments Regarding Sterling, Sterling and its subsidiaries are parties to several material pending legal proceedings. Other than as set forth under such heading and except for ordinary, routine litigation incidental to its business, Sterling and its subsidiaries are not parties to, and none of their respective properties is subject to, any legal proceedings nor is any such proceeding known to be contemplated by governmental authorities.

MARKET FOR STERLING S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Please see the main body of the proxy statement/prospectus under the heading Comparative Market Prices and Dividends for additional information on Sterling s common stock.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth, as of September 30, 2007, the number of outstanding options, warrants and rights granted by Sterling to participants in equity compensation plans, as well as the number of securities remaining available for future issuance under these plans. The table provides this information separately for equity compensation plans that have and have not been approved by shareholders.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (A)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (B)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column (A) (C)
Equity Compensation Plans Approved by Shareholders			
2005 Directors Stock Compensation Plan	0	N/A	104,092
1996 Stock Incentive Plan	1,297,085	$ 17.02	0
2006 Equity Compensation Plan	0	N/A	2,489,900
Equity Compensation Plans Not Approved by Shareholders	None	N/A	N/A
Totals	1,297,085		2,593,992

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Stockholder Return Performance Graph

The following graph shows the cumulative total shareholder return on Sterling s common stock during the period commencing on December 31, 2001 and ending on September 30, 2007, as compared with that of the Standard & Poor s 500 Index (S&P 500 Index) and the SNL NASDAQ Bank Index. The stock performance graph assumes that $100 was invested on December 31, 2001 and that any dividends were reinvested.

Total Return Performance

	Period Ending						
Index	**12/31/01**	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**09/30/07**
Sterling Financial Corporation	100.00	124.94	150.66	199.38	176.54	216.74	158.14
S&P 500 Index	100.00	77.90	100.24	111.14	116.59	135.00	147.36
SNL NASDAQ Bank Index	100.00	102.85	132.76	152.16	147.52	165.62	147.73

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Five Percent Beneficial Owners

The following table shows each person who, on January 18, 2008, was known to Sterling to be the beneficial owner of more than 5% of Sterling s outstanding common stock. For this purpose, Securities and Exchange Commission Rule 13d-3 defines a beneficial owner as any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares with respect to securities (i) voting power, which includes power to vote or to direct the voting of the securities or (ii) investment power, which includes the power to dispose of or direct the disposition of the securities. A person is deemed to be the beneficial owner of any securities as to which such person has the right to acquire beneficial ownership within 60 days, such as through the exercise of stock options.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	% of Class
Howard E. Groff, Sr. 111 E. State Street Quarryville, PA 17566	2,017,774(1)	6.84%

(1) Mr. Groff holds sole voting and investment power over all of these shares.

Directors and Executive Officers

The following table shows the beneficial ownership (based on the definition of beneficial owner in SEC Rule 13d-3 described above) of Sterling s common stock, as of January 18, 2008, by (i) each current director, (ii) Sterling s chief executive officer (who is listed as a director), chief financial officer and the three other most highly compensated executive officers for the year ended December 31, 2007, and (iii) all of Sterling s current directors and executive officers as a group. Unless otherwise indicated by footnote, each person listed has sole voting power with respect to the shares shown as beneficially owned by such person. Shares of common stock which are subject to stock options exercisable within 60 days of January 18, 2008 are deemed to be outstanding for the purpose of computing the amount and percentage of outstanding common stock owned by such person. Unless otherwise noted, the percentage of all Sterling common stock owned by each person is less than 1%.

Name	Amount and Nature of Beneficial Ownership	Percentage of Class
Albright, Jr., Richard H.	94,375(1)	*
Carenzo, Michael A.	16,962(2)	*
Chivinski, Anthony D.	3,743(3)	*
Groff, Jr., Howard E.	62,070(4)	*
Henderson, Joan R.	11,709(5)	*
Hormel, Terrence L.	61,607(6)	*
Hosler, David E.	16,628	*

Miller, Jr., William E.	43,954(7)	*
Moyer, Jr., J. Roger	230,692(8)	*
Sprecher, W. Garth	6,632	*
Stefan, John E.	499,724(9)	1.69%
Walz, Glenn R.	28,799(10)	*
Named Executive Officers		
Lima, Tito L.	21,165(11)	*
Scovill, J. Bradley	122,838(12)	*
Sposito II, Thomas J.	65,302(13)	*
Clabaugh, Chad M.	36,293(14)	*
All Directors and Executive Officers as a group (20) in total)	1,494,410(15)	5.06%

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(1) Includes 6,029 shares owned jointly with spouse, 13,401 owned directly by spouse, and 33,327 shares owned by Albright Family Enterprises, L.P. of which Dr. Albright is a general partner.

(2) Includes 8,902 shares owned directly by spouse.

(3) Includes 3,043 shares owned jointly with spouse.

(4) Includes 13,056 shares owned directly by spouse and 139 shares owned as custodian for children.

(5) Includes 772 shares owned directly by the estate of spouse.

(6) Includes 6,531 shares owned directly by spouse.

(7) Includes 2,573 shares owned directly by spouse to which Mr. Miller disclaims beneficial ownership. Mr. Miller has the right to purchase an additional 5,500 shares pursuant to the exercise of stock options.

(8) Includes 511 shares owned jointly with spouse, and 5,522 shares owned directly by mother for whom Mr. Moyer holds power of attorney and with respect to which Mr. Moyer shares voting and investment power. Mr. Moyer has the right to purchase an additional 103,966 shares pursuant to the exercise of stock options.

(9) Includes 8,431 shares owned jointly with spouse, 131,248 shares owned directly by spouse, and 32,590 shares owned directly by child. Mr. Stefan disclaims beneficial ownership of shares owned directly by spouse. Mr. Stefan has the right to acquire an additional 93,262 shares pursuant to the exercise of stock options.

(10) Includes 15,941 shares owned directly by spouse.

(11) Mr. Lima has the right to acquire an additional 18,500 shares pursuant to the exercise of options.

(12) Includes 46 shares owned jointly with spouse. Mr. Scovill has the right to acquire an additional 77,955 shares pursuant to the exercise of stock options.

(13) Mr. Sposito has the right to acquire an additional 49,051 shares pursuant to the exercise of stock options.

(14) Mr. Clabaugh has the right to acquire an additional 32,437 shares pursuant to the exercise of stock options.

(15) Includes all executive officers as a group who have (i) shared voting and shared investment power and (ii) shares that can be acquired upon the exercise of stock options that are currently exercisable or that will become exercisable within 60 days.

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SELECTED FINANCIAL DATA

	Nine Months Ended, September 30, 2007	Twelve Months Ended, December 31, 2006 (Restated)(1)
	(Dollars and shares in thousands, except per share data)	
Summaries of Income		
Interest income	**$ 134,196**	$ 161,891
Interest expense	**77,910**	83,495
Net interest income	**56,286**	78,396
Provision for loan losses	**7,083**	17,619
Net interest income after provision for loan losses	**49,203**	60,777
Non-interest income	**57,827**	68,214
Non-interest expenses	**122,506**	132,344
Income before income taxes	**(15,476)**	(3,353)
Applicable income taxes	**(7,982)**	(5,137)
Net income (loss) from continuing operations	**(7,494)**	1,784
Discontinued operations, net of tax		(5,130)
Net income (loss)	**$ (7,494)**	$ (3,346)

	September 30, 2007	December 31, 2006
Assets	**$ 3,240,846**	$ 3,076,822
Loans, net of allowance for loan losses	**2,068,747**	2,056,104
Deposits	**2,735,414**	2,615,912
Borrowed money	**340,202**	283,670
Stockholders equity	**110,473**	128,773
Per Common Share Data		
Basic earnings per share		
Continuing operations	**$ (0.25)**	$ 0.06
Discontinued operations		(0.17)
Net income	**$ (0.25)**	$ (0.11)
Diluted earnings per share		

Continuing operations	**$**	**(0.25)**	$	0.06
Discontinued operations				(0.17)
Net income	**$**	**(0.25)**	$	(0.11)
Cash dividends declared		**0.15**		0.58
Book value		**3.74**		4.34
Realized book value(2)		**3.74**		4.25
Weighted average number of common shares:				
Basic		**29,511**		29,029
Diluted		**29,710**		29,436
Dividend payout ratio(3)		**%**		%

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	September 30, 2007	December 31, 2006
Performance Ratios (based on income from continuing operations)		
Return on average assets	**(0.32)%**	(0.11)%
Return on average equity	**(8.63)%**	(2.69)%
Return on average realized equity(2)	**(8.63)%**	(2.73)%
Return on average tangible equity(4)	**(4.64)%**	(1.24)%
Average equity to average assets	**3.69%**	4.27%
Efficiency ratio(5)	**108.36%**	84.79%
Selected Asset Quality Ratios		
Non-performing loans to total loans	**0.50%**	0.18%
Net charge-offs to average loans outstanding	**0.35%**	0.90%
Allowance for loan losses to total loans	**1.15%**	1.08%
Allowance for loan losses to non-performing loans	**232.25%**	593.09%

(1) The twelve months ended December 31, 2006 financial statements have been restated to give effect to losses associated with the write-off of certain finance receivables within Sterling s subsidiary Equipment Finance, LLC. These losses arose due to the EFI Matter, discussed in Note 2 to the consolidated financial statements. The effect of this restatement was a cumulative after-tax adjustment to January 1, 2006 stockholders equity of $162.0 million.

The year ended December 31, 2006 financial statements were restated as follows: a reduction to net interest income of $43.6 million, an increase in the 2006 provision for loan losses of $12.4 million, a reduction in 2006 non-interest income of $941,000, an increase in 2006 non-interest expenses of $5.7 million, and a reduction of 2006 net income of $39.8 million. Previously reported amounts as of December 31, 2006 have been restated as follows: a reduction in total loans, net of allowance for loan losses of $281.0 million, a reduction of total assets of $203.0 million, and a reduction of stockholder s equity of $201.8 million. See Note 2 to the consolidated financial statements for additional information regarding the effect of the EFI Matter.

(2) Excludes accumulated other comprehensive income (loss) totaling $262,000 and $2.8 million as of September 30, 2007 and December 31, 2006, respectively.

(3) Dividends declared per share divided by basic earnings per share on net income including discontinued operations. A negative ratio is reported as zero.

(4) Excludes amortization of intangible assets of $790,000 and $928,000, net of tax, for 2007 and 2006, respectively, and average goodwill and intangibles of $77.0 million and $70.4 million as of September 30, 2007 and December 31, 2006, respectively.

(5) Calculated after netting depreciation of equipment on operating leases with related rental income.

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QUARTERLY FINANCIAL DATA

The following is a summary of the quarterly results of operations:

	Three Months Ended		
	September 30	**June 30**	**March 31**
2007			
Interest and dividend income	**$ 45,283**	**$ 44,850**	**$ 44,063**
Interest expense	**27,430**	**25,864**	**24,616**
Net interest income	**17,853**	**18,986**	**19,447**
Provision for loan losses	**1,243**	**1,608**	**4,232**
Securities gains	**32**	**3,373**	**426**
Non-interest income	**17,956**	**18,381**	**17,659**
Non-interest expenses	**46,466**	**40,618**	**35,422**
Income before income taxes	**(11,868)**	**(1,486)**	**(2,122)**
Income tax expenses (benefit)	**(4,694)**	**(1,597)**	**(1,691)**
Net income (loss) from continuing operations	**(7,174)**	**111**	**(431)**
Discontinued operations, net of tax			
Net income (loss)	**(7,174)**	**111**	**(431)**
Per share information:			
Basic earnings per share:			
Continuing operations	**$ (0.24)**	**$**	**$ (0.01)**
Discontinued operations			
Net income (loss)	**$ (0.24)**	**$**	**$ (0.01)**
Diluted earnings per share:			
Continuing operations	**$ (0.24)**	**$**	**$ (0.01)**
Discontinued operations			
Net income (loss)	**$ (0.24)**	**$**	**$ (0.01)**
Dividends declared			**0.150**

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	Three Months Ended			
	December 31	September 30	June 30	March 31
2006				
Interest and dividend income	$ 43,532	$ 41,529	$ 39,323	$ 37,507
Interest expense	24,023	22,078	19,699	17,695
Net interest income	19,509	19,451	19,624	19,812
Provision for loan losses	2,841	2,978	7,707	4,093
Securities gains	327	324	532	302
Non-interest income	17,508	16,902	16,343	15,976
Non-interest expenses	35,461	33,184	31,721	31,978
Income (loss) before income taxes	(958)	515	(2,929)	19
Income tax expenses (benefit)	(1,426)	(779)	(1,873)	(1,059)
Net income (loss) from continuing operations	468	1,294	(1,056)	1,078
Discontinued operations, net of tax	(215)	(5,041)	103	23
Net income (loss)	253	(3,747)	(953)	1,101
Per share information:				
Basic earnings per share:				
Continuing operations	$ 0.01	$ 0.04	$ (0.04)	$ 0.04
Discontinued operations		(0.17)		
Net income (loss)	$ 0.01	$ (0.13)	$ (0.04)	$ 0.04
Diluted earnings per share:				
Continuing operations	$ 0.01	$ 0.04	$ (0.04)	$ 0.04
Discontinued operations		(0.17)		
Net income (loss)	$ 0.01	$ (0.13)	$ (0.04)	$ 0.04
Dividends declared	0.150	0.150	0.140	0.140

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides management s analysis of the consolidated financial condition and results of operations of Sterling Financial Corporation and its wholly owned subsidiaries, BLC Bank, N.A., Delaware Sterling Bank & Trust Company, HOVB Investment Co., T & C Leasing, Inc. (inactive), BankersRe Insurance Group, SPC (formerly Pennbanks Insurance Company, SPC), Church Capital Management LLC, Bainbridge Securities, Inc., Lancaster Insurance Group, LLC and Sterling Mortgage Services, Inc. (inactive). The consolidated financial statements also include Town & Country Leasing, LLC, Sterling Financial Trust Company, Equipment Finance, LLC, and Sterling Community Development Corporation, LLC all wholly owned subsidiaries of BLC Bank, N.A. On May 25, 2007, BLC Bank, N.A. was formed by the merger of Bank of Lancaster County, N.A., Bank of Hanover, Bay First Bank, N.A. and Pennsylvania State Bank. Prior to May 25, 2007, each of these insured depository institutions were wholly owned subsidiaries of Sterling.

In December 2006, Sterling completed the divestiture of Corporate Healthcare Strategies, LLC, Professional Services Group and various insurance assets of its personal property and casualty insurance agency, Lancaster Insurance Group, LLC. The results of operations of the divested businesses have been reclassified as discontinued operations. These reclassifications had no effect on net income or stockholders equity. Unless otherwise noted, the remaining discussion and tabular data relate only to Sterling s continuing operations. For further discussion related to this impairment charge, see the section below entitled Goodwill.

Restatement

On April 19, 2007, Sterling announced that in early April 2007, Sterling management received information suggesting irregularities in certain financing contracts at EFI. Upon receiving information regarding the irregularities, management immediately notified the chairman of the board of directors and the board s audit committee, and the audit committee hired legal counsel, Stradley Ronon, to conduct an independent investigation. On April 30, 2007, Sterling announced that its previously issued financial statements included in the reports on Form 10-K, Form 10-Q and Form 8-K filed by Sterling from January 1, 2004 through April 19, 2007, and the reports on the audited financial statements and related internal controls issued by its independent registered public accounting firm, Ernst & Young LLP, and all earnings releases issued and similar communications issued by Sterling for 2004 through 2006, should no longer be relied upon due to the expected material impact of these irregularities.

The independent investigation has been completed and the findings have been presented to Sterling s audit committee and to the board of directors. For a discussion of the independent investigation, its findings and the action taken by the board of directors as a result thereof, please refer to the discussion in the main body of the proxy statement/prospectus under the headings The Merger Background of the Merger and Recent Developments Regarding Sterling, and in this annex to the proxy statement/prospectus under the heading Introduction.

One of the principal actions taken by the board of directors in response to the EFI Matter is the restatement of Sterling s consolidated balance sheet as of December 31, 2006 and the related consolidated statements of operations, stockholders equity and comprehensive income and cash flows for the year then ended. The restatement included recording an opening January 1, 2006 retained earnings adjustment of $162.0 million to reflect the after-tax impact of matters that occurred prior to 2006. In addition, Sterling recorded multiple balance sheet and income statement line item adjustments as of and for the year ended December 31, 2006. See Note 2 to the consolidated financial statements for more information regarding the financial details of the restatement. The discussion and analysis that follows, which is intended to assist in understanding and evaluating the major changes in the financial condition and results of operations of Sterling, should be read in conjunction with the audited financial statements and footnotes appearing in the section below headed Financial Statements.

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Critical Accounting Policies

Sterling s consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) and follow general practices within the industries in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources.

The most significant accounting policies followed by Sterling are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the restatement of EFI s finance receivables outstanding, related interest income and the related allowance for loan losses, the allowance for loan losses for all other loans and the evaluation of goodwill impairment to be the accounting areas that require the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

Management was required to make judgments and assumptions in order to form its conclusion regarding the validity of finance receivables outstanding, related interest income and the related allowance for loan losses. Management, with the assistance of the investigators, performed an analysis on the current and historical EFI loan portfolio to determine the validity of each individual loan contract. This analysis included the following procedures:

- Analyzed information relevant to the loan contract, including UCC filings, proof of insurance, customer correspondence, loan accounting system records;
- Determined whether an actual loan proceeds check was disbursed to an unrelated third party such as an equipment dealer;
- Attempted to confirm the existence of the contract with the customer;
- Reconstructed the historical cash receipt detail for customer relationships;
- Performed customer visits to confirm the existence of collateral and evaluate its condition of underlying collateral.

For each loan outstanding, management made a determination whether each agreement was valid or invalid based on the completeness and the quality of the records reviewed. Once the validity of a loan was determined, management determined if the loan was performing consistently with its contractual terms. Based on this evaluation, management determined that loans previously thought to be paying according to their contractual terms were in fact significantly delinquent, in most cases over 120 days past due. Management has attempted to determine a range of liquidation values for the collateral underlying each non-performing valid loan; and also to estimate the amount of potential future cash payments that could be received for these past due loans however, given the age of the delinquencies and the status of management s collection and repossession efforts, management cannot with any certainty estimate a range of recovery through cash collection or repossession, and therefore has not included any estimate of such amount in the carrying value of the EFI finance receivable balance.

Management determined, with concurrence of its primary banking regulator, that all finance receivables within an individual customer relationship should be charged down to a zero value against the allowance for loan loss at the point that the first receivable within the relationship is past due 120 days, regardless of whether cash has been received subsequent to the date of charge-off and management s estimation of recovery that may occur through repossession and subsequent liquidation of collateral. Any cash received either from the borrower, or due to liquidation of collateral, is reflected as a recovery in the allowance for loan loss. Management established a reserve for finance receivables that are current to 119 days past due based on its evaluation of delinquency status, timing and frequency of payments, and information obtained from customer field visits.

The allowance for loan losses for all other loans represents management s estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount, timing, and probability of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the consolidated balance sheet. See section entitled Allowance for Loan Loss within this Management s Discussion and Analysis and Note 1 to the consolidated financial statements which describes the methodology used to determine the allowance for loan losses.

With the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets,* on January 1, 2002, Sterling is no longer required to amortize goodwill resulting from business acquisitions. Goodwill is now subject to impairment testing at least annually to determine whether write-downs of the recorded balances are necessary, or earlier if indicators of impairment exist during an intervening period. Sterling tests for impairment based on the goodwill maintained at each defined reporting unit. Various market valuation methodologies are used to determine the fair value of the reporting unit. If the fair values of the reporting units exceed their book values, no write-downs of recorded goodwill are necessary. If the fair value of the reporting unit is less than its book value, an impairment expense may be required to be recorded to write down the related goodwill to the proper carrying value. During the third quarter of 2006, Sterling recorded an after tax impairment charge of $5.2 million, to its Insurance Related Services segment. The impairment charge was reclassified to discontinued operations at December 31, 2006, as a result of the divestiture of the three related lines of business associated with the Insurance Related segment.

During the third quarter of 2007, Sterling completed an impairment test for each of its reporting units and determined that no goodwill impairment existed on the goodwill within each of its reporting units.

As part of its process to restate its historical financial statements due to the EFI Matter, Sterling wrote off 100%, or $17 million, of the goodwill associated with EFI as part of the opening January 1, 2006 retained earnings adjustment because management determined that the goodwill was impaired prior to that date. The decision was due to the magnitude of the losses incurred through that date, and management s intention, going forward, to focus solely on only managing the existing receivables outstanding at EFI and maximizing collections for this portfolio. No significant new loan originations are expected for this business going forward.

See the section entitled Goodwill within this Management s Discussion and Analysis for further information.

Non-GAAP Presentations

Sterling, in referring to its net income, is referring to income determined in conformity with U.S. generally accepted accounting principles (GAAP). Although we believe that the non-GAAP financial measures enhance a reader s understanding of our business and performance, these non-GAAP measures should not be considered an alternative to GAAP.

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This Management s Discussion and Analysis refers to certain non-GAAP financial measures used to monitor performance, including the efficiency ratio, return on average realized equity and return on average tangible equity. The efficiency ratio is a non-GAAP financial measure that we believe provides readers with important information regarding Sterling s results of operations. Comparison of Sterling s efficiency ratio with that of other companies may not be appropriate, as they may calculate their efficiency ratio in a different manner. Sterling s calculation of its efficiency ratio is computed by dividing non-interest expenses, less depreciation on operating leases, by the sum of tax equivalent net interest income and non-interest income, less depreciation on operating leases. Sterling nets the depreciation on operating leases against related income, as it is consistent with utilizing net interest income presentation for comparable capital leases, which nets interest expense against interest income. The efficiency ratio excludes gains/losses on securities activities.

Return on average realized equity is a non-GAAP financial measure, as it is calculated by taking net income, divided by average stockholders equity, excluding average other accumulated comprehensive income. We believe the presentation of return on realized equity provides a reader with a better understanding of our financial performance based on economic transactions, as it excludes the impact of unrealized gains and losses on securities available for sale and derivatives used in cash flow hedges, which can fluctuate based on interest rate volatility.

Return on average tangible equity is a non-GAAP financial measure, as it is calculated by taking net income excluding the amortization of intangible assets, divided by average stockholders equity less average goodwill and intangible assets. We believe that by excluding the impact of purchase accounting, the return on average tangible equity provides the reader with an important view of our financial performance.

Inflation and Interest Rates

The majority of assets and liabilities of a financial institution are monetary in nature and, therefore, differ greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. However, inflation does have an important impact on the growth of total assets and on non-interest expenses, which tend to rise during periods of general inflation. Inflationary pressures over the last few years have been modest, although the potential for future inflationary pressure is always present given changing trends in the economy.

During the past several years, the Federal Reserve has been very active in monitoring economic data, and has used interest rates to help stimulate economic growth and control inflation. Starting in 2001, short-term interest rates decreased, with sharp reductions in 2001 and more modest reductions in 2002 and 2003. However, in 2004, the Federal Reserve began a measured effort to control inflationary pressures and raised the federal funds rate 17 times in 25 basis points (b.p.) increments through mid-2006. The federal funds rate remained unchanged until September 2007 when the Federal Reserve lowered the rate 50 b.p.

Management recognizes that asset/liability management, including the effect of rate changes on interest earning assets and interest-bearing liabilities, is a critical component of managing Sterling s business.

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RESULTS OF OPERATIONS

(All dollar amounts presented within tables are in thousands, except per share data)

Executive Summary

The consolidated balance sheets reflected in the consolidated financial statements included herein are as of September 30, 2007 and December 31, 2006. The statements of operations, changes in stockholders equity, and cash flows reflected in the consolidated financial statements are for the nine-month period ended September 30, 2007 and the 12 months ended December 31, 2006. For purposes of providing comparative analysis within this Management s Discussion and Analysis, management has compared balance sheet line items using the balances as of December 31, 2006 and September 30, 2007. For comparative analysis within this Management s Discussion and Analysis for its results of operations, changes in stockholders equity, cash flows, and for average balances, management compared the 12-month period ended December 31, 2006 to the 12-month period ended September 30, 2007 (three months ended December 31, 2006, unaudited, plus nine months ended September 30, 2007). The following table reconciles the results of operations reflected in the consolidated financial statements included herein to the amounts used by management for comparative analysis within this Management s Discussion and Analysis:

	Nine Months Ended September 30, 2007	Three Months Ended December 31, 2006 (Unaudited)	Twelve Months Ended September 30, 2007	Twelve Months Ended December 31, 2006 (Restated)	$ Fluctuation	% Fluctuation
Interest and dividend income	$ 134,196	$ 43,532	$ 177,728	$ 161,891	$ 15,837	9.8%
Interest expense	77,910	24,023	101,933	83,495	18,438	22.1%
Net interest income	56,286	19,509	75,795	78,396	(2,601)	(3.3)%
Provision for loan losses	7,083	2,841	9,924	17,619	(7,695)	(43.7)%
Non-interest income	57,827	17,835	75,662	68,214	7,448	10.9%
Non-interest expense	122,506	35,461	157,967	132,344	25,623	19.4%
Income tax benefit	(7,982)	(1,426)	(9,408)	(5,137)	(4,271)	83.1%
Net income (loss) from continuing operations	(7,494)	468	(7,026)	1,784	(8,810)	(493.8)%
Discontinued operations, net of tax		(215)	(215)	(5,130)	4,915	(95.8)%
Net income (loss)	$ **(7,494)**	$ **253**	$ **(7,241)**	$ **(3,346)**	$ **(3,895)**	**116.4%**

Executive Overview

In January 2007, Sterling s executive management team and board of directors identified three performance measurements that they believed were key elements for enhancing shareholder value. These included: 1) increasing diluted earnings per share; 2) return on realized equity; and 3) the efficiency ratio. In January 2007, the board of directors approved the terms and set the 2007 performance goals, based on these company-wide financial factors, with the primary emphasis on diluted earnings per share growth and secondarily on efficiency ratio and return on tangible equity.

The primary source of Sterling s revenues are interest income derived from loans and investments less their deposit and borrowed funding costs, as well as fees from banks and financial services provided to customers, and net rental income on operating leases. Revenues are influenced by general economic factors, including market interest rates, the economy of the markets served and stock market conditions, as well as competitive factors within the markets.

The EFI Matter significantly inhibited management s ability to meet the performance goals established due to the attention devoted to the EFI Matter throughout 2007, regulatory restrictions imposed on Sterling, the additional amount of capital required to be raised in the form of debt financing, the lower than anticipated interest income from EFI, and the costs associated with the independent investigation, regulatory and compliance matters, and internal controls remediation. Additionally, general market conditions, including the reduced interest margin of Sterling combined with increasing credit losses in its Community Banking and Leasing segments negatively impacted the results of operations.

In 2007, return on average realized equity decreased to (6.18)%, compared to (2.73)% in 2006. The decrease in return on average realized equity is primarily due to the loss incurred in the Commercial Finance segment coupled with investigation, legal, accounting and other costs incurred as a result of the EFI Matter. Return on average tangible equity was (3.21)% in 2007, compared to (1.24)% in 2006.

Net interest income decreased $2.6 million, from $78.4 million for the year ended December 31, 2006 to $75.8 million for the 12 months ended September 2007, a 3.3% decrease. The net interest margin for 2007 was at 3.13% as compared to 3.43% in 2006. Margin compression resulted from increasing cost of funds and the negative impact of greater cash balances retained resulting from the liquidity strategy implemented relative to the EFI Matter.

The provision for loan losses was $9.9 million for the 12 months ended September 30, 2007, compared to $17.6 million (restated) for the year ended December 31, 2006. This decrease in provision expense in 2007, as compared to 2006, is primarily the result of lower net charge-offs in the EFI portfolio. Lower EFI net charge-offs year-over-year resulted from the stabilization of the EFI Matter in April/May 2007, versus a full year in 2006.

Non-interest income was $75.7 million for the 12 months ended September 30, 2007, a 10.9% increase from the $68.2 million earned in 2006. Excluding securities gains, non-interest income grew $4.8 million or 7.2%. Within Sterling s Community Banking segment, service charges and commissions increased $1.6 million, or 10.8%. The increase was due to growth in deposits which generated higher transaction fees, primarily from Sterling s overdraft protection program and debit card issuances. Within Sterling s financial services segments, rental income from operating leases, generated by the leasing segment, increased $3.1 million, or 9.7%. The increase in rental income was driven by a higher level of operating leases, which grew 8.9% year-over-year, and also due to higher interest rates. Trust and investment management income generated by the Trust and Investment Services segment increased approximately $179,000 or 1.8%. This growth resulted from an increase in assets under management of 7.5%, partially offset by lower income earned on the segment s mutual fund products.

Securities gains were $4.2 million in 2007, compared to $1.5 million in 2006. In 2007, Sterling divested substantially all of its equity securities portfolio as part of its capital restoration plan.

Non-interest expense was $158.0 million for the 12 months ended September 30, 2007, an increase of 19.4% compared to $132.3 million in 2006. Excluding investigation, legal, accounting and other costs of $19.5 million related to the EFI Matter and financial restatement effort, non-interest expenses increased approximately $6.1 million, or 4.6%. Contributing to this increase were higher salaries and employee benefits of $1.3 million, higher net occupancy expenses of $1.4 million, higher furniture and equipment expenses of $960,000 and higher other operating expenses of $1.2 million. In addition, depreciation on operating lease assets was higher by $2.4 million as a result of the growth in the business. Partially offsetting these higher expenses was a decrease in other EFI losses of $1.7 million.

The increase in Sterling s efficiency ratio from 84.79% in 2006 to 103.77% in 2007 was primarily driven by investigation, legal, accounting and other cost incurred in relation to the EFI Matter and financial restatement efforts. Excluding approximately $19.5 million in such costs, 2007 s efficiency ratio would have been 88.11%.

A more thorough discussion of Sterling s results of operations is included in the following pages.

Net Interest Income

The primary component of Sterling s revenue is net interest income, which is the difference between interest income and fees on interest-earning assets and interest expense on interest-bearing liabilities. Earning assets include loans, securities and federal funds sold. Interest-bearing liabilities include deposits, borrowed

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funds and subordinated debentures. To compare the tax-exempt yields to taxable yields, amounts are adjusted to pretax equivalents based on a 35% Federal corporate income tax rate.

Net interest income is affected by changes in interest rates, volume of interest-bearing assets and liabilities and the composition of those assets and liabilities. The net interest rate spread and net interest margin are two common statistics related to changes in net interest income. The net interest rate spread represents the difference between the yields earned on interest-earning assets and the rates paid for interest-bearing liabilities. The net interest margin is defined as the ratio of net interest income to average earning assets. Through the use of demand deposits and stockholders equity, the net interest margin typically exceeds the net interest rate spread, as these funding sources are non-interest bearing.

Table 1 below presents net interest income on a fully taxable equivalent basis, net interest rate spread and net interest margin for the 12 months ending September 30, 2007 and December 31, 2006. Table 2 below analyzes the changes in net interest income for the periods broken down by their rate and volume components.

Net interest income, on a tax equivalent basis, totaled $81.8 million in 2007 compared to $84.6 million in 2006, a decrease of $2.8 million, or 3.3%. The first quarter of 2007 included the write-off of unamortized issuance costs related to the repayment of the subordinated debentures issued to Sterling Financial Statutory Trust I. Excluding this item, net interest income would have decreased $2.3 million, or 2.8%.

The year-over-year decrease reflects a net interest margin compression of 30 basis points from 3.43% in 2006 to 3.13% in 2007, offset by an increase in the average balance of interest-earning assets of 6.0%. Excluding the impact of the write-off of unamortized issuance costs, net interest margin in 2007 would have been 3.15%.

The overall increase in interest-earning assets came from growth in the loan portfolios principally in the commercial loan category. Year-over-year, total average loans increased $115.1 million, or 5.8%, including approximately $38.7 million related to the Bay Net acquisition in October 2006.

The growth in loans was funded by growth in deposits. Average total deposits increased by $227.2 million, or 9.6%, including approximately $54.3 million from the acquisition of Bay Net in October 2006. The remainder of the increase reflects increased deposit gathering efforts required due to the necessity to increase cash holdings because of reduced Federal Reserve cash availability, as well as Sterling s overall customer relationship model and its market position in several attractive markets. This growth in deposits was primarily due to an increase of $164.3 million, or 15.7%, in time deposits. As a result, Sterling s mix of deposits shifted toward higher costing funds as evidenced by an increase in the average time deposits as a percentage of average total deposits from 50.6% in 2006 to 52.6% in 2007.

Year-over-year, average total borrowings decreased $10.5 million, or 3.1%. Again, as part of the liquidity strategy implemented relative to the EFI Matter, Sterling borrowed $190.0 million from the Federal Home Loan Bank in the second quarter of 2007. However, on average these borrowings were offset by maturities which had not been replaced due to deposit growth.

Net interest margin decreased to 3.13% from 3.43% resulting from a number of factors:

- As noted previously, growth in loans has accounted for all of the growth in earning assets. Generally, loans carry a higher yield than alternative interest-earning assets, namely securities and other investments. Thus, this improved mix of earning assets has helped to increase the overall yield on earning assets by 21 basis points from 2006 to 2007.

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The rate paid on interest-bearing liabilities increased 41 basis points from 2006 to 2007, exceeding the increase in the yield on earning assets. The increase in the cost of funds resulted from both a general trend of increases in the rates paid on deposit accounts, as well as a shift in the funding mix with an increasing percentage of deposit growth coming from comparatively higher yielding money market and time deposits.

The combination of the above factors contributed to a narrowing of the spread between the yield on interest-earning assets and the rate paid on interest-bearing liabilities of 20 basis points from 2006 to 2007. In addition to this narrowing of the spread, the decrease in net free funds, namely the decrease in stockholders equity and greater non-earning cash balances, contributed the additional 10 basis points of the decline in margin. Greater non-earning cash balances resulted from the liquidity strategy implemented relative to the EFI Matter.

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Table 1 Distribution of Assets, Liabilities and Stockholders Equity, Interest Rates and Interest Differential-Tax Equivalent Yields

	Twelve Months Ended September 30, 2007			Year Ended December 31, 2006 (Restated)		
	Average Balance	Interest	Annual Rate	Average Balance	Interest	Annual Rate
Assets:						
Federal funds sold	**$ 16,090**	**$ 848**	**5.27%**	$ 17,080	$ 887	5.19%
Other short-term investments	**46,917**	**2,449**	**5.22%**	7,811	315	4.03%
Securities:						
U.S. Treasury	**805**	**40**	**4.97%**	915	45	4.92%
U.S. Government agencies	**222,199**	**10,320**	**4.64%**	196,063	8,716	4.45%
State and political subdivisions	**214,948**	**15,142**	**7.04%**	226,458	15,995	7.06%
Other	**20,108**	**1,228**	**6.11%**	39,650	2,208	5.57%
Total securities	**458,060**	**26,730**	**5.84%**	463,086	26,964	5.82%
Loans:						
Commercial	**1,372,197**	**100,838**	**7.35%**	1,260,057	89,896	7.13%
Consumer	**396,749**	**28,658**	**7.22%**	396,050	27,404	6.92%
Residential mortgages	**101,028**	**6,306**	**6.24%**	91,070	5,624	6.18%
Leases	**132,186**	**10,395**	**7.86%**	137,481	9,997	7.27%
Finance receivables	**91,406**	**7,482**	**8.19%**	93,792	7,011	7.48%
Total loans	**2,093,566**	**153,679**	**7.34%**	1,978,450	139,932	7.07%
Total interest earning assets	**2,614,633**	**183,706**	**7.03%**	2,466,427	168,098	6.82%
Allowance for loan losses	**(23,146)**			(22,583)		
Cash and due from banks	**100,903**			66,181		
Other non-interest earning assets	**389,277**			342,664		
Assets related to discontinued operations	**2,243**			14,622		
TOTAL ASSETS	**$ 3,083,910**			$ 2,867,311		
Liabilities and Stockholders Equity:						
Deposits:						
Interest-bearing demand	**$ 825,511**	$ **21,888**	**2.65%**	$ 784,851	$ 19,068	2.43%
Savings	**264,485**	**5,580**	**2.11%**	238,764	3,856	1.61%
Time	**1,210,617**	**55,356**	**4.57%**	1,046,314	42,602	4.07%
Total deposits	**2,300,613**	**82,824**	**3.60%**	2,069,929	65,526	3.17%

Borrowings:						
Short-term borrowings	**94,761**	**5,901**	**6.23%**	104,051	5,741	5.52%
Long-term debt	**144,823**	**7,072**	**4.88%**	146,210	6,462	4.42%
Subordinated debentures	**87,856**	**6,136**	**6.98%**	87,630	5,766	6.58%
Total borrowings	**327,440**	**19,109**	**5.84%**	337,891	17,969	5.32%
Total interest-bearing liabilities	**2,628,053**	**101,933**	**3.88%**	2,407,820	83,495	3.47%
Non-interest-bearing demand deposits	**283,331**			286,835		
Other liabilities	**50,288**			46,615		
Liabilities related to discontinued operations	**167**			375		
Stockholders equity	**122,071**			125,666		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 3,083,910**			$ 2,867,311		
Net interest rate spread			**3.15%**			3.35%
Net interest income (FTE)/net interest margin		**81,773**	**3.13%**		84,603	3.43%
Taxable-equivalent adjustment		**(5,978)**			(6,207)	
Net interest income		**$ 75,795**			$ 78,396	

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Yields on tax-exempt assets have been computed on a fully taxable equivalent basis assuming a 35% tax rate. For yield calculation purposes, non-accruing loans are included in the average loan balance.

Table 2 Analysis of Changes in Net Interest Income

The rate-volume variance analysis set forth in the table below, which is computed on a taxable equivalent basis, compares changes in net interest income for the periods indicated by their rate and volume components. The change in interest income/expense due to both volume and rate has been allocated to change in rate.

	2007 Versus 2006 Due to Changes in		
	Volume	Rate	Total
Interest income:			
Federal funds sold	$ (51)	$ 12	$ (39)
Other short-term investments	1,577	557	2,134
Securities:			
U.S. Treasury	(5)		(5)
U.S. Government agencies	1,162	442	1,604
State and political subdivisions	(813)	(40)	(853)
Other	(1,088)	108	(980)
Total securities	(744)	510	(234)
Loans:			
Commercial	8,000	2,942	10,942
Consumer	48	1,206	1,254
Residential mortgages	615	67	682
Leases	(385)	783	398
Finance receivables	(178)	649	471
Total loans	8,100	5,647	13,747
Total interest income	8,882	6,726	15,608
Interest expense:			
Deposits:			
Interest-bearing demand	988	1,832	2,820
Savings	415	1,309	1,724
Time	6,689	6,065	12,754
Total deposits	8,092	9,206	17,298
Borrowings:			
Short-term borrowings	(513)	673	160
Long-term debt	(61)	671	610
Subordinated debentures	15	355	370

Total borrowings	**(559)**	**1,699**	**1,140**
Total interest expense	**7,533**	**10,905**	**18,438**
Net interest income	**$ 1,349**	**$ (4,179)**	**$ (2,830)**

Provision for Loan Losses

The provision for loan losses totaling $9.9 million for the twelve months ended September 30, 2007 decreased by $7.7 million from $17.6 million in the twelve months ended December 31, 2006. This decrease resulted primarily from $9.7 million lower provision expense in the EFI portfolio because of the magnitude of EFI losses incurred in the previous year, and the reduced loan originations in 2007. Partially offsetting this decrease, provision expense for the bank subsidiaries and Town & Country increased by $2.0 million, driven by loan growth, an increase in non-performing assets and a decline in overall quality of the commercial loan and leasing portfolios.

See further discussion in Asset Quality below.

Non-interest Income

Sterling s primary sources of non-interest income are service charges and fees generated through its Community Banking segments, trust, brokerage and investment management fees generated through its Trust and Investment Services segment and from income generated through its Leasing segment.

Details of non-interest income for the twelve months ended September 30, 2007 and the twelve months ended December 31, 2006 are as follows:

Table 3 Non-interest Income

			2007 Versus 2006	
	2007	**2006**	**Amount**	**%**
Trust and investment management income	**$ 10,107**	$ 9,928	**$ 179**	**1.8%**
Service charges on deposit accounts	**10,246**	9,130	**1,116**	**12.2%**
Other service charges, commissions and fees	**5,946**	5,481	**465**	**8.5%**
Brokerage fees and commissions	**2,900**	3,087	**(187)**	**(6.1)%**
Mortgage banking income	**2,098**	1,930	**168**	**8.7%**
Rental income on operating leases	**35,414**	32,269	**3,145**	**9.7%**
Other operating income	**4,793**	4,904	**(111)**	**(2.3)%**
Securities gains	**4,158**	1,485	**2,673**	**180.0%**
Total	**$ 75,662**	$ 68,214	**$ 7,448**	**10.9%**

Trust and investment management income grew 1.8% to $10.1 million in 2007 compared to $9.9 million in 2006. The higher revenue levels were primarily due to an increase in the level of assets under management which grew 7.5%. Partially offsetting this growth was lower income earned on the segment s mutual fund products.

Service charges on deposit accounts totaled $10.2 million for the twelve months ended September 30, 2007. This reflects an increase of 12.2% from 2006. An increase in the number of household accounts along with a higher level of overdraft fees and cash management analysis fees contributed to the growth in service charges. In 2007, overdraft fees charged on a per item basis were increased. Additionally, the twelve months ended September 30, 2007 includes eleven months of income from the acquisition of Bay Net compared to two months in 2006.

Other service charges, commissions and fees totaled $5.9 million in 2007 which is an increase of $465,000 or 8.5% compared to 2006. Growth in debit card fees contributed to the largest portion of this increase. Debit card fees have continued to increase as the number of customers who have debit cards has grown. In addition, fees grew due to an increase in the portion of revenues retained from Sterling s debit card service provider. Other areas of higher fee income growth include merchant income, letter of credit fees, and fees received related to the processing of Sterling s official checks, which have grown due to higher volumes and higher interest rates.

Brokerage fees and commissions were down $187,000 or 6.1% in 2007 to $2.9 million. This decrease resulted primarily from the impact of lowering the pricing on selected services during 2006, in order to enhance Bainbridge Securities competitiveness in the market place.

Mortgage banking income grew 8.7% to $2.1 million in 2007 compared to $1.9 million in 2006. Contributing to this improvement was an increase in the level of mortgage originations, of which most were sold and a corresponding gain recognized. Also, within the loans that were sold, a higher proportion was sold with their servicing rights as opposed to retaining their servicing rights. Releasing the servicing rights generates a larger gain than retaining the servicing. Partially offsetting the higher revenue was a decrease in servicing income as the level of the sold loan portfolio serviced by Sterling has declined.

Rental income on operating leases was $35.4 million in 2007 compared to $32.3 million in 2006, an increase of $3.1 million, or 9.7%. The growth in rental income was the direct result of a higher level of operating leases which grew 8.9% over the same timeframe. Higher average interest rates also contributed to the overall rise in rental income.

Other operating income totaled $4.8 million for the twelve months ended September 30, 2007, and was down 2.3% compared to 2006. An increase in revenue generated from an investment in bank owned life insurance (BOLI) made by Sterling in March 2007, was offset by lower gains recognized on the sale of finance receivables at Sterling s affiliates, Equipment Finance, LLC and Town and Country Leasing, LLC.

Securities gains and losses, all from the available-for-sale portfolio, are summarized as follows:

	Twelve Months Ended September 30, 2007	Twelve Months Ended December 31, 2006
Debt securities:		
Gains	**$ 11**	$ 111
Losses	**(3)**	(98)
	8	13
Equity securities:		
Gains	**4,181**	1,521
Losses	**(31)**	(49)
	4,150	1,472
Total	**$ 4,158**	$ 1,485

Gains and losses on debt securities are realized as part of ongoing investment portfolio and balance sheet management strategies. For the twelve months ended September 30, 2007, Sterling experienced net gains on sales of the debt security portfolio of $8,000 versus $13,000 in 2006.

Equity security gains and losses are generated primarily through Sterling s equity portfolio of financial institution sector stocks. Net securities gains on equities were $4.2 million for the twelve months ended September 30, 2007 versus $1.5 million for the year ended December 31, 2006. Gains are typically taken as the result of ongoing asset liability management strategies and capitalizing on appreciated values on certain equity security portfolio positions. In 2006, Sterling utilized the proceeds to fund investments in customer relationship initiatives. In 2007, the proceeds were principally used as part of Sterling s capital restoration plan.

Non-interest Expense

Total non-interest expenses were $158.0 million for the twelve months ended September 30, 2007, an increase of $25.6 million, or 19.4%, over $132.3 million in the twelve months ended December 31, 2006.

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Table 4 Non-interest Expense

	2007	2006	2007 Versus 2006 Amount	%
Salaries and employee benefits	**$ 58,964**	$ 57,686	**$ 1,278**	**2.2%**
Net occupancy	**8,051**	6,661	**1,390**	**20.9%**
Furniture & equipment	**9,002**	8,042	**960**	**11.9%**
Professional services	**23,349**	3,940	**19,409**	**492.6%**
Depreciation on operating lease assets	**28,893**	26,459	**2,434**	**9.2%**
Taxes other than income	**2,801**	2,317	**484**	**20.9%**
Intangible asset amortization	**1,606**	1,428	**178**	**12.5%**
Other EFI losses	**4,645**	6,386	**(1,741)**	**(27.3)%**
Other	**20,656**	19,425	**1,231**	**6.3%**
Total	**$ 157,967**	$ 132,344	**$ 25,623**	**19.4%**

Salaries and employee benefits totaled $59.0 million for the twelve months ended September 30, 2007 and increased $1.3 million, or 2.2%, over 2006. The increases were attributable to the following factors:

Normal merit increases to existing employees.

Impact of eleven months of Bay Net Bank versus two months in 2006.

The cost associated with accelerating the vesting of outstanding stock options and restricted stock to become immediately exercisable due to the signing of the merger agreement with PNC.

The cost of retention bonuses for key employees to remain at Sterling for a specified period of time, pending the merger with PNC.

Partially offsetting the increases were lower incentive compensation expense and no profit sharing expense in 2007.

Net occupancy expense increased to $8.1 million in 2007, up from $6.7 million in 2006. This increase is primarily due to improvements and renovations at various existing branch office locations, exit costs associated with abandoning a future branch site, and higher snow removal costs incurred in early 2007. In addition, Sterling opened two new branch offices during 2007 and added two branches through the acquisition of Bay Net Bank late in 2006.

Furniture and equipment charges were $9.0 million and $8.0 million in 2007 and 2006, respectively. The increase of $960,000 from 2006 to 2007 was the result of planned increases in service contracts and depreciation expense to support a major customer acquisition and retention strategy introduced in 2006. In addition, depreciation expense increased as a result of a new telephone system aimed at enhancing Sterling s level of internal and external customer service.

Professional services expense totaled $23.3 million in 2007, up $19.4 million from 2006. Legal and advisory costs associated with the investigation into financing contract irregularities at EFI totaled $18.9 million in 2007. Excluding these costs, professional services expense grew by 11.8% in 2007 compared to 2006. The majority of this increase was driven by higher accounting and auditing fees.

Depreciation of equipment on operating leases was $28.9 million in 2007, compared to $26.5 million in 2006. This increase was due to continued growth in the leasing business and is directly related to the increase in rental income on operating leases noted above.

Taxes other than income were $2.8 million for the twelve months ended September 30, 2007, an increase from $2.3 million in 2006. Taxes other than income consist primarily of taxes based on stockholders equity. During 2006, Sterling was able to recognize a tax refund due to the lower equity base caused by the losses incurred at EFI.

Intangible asset amortization increased $178,000, or 12.5%, to $1.6 million in 2007. Additional amortization expense related to the acquisition of Bay Net Bank accounted for all of this increase.

Other EFI losses totaled $4.6 million in 2007 compared to $6.4 million in 2006. Other EFI losses include losses stemming from breaches of certain servicing responsibilities by EFI, for which Sterling has indemnified third parties and losses related to financing contracts and payments that management believes to be invalid.

Other non-interest expense totaled $20.7 million in 2007, compared to $19.4 million in 2006. This category consists of marketing, lending related expenses, insurance, telephone, postage, and other sundry operating expenses. These expenses increased $1.2 million or 6.3% in 2007 compared to 2006. Contributing to this increase was higher FDIC insurance costs, higher regulatory exam costs, and additional board of directors fees. The additional costs in these categories are attributable to the higher level of review and assessed risk at Sterling resulting from the EFI Matter.

One of Sterling s key measures of performance is the efficiency ratio, which expresses non-interest expense, excluding merger related and restructuring charges, as a percentage of tax-equivalent net interest income and non-interest income excluding gains on sales of securities. In calculating its efficiency ratio, Sterling nets depreciation on operating leases with the related rental income to more consistently present operating results with the presentation used in the banking industry.

Sterling s efficiency ratio deteriorated to 103.77% for the twelve months ended September 30, 2007 from 84.79% in 2006 due to legal, advisory, accounting and other costs incurred in 2007 related to the EFI Matter. Excluding these one-time costs, the efficiency ratio for 2007 would have been 88.11%.

Income Taxes

Sterling recognized income tax benefits from continuing operations of $9.4 million and $5.1 million for the twelve months ended September 30, 2007 and December 31, 2006, respectively. The increase in the income tax benefit period over period was consistent with the higher losses experienced during the twelve months ended September 30, 2007.

In connection with the losses associated with the EFI Matter, Sterling is in the process of amending previously filed tax returns in order to obtain a refund of previously paid taxes. Included on the balance sheet is a receivable for the refund for previously paid taxes of $53.2 million related to the refund of taxes previously paid, which is based on Sterling s best estimate of the amount that it will be able to carryback to prior years. It is possible that the actual amount of losses available to be carried back may be different than this estimate. To the extent that it can not carryback these losses to prior years, Sterling believes that it will have sufficient income in the future to offset against these losses.

Discontinued Operations

In December 2006, Sterling completed the divestiture of Corporate Healthcare Strategies, LLC, Professional Services Group and various insurance assets of its personal property and casualty insurance agency, Lancaster Insurance Group, LLC. The results of operations of the divested businesses have been reclassified as discontinued operations. These reclassifications had no effect on net income or stockholders equity. Discontinued operations generated an after tax loss of $5.1 million in 2006. The loss in 2006 was primarily driven by an impairment charge of $5.2 million, after tax, recorded in the third quarter of 2006.

FINANCIAL CONDITION

Sterling s assets were approximately $3.2 billion at September 30, 2007, representing growth of $164.0 million or 5.3% when compared to $3.1 billion at December 31, 2006. The increase was primarily attributed to a higher balance of cash and cash equivalents which grew $169.8 million. Other changes included a $47.2 million decrease in securities available for sale, a $25.8 million increase in bank owned life insurance, and a $14.3 million or 0.7% increase in loans. The growth in assets was funded by a higher level of deposits, which grew $119.5 million or 4.6% and an increase in long-term debt which increased $49.3 million. Equity decreased $18.3 million or 14.2% due to losses in 2007 recognized at EFI.

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Cash and Cash Equivalents

Cash and cash equivalents increased to $318.5 million at September 30, 2007 versus $148.7 million at December 31, 2006. The increase in cash at Sterling is due primarily to the implementation of an aggressive liquidity plan aimed at significantly enhancing Sterling s cash position in anticipation of potential liquidity concerns that could have arisen as a result of a loss of confidence by Sterling s customers. In addition, cash held at Sterling increased due to the reduction in available float funding at the Federal Reserve, due to Sterling s reduced capital levels, which required Sterling to increase cash on hand in order to timely meet customer needs. For a more detailed discussion on Sterling s actions with respect to its liquidity plan, please refer to the liquidity discussion further in this report.

Securities

Sterling utilizes investment securities as a primary tool for managing interest rate risk, to generate interest and dividend income, to provide liquidity and to provide collateral for certain deposits and borrowings. As of September 30, 2007, securities totaled $432.5 million, which represented a net decrease of $49.1 million or 10.2% from the December 31, 2006 balance of $481.5 million. Proceeds from maturities, sales and calls totaled $113.0 million. Purchases of $63.7 million were completed primarily to meet pledging requirements.

The activity discussed above decreased holdings in all categories, with the largest decreases in agency, municipal and corporate securities. These changes resulted from a number of factors, including maturities and calls as well as a continued effort to reduce the credit risk associated with corporate securities. Offsetting these decreases were purchases made to maintain a sufficient level of securities that are qualified to serve as collateral for public funds and other deposits requiring pledged securities.

In addition to the cash flow activity noted above, the decrease in the portfolio reflected a reduction in the balance of net unrealized gains on its available for sale portfolio. At September 30, 2007, the securities portfolio included net unrealized gains on available-for-sale securities of $1.3 million versus net unrealized gains of $5.6 million at December 31, 2006. The decrease in unrealized gains resulted primarily from the realization of gains on equity securities.

Sterling s securities portfolio includes debt and equity instruments that are subject to varying degrees of credit and market risk. This risk arises from general market conditions, factors impacting specific industries, as well as corporate news that may impact specific issues. Management continuously monitors its debt securities, including routine updating of credit ratings, monitoring market, industry and corporate news, as well as volatility in market prices. Sterling uses various indicators in determining whether a debt security is other-than-temporarily-impaired, including whether it is probable that the contractual interest and principal will not be collected in full. One such indicator is credit ratings. As of September 30, 2007, there were no holdings below investment grade. Another factor in management s evaluation is whether Sterling has the positive intent and ability to hold the under-water securities to maturity. At September 30, 2007, Sterling determined, based on its liquidity plan, that it had availability from other sources sufficient to meet its expected liquidity needs. For equity securities, management will determine that a loss is considered other-than temporary when it has an observable market value that is less than its recorded value for more than six months, unless management determines an event that causes other-than temporary impairment has occurred prior to the six month time period.

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Table 5 Investment Securities

The following table shows the amortized cost of the held-to-maturity securities owned by Sterling as of the dates indicated. Securities are stated at cost adjusted for amortization of premiums and accretion of discounts.

	September 30, 2007	December 31, 2006
U.S. Treasury securities	**$ 106**	$ 105
State and political subdivisions	**6,751**	10,901
Mortgage-backed securities	**29**	39
Corporate securities	**117**	117
Subtotal	**7,003**	11,162
Non-marketable equity securities	**12,633**	10,368
Total	**$ 19,636**	$ 21,530

Non-marketable equity securities consist of Federal Reserve Bank stock, Federal Home Loan Bank stock, and Atlantic Central Bankers Bank stock.

The following table shows the amortized cost and fair value of the available-for-sale securities owned as of the dates indicated.

	September 30, 2007		December 31, 2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury securities	**$**	**$**	$ 805	$ 805
U.S. Government agencies bonds	**187,694**	**185,127**	211,066	207,667
State and political subdivisions	**201,105**	**204,969**	207,831	213,001
Mortgage-backed securities	**20,322**	**20,310**	23,461	23,440
Corporate securities	**2,036**	**2,049**	8,356	8,397
Subtotal	**411,157**	**412,455**	451,519	453,310
Equity securities	**380**	**389**	2,903	6,706
Total	**$ 411,537**	**$ 412,844**	$ 454,422	$ 460,016

All mortgage-backed securities are those of U.S. Government agencies.

The available-for-sale equity securities are comprised of the following:

December 31, 2006

	September 30, 2007			
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Government sponsored enterprise stock	**$**	**$**	$ 2	$ 3,088
Equity mutual fund	**51**	**61**	51	55
Community bank stocks	**293**	**272**	2,288	2,623
Large cap financial services company stocks	**36**	**56**	562	940
Total	**$ 380**	**$ 389**	$ 2,903	$ 6,706

These holdings are maintained for long-term appreciation in these segments of the market.

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Table 6 Investment Securities (Yields)

The following tables show the maturities of debt securities at amortized cost as of September 30, 2007, and approximate weighted average yields of such securities. Yields on state and political subdivision securities are shown on a tax equivalent basis, assuming a 35% federal income tax rate.

	1 Year and Less		Over 1 thru 5 Years		Over 5 thru 10 Years		Over 10 Years		Total	
Held-to-Maturity	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
J.S. Treasury securities	$ 106	4.15%	$	%	$	%	$	%	$ 106	4.15%
State and political subdivisions	1,635	7.34%	4,861	6.93%	255	6.52%		%	6,751	7.01%
Mortgage-backed securities		%	14	8.75%		%	15	7.05%	29	7.93%
Corporate securities	115	2.00%		%		%	2	7.25%	117	2.09%
	$ 1,856	6.83%	$ 4,875	6.94%	$ 255	6.52%	$ 17	7.08%	$ 7,003	6.89%

	1 Year and Less		Over 1 thru 5 Years		Over 5 thru 10 Years		Over 10 Years		Total
e-for-Sale	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**
vernment agencies	$ 5,113	3.52%	$ 117,925	4.11%	$ 49,540	5.42%	$ 12,549	5.95%	$ 185,127
l political ons	4,146	6.40%	31,440	6.54%	81,030	6.43%	88,353	6.81%	204,969
e-backed securities	362	5.44%	6,621	4.84%	1,896	4.80%	11,431	5.74%	20,310
e securities	1,004	6.09%	909	6.87%	134	4.37%	2	4.59%	2,049
	$ 10,625	4.96%	$ 156,895	4.69%	$ 132,600	5.95%	$ 112,335	6.50%	$ 412,455

There is no issuer of securities in which the aggregate book value of that issuer, other than securities of the U.S. Treasury and U.S. Government agencies, exceeds 10% of stockholders equity.

Loans

Loans outstanding at September 30, 2007 totaled $2.1 billion and increased $14.3 million, or 0.7%, compared to December 31, 2006. During 2007 Sterling sold approximately $50.0 million of loans to help improve the capital ratios by reducing risk weighted assets. This action was necessary as a result of the losses incurred at EFI. Additionally, uncertainties caused by the EFI Matter and the pending acquisition of Sterling by PNC has caused a slow down of loan growth in 2007. As the following table outlines, the growth in the loan portfolio was primarily driven by commercial and agricultural loans which increased $19.2 million, or 3.8%, and real estate construction loans which increased $15.1 million, or 8.7%. Partially offsetting this growth was a decline in the consumer loan portfolio of $13.9 million, or 3.4% and a decline in the forestry-

related finance receivables of $3.3 million, or 63.7%. The remainder of the loan portfolio was relatively flat from period-to-period.

Table 7 Loan Portfolio

The following table sets forth the composition of Sterling s loan portfolio as of the dates indicated:

	September 30, 2007	December 31, 2006 (Restated)
Commercial and agricultural	**$ 523,318**	$ 504,084
Commercial real estate	**653,739**	656,366
Financial institutions	**16,424**	16,375
Real estate-construction	**188,910**	173,824
Real estate-mortgage	**99,326**	101,946
Consumer	**389,792**	403,691
Forestry-related finance receivables (net of unearned income)	**1,853**	5,110
Other finance receivables (net of unearned income)	**87,641**	86,698
Lease financing receivables (net of unearned income)	**131,883**	130,527
Total	**$ 2,092,886**	$ 2,078,621

Table 8 Loan Maturity and Interest Sensitivity

The following table sets forth the maturity of the commercial loan portfolio as of September 30, 2007.

	Within One Year	After One But Within Five Years	After Five Years	Total
Commercial and agricultural, financial and commercial real estate	$ 291,548	$ 228,805	$ 673,128	$ 1,193,481
Real estate-construction	86,747	69,893	32,270	188,910