PNC FINANCIAL SERVICES GROUP INC
Form 10-Q
August 08, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

{x} QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

or

{ } TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-09718

The PNC Financial Services Group, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1435979**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One PNC Plaza,

249 Fifth Avenue,

Pittsburgh, Pennsylvania 15222-2707

(Address of principal executive offices)

(Zip Code)

(412) 762-2000

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer X Accelerated filer __ Non-accelerated filer __

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

As of July 31, 2007, there were 339,797,732 shares of the registrant s common stock ($5 par value) outstanding.

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The PNC Financial Services Group, Inc.

Cross-Reference Index to Second Quarter 2007 Form 10-Q

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CONSOLIDATED FINANCIAL HIGHLIGHTS

THE PNC FINANCIAL SERVICES GROUP, INC.

Dollars in millions, except per share data Unaudited	Three months ended June 30 2007	2006	Six months ended June 30 2007	2006
FINANCIAL PERFORMANCE (a)				
Revenue				
Net interest income, taxable-equivalent basis (b)	**$746**	$562	**$1,375**	$1,125
Noninterest income	**975**	1,230	**1,966**	2,415
Total revenue	**$1,721**	$1,792	**$3,341**	$3,540
Noninterest expense	**$1,040**	$1,145	**$1,984**	$2,307
Net income	**$423**	$381	**$882**	$735
Per common share				
Diluted earnings	**$1.22**	$1.28	**$2.67**	$2.47
Cash dividends declared	**$.63**	$.55	**$1.18**	$1.05
SELECTED RATIOS				
Net interest margin	**3.03%**	2.90%	**3.00%**	2.93%
Noninterest income to total revenue (c)	**57**	69	**59**	68
Efficiency (d)	**61**	64	**60**	65
Return on				
Average common shareholders equity	**11.61%**	17.49%	**13.39%**	17.08%
Average assets	**1.38**	1.64	**1.54**	1.60

See page 35 for a glossary of certain terms used in this Report.

(a) The Executive Summary and Consolidated Income Statement Review Noninterest Income-Summary portions of the Financial Review section of this Report provide information regarding items impacting the comparability of the periods presented.

(b) The interest income earned on certain assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of yields and margins for all earning assets, we also provide revenue on a taxable-equivalent basis by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under GAAP in the Consolidated Income Statement.

The following is a reconciliation of net interest income as reported in the Consolidated Income Statement to net interest income on a taxable-equivalent basis (in millions):

	Three months ended June 30 2007	2006	Six months ended June 30 2007	2006
Net interest income, GAAP basis	**$ 738**	$ 556	**$ 1,361**	$ 1,112
Taxable-equivalent adjustment	**8**	6	**14**	13
Net interest income, taxable-equivalent basis	**$ 746**	$ 562	**$ 1,375**	$ 1,125

(c) Calculated as noninterest income divided by the sum of net interest income (GAAP basis) and noninterest income. Noninterest income for the 2006 periods presented above included the impact of BlackRock on a consolidated basis, primarily consisting of asset management fees. Noninterest income for the 2007 periods presented above reflected income from our equity investment in BlackRock included in the Asset management line item.

(d) Calculated as noninterest expense divided by the sum of net interest income (GAAP basis) and noninterest income.

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Unaudited	**June 30 2007**	March 31 2007	June 30 2006
BALANCE SHEET DATA (dollars in millions, except per share data) (a)			
Assets	**$ 125,651**	$ 122,563	$ 94,914
Loans, net of unearned income	**64,714**	62,925	50,548
Allowance for loan and lease losses	**703**	690	611
Securities available for sale	**25,903**	26,475	21,724
Loans held for sale	**2,562**	2,382	2,165
Goodwill and other intangibles	**8,658**	8,668	4,498
Equity investments (b)	**5,584**	5,408	1,461
Deposits	**77,221**	77,367	63,493
Borrowed funds	**24,516**	20,456	15,651
Shareholders equity	**14,504**	14,739	8,827
Common shareholders equity	**14,497**	14,732	8,820
Book value per common share	**42.36**	42.63	29.92
Common shares outstanding (millions)	**342**	346	295
Loans to deposits	**84%**	81%	80%
ASSETS ADMINISTERED (billions) (a)			
Managed (c)	**$77**	$76	$506
Nondiscretionary	**111**	111	85
FUND ASSETS SERVICED (billions)			
Accounting/administration net assets	**$868**	$822	$743
Custody assets	**467**	435	389
CAPITAL RATIOS			
Tier 1 risk-based (d)	**8.3%**	8.6%	8.8%
Total risk-based (d)	**11.8**	12.2	12.4
Leverage (d)	**7.3**	8.7	7.7
Tangible common equity	**5.5**	5.8	5.2
Common shareholders equity to assets	**11.5**	12.0	9.3
ASSET QUALITY RATIOS			
Nonperforming loans to total loans	**.34%**	.28%	.41%
Nonperforming assets to total loans and foreclosed assets	**.38**	.32	.46
Nonperforming assets to total assets	**.20**	.17	.24
Net charge-offs to average loans (for the three months ended)	**.20**	.27	.24
Allowance for loan and lease losses to loans	**1.09**	1.10	1.21
Allowance for loan and lease losses to nonperforming loans	**322**	388	294

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

(b) Amounts for 2007 include our equity investment in BlackRock, Inc. (BlackRock).

(c) Amounts for 2007 do not include BlackRock s assets under management as we deconsolidated BlackRock effective September 29, 2006.

(d) The regulatory minimums are 4.0% for Tier 1, 8.0% for Total, and 3.0% for Leverage ratios. The well-capitalized levels are 6.0% for Tier 1, 10.0% for Total, and 5.0% for Leverage ratios.

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FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Report and with Items 6, 7, 8 and 9A of our 2006 Annual Report on Form 10-K (2006 Form 10-K). We have reclassified certain prior period amounts to conform with the current period presentation. For information regarding certain business and regulatory risks, see the Risk Management section in this Financial Review and Items 1A and 7 of our 2006 Form 10-K. Also, see the Cautionary Statement Regarding Forward-Looking Information and Critical Accounting Policies And Judgments sections in this Financial Review for certain other factors that could cause actual results or future events to differ, perhaps materially, from those anticipated in the forward-looking statements included in this Report or from historical performance. See Note 14 Segment Reporting in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a generally accepted accounting principles (GAAP) basis.

EXECUTIVE SUMMARY

THE PNC FINANCIAL SERVICES GROUP, INC.

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. We provide many of our products and services nationally and others in our primary geographic markets located in Pennsylvania, New Jersey, Washington, DC, Maryland, Virginia, Ohio, Kentucky and Delaware. We also provide certain global fund processing services internationally.

KEY STRATEGIC GOALS

Our strategy to enhance shareholder value centers on driving positive operating leverage by achieving growth in revenue from our diverse business mix that exceeds growth in expenses as a result of disciplined cost management. In each of our business segments, the primary drivers of revenue growth are the acquisition, expansion and retention of customer relationships. We strive to expand our customer base by providing convenient banking options, leading technology systems and a broad range of fee-based products and services and by focusing on customer service. We also intend to grow revenue through appropriate and targeted acquisitions and, in certain businesses, by expanding into new geographical markets.

In recent years, we have maintained a moderate risk profile characterized by strong credit quality and limited exposure to earnings volatility resulting from interest rate fluctuations and the shape of the interest rate yield curve. Our actions have created a balance sheet reflecting a strong capital position and investment flexibility to adjust, where appropriate, to changing interest rates and market conditions. We continue to invest capital in our businesses while returning a portion to shareholders through dividends and share repurchases.

RECENTLY COMPLETED OR ANNOUNCED ACQUISITIONS

STERLING FINANCIAL CORPORATION

On July 19, 2007, we entered into a definitive agreement with Sterling Financial Corporation (Sterling) for PNC to acquire

Sterling for approximately 4.5 million shares of PNC common stock and $224 million in cash. Based upon PNC s closing common stock price on July 17, 2007, the consideration represents $565 million in stock and cash or approximately $19.00 per Sterling share.

Sterling, based in Lancaster, Pennsylvania with approximately $3.3 billion in assets and $2.6 billion in deposits, provides banking and other financial services, including leasing, trust, investment and brokerage, to individuals and businesses through 67 branches in Pennsylvania, Maryland and Delaware. The transaction is expected to close during the first quarter of 2008 and is subject to customary closing conditions, including regulatory approvals and the approval of Sterling s shareholders.

ARCS COMMERCIAL MORTGAGE

On July 2, 2007, we acquired ARCS Commercial Mortgage Co., L.P. (ARCS), a Calabasas Hills, California-based lender with 10 origination offices in the United States. ARCS has been a leading originator and servicer of multifamily loans for Fannie Mae and Freddie Mac for the past decade. It originated more than $2.1 billion of loans in 2006 and services approximately $13 billion of commercial mortgage loans.

YARDVILLE NATIONAL BANCORP

On June 6, 2007, we entered into a definitive agreement to acquire Hamilton, New Jersey-based Yardville National Bancorp (Yardville) for approximately 3.3 million shares of PNC common stock and $156 million in cash, subject to adjustment. Based upon PNC s closing common stock price on June 6, 2007, the consideration represents $403 million in stock and cash or approximately $35.00 per Yardville share. Yardville is a commercial and consumer bank with approximately $2.6 billion in assets, $2.0 billion in deposits and 33 branches in central New Jersey and eastern Pennsylvania. This acquisition is expected to close in the fourth quarter of 2007, subject to customary closing conditions including regulatory approvals and approval by Yardville shareholders.

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MERCANTILE BANKSHARES CORPORATION

As previously reported, we acquired Mercantile effective March 2, 2007 for approximately 53 million shares of PNC common stock and $2.1 billion in cash. Total consideration paid was approximately $5.9 billion in stock and cash.

Mercantile has added banking and investment and wealth management services through 235 branches in Maryland, Virginia, the District of Columbia, Delaware and Southeastern Pennsylvania. This transaction has significantly expanded our presence in the mid-Atlantic region, particularly within the attractive Baltimore and Washington, DC markets.

The integration of Mercantile is on track for the technology systems conversions scheduled for September 2007. We refer you to our Form 8-K filed March 8, 2007 for additional information on this transaction.

KEY FACTORS AFFECTING FINANCIAL PERFORMANCE

Our financial performance is substantially affected by several external factors outside of our control, including:

- General economic conditions,
- Loan demand and utilization of credit commitments,
- Customer demand for other products and services,
- Movement of customer deposits from lower to higher rate accounts or to investment alternatives,
- The level of, direction, timing and magnitude of movement in interest rates, and the shape of the interest rate yield curve, and
- The performance of the capital markets.

In addition, our success in the remainder of 2007 will depend, among other things, upon:

- Further success in the acquisition, growth and retention of customers,
- The successful integration of Mercantile and progress toward closing and integrating the Yardville and Sterling acquisitions,
- Revenue growth,
- A sustained focus on expense management and creating positive operating leverage,
- Maintaining strong overall asset quality, and
- Prudent risk and capital management.

SUMMARY FINANCIAL RESULTS

In millions, except per share data	Three months ended June 30 2007	Three months ended June 30 2006	Six months ended June 30 2007	Six months ended June 30 2006
Net income	**$423**	$381	**$882**	$735
Diluted earnings per share	**$1.22**	$1.28	**$2.67**	$2.47
Return on				
Average common shareholders equity	**11.61%**	17.49%	**13.39%**	17.08%
Average assets	**1.38%**	1.64%	**1.54%**	1.60%

Net income increased $147 million, or 20%, for the first six months of 2007 compared with the prior year period. Diluted

earnings per share increased 8% and reflected the shares issued for the Mercantile acquisition in the first quarter of 2007. In addition, we delivered positive operating leverage in the first half of 2007.

Earnings for the first six months of 2007 included the impact of the following items:

- A first quarter after-tax gain of $53 million, or $.17 per diluted share, recognized in connection with the transfer of BlackRock shares to satisfy a portion of our 2002 BlackRock long-term incentive plan (LTIP) shares obligation,
- An after-tax loss of $20 million, or $.06 per diluted share, from the net mark-to-market adjustments on our remaining BlackRock LTIP shares obligation, and
- After-tax integration costs related to the Mercantile acquisition and the 2006 BlackRock/Merrill Lynch investment management business (MLIM) transaction totaling $19 million, or $.07 per diluted share.

Earnings for the first six months of 2006 included the after-tax impact of integration costs related to the BlackRock/MLIM transaction totaling $8 million, or $.03 per diluted share.

Results for the second quarter of 2007 included the following:

- Taxable-equivalent net interest income grew 33% compared with the second quarter of 2006 and our net interest margin improved to 3.03% for the second quarter compared with 2.90% for the prior year second quarter, although noninterest income was impacted by lower equity management gains and trading revenue.
- Asset quality remained very strong. Nonperforming assets to total assets were .20% at June 30, 2007 compared with .24% at June 30, 2006 and .17% at December 31, 2006.
- We successfully completed the execution of our One PNC initiative, achieving our goal of $400 million total annual pretax earnings benefit. We now have an ongoing continuous improvement program that focuses on delivering positive operating leverage.
- Average total loans grew 27% for the second quarter of 2007 compared with the second quarter of 2006 and average total deposits increased 25% in the same comparison.
- PNC returned capital to shareholders through a 15% increase in the common stock dividend, to $.63 per common share, and by purchasing 4 million common shares during the quarter at a cost of $294 million under our repurchase program.

BlackRock/MLIM Transaction

As further described in our 2006 Form 10-K, on September 29, 2006 Merrill Lynch contributed its investment management business to BlackRock in exchange for

65 million shares of newly issued BlackRock common and preferred stock.

For the six months ended June 30, 2006, our Consolidated Income Statement included our former 69% ownership interest in BlackRock. However, our Consolidated Balance Sheet as of June 30, 2007 and December 31, 2006 reflected the September 29, 2006 deconsolidation of BlackRock s balance sheet amounts and recognized our approximate 34% ownership interest in BlackRock as an investment accounted for under the equity method. This accounting has resulted in a reduction in certain revenue and noninterest expense categories on our Consolidated Income Statement as our share of BlackRock s net income is now reported in asset management noninterest income. In addition, beginning with fourth quarter 2006, we recognize gain or loss each quarter-end on our then-remaining liability to provide shares of BlackRock common stock to help fund BlackRock LTIP programs as that liability is marked to market based on changes in BlackRock s common stock price. Similar to the first half of 2007, we will also continue to recognize gains or losses on the future transfer of shares for payouts under such LTIP programs.

Balance Sheet Highlights

Total assets were $125.7 billion at June 30, 2007 compared with $101.8 billion at December 31, 2006. The increase compared with December 31, 2006 was primarily due to the addition of approximately $21 billion of assets related to Mercantile.

Total average assets were $115.4 billion for the first six months of 2007 compared with $92.8 billion for the first six months of 2006. This increase was primarily attributable to a $14.9 billion increase in average interest-earning assets and a $7.7 billion increase in average noninterest-earning assets. An increase of $9.4 billion in loans and a $3.8 billion increase in securities available for sale were the primary factors for the increase in average interest-earning assets.

The increase in average noninterest-earning assets for the first half of 2007 reflected our equity investment in BlackRock, which averaged $3.8 billion for the first six months of 2007 and which had been consolidated for the first six months of 2006, and an increase in average goodwill of $2.9 billion related to the Mercantile acquisition.

Average total loans were $58.8 billion for the first six months of 2007 and $49.5 billion in the first six months of 2006. The increase in average total loans included the effect of the Mercantile acquisition for four months of 2007, and higher commercial loans. The increase in average total loans included growth in commercial real estate loans of approximately $4.5 billion and growth in commercial loans of approximately $3.3 billion. Loans represented 64% of average interest-earning assets for the first half of both 2007 and 2006.

Average securities available for sale totaled $24.9 billion for the first six months of 2007 and $21.2 billion for the first six months of 2006. The four-month impact of Mercantile contributed to the increase in average securities for the 2007 period. By primary classification, the increase in average securities reflected a $6.6 billion increase in mortgage-backed and asset-backed securities, which was partially offset by a $3.0 billion decline in US Treasury and government agencies securities. Securities available for sale comprised 27% of average interest-earning assets for the first half of 2007 and 28% for the first half of 2006.

Average total deposits were $74.0 billion for the first six months of 2007, an increase of $12.2 billion over the first six months of 2006. Average deposits grew from the prior year period primarily as a result of an increase in money market, noninterest-bearing demand deposits and retail certificates of deposit. These increases reflect the four-month impact of the Mercantile acquisition.

Average total deposits represented 64% of average total assets for the first six months of 2007 and 67% for the first six months of 2006. Average transaction deposits were $49.2 billion for the first half of 2007 compared with $41.0 billion for the first half of 2006.

Average borrowed funds were $19.1 billion for the first six months of 2007 and $15.4 billion for the first six months of 2006. Increases of $2.7 billion in federal funds purchased and $1.5 billion in bank notes and senior debt drove the increase in average borrowed funds compared with the first half of 2006.

Shareholders equity totaled $14.5 billion at June 30, 2007, compared with $10.8 billion at December 31, 2006. The increase resulted primarily from the Mercantile acquisition completed in March 2007. See the Consolidated Balance Sheet Review section of this Financial Review for additional information.

Business Segment Highlights

	Three months ended		Six months ended	
	June 30	June 30	**June 30**	June 30
In millions	**2007**	2006	**2007**	2006
Total segment earnings	**$ 439**	$ 372	**$ 855**	$ 740

Total business segment earnings increased $115 million, or 16%, for the first half of 2007 compared with the first half of 2006. We refer you to page 17 of this Report for a Results of Businesses Summary table, with further analysis of business segment results for the first six months of 2007 and 2006 provided on pages 18 through 24.

Second quarter 2007 business segment earnings of $439 million increased $67 million, or 18%, compared with the second quarter of 2006. Highlights of results for the first six months and second quarter periods are included below.

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We provide a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a GAAP basis in Note 14 Segment Reporting in the Notes To Consolidated Financial Statements in this Report. The presentation of BlackRock segment and total business segment earnings in this Financial Review differs from Note 14 in that these earnings exclude BlackRock/MLIM integration costs and prior year results reflect BlackRock as if it had been accounted for under the equity method.

Retail Banking

Retail Banking s earnings were $428 million for the first six months of 2007 compared with $375 million for the same period in 2006. The 14% increase over the prior year was driven by the Mercantile acquisition, strong market-related fees, and continued customer and balance sheet growth, partially offset by an increase in the provision for credit losses.

Retail Banking earned $227 million for the second quarter of 2007, an increase of $42 million, or 23%, compared with the second quarter of 2006. The increase over the second quarter of 2006 was primarily due to the same factors impacting the first half comparison.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $254 million in the first six months of 2007 compared with $217 million in the first six months of 2006. The increase compared with the first half of 2006 was largely the result of higher taxable-equivalent net interest income and a lower provision for credit losses, partly offset by an increase in noninterest expense.

For the second quarter of 2007, earnings from Corporate & Institutional Banking totaled $122 million compared with $115 million for the second quarter of 2006. The higher earnings in the 2007 quarter were primarily due to taxable-equivalent net interest income growth partially offset by lower noninterest income.

BlackRock

Our BlackRock business segment earned $110 million for the first six months of 2007 compared with $95 million in the first six months of 2006. Second quarter earnings totaled $58 million in 2007 and $46 million in 2006. The higher earnings in both comparisons reflected our approximate 34% ownership interest in a larger BlackRock entity during 2007 compared with the corresponding 2006 periods. The presentation of the 2006 period results has been modified to conform with our current business segment reporting presentation in this Financial Review.

PFPC

PFPC earned $63 million for the first six months of 2007 compared with $53 million in the year-earlier period. The 19% earnings increase from the first half of 2006 reflected new business, organic growth and market appreciation, partly offset by client deconversions.

Earnings from PFPC totaled $32 million in the second quarter of 2007 compared with $26 million in the prior year second quarter. Higher earnings in 2007 reflected the successful conversion of two new client services during the second quarter of 2007, growth from existing clients, market appreciation and an improved operating margin. A $20 million, or 10%, increase in servicing revenue compared with the second quarter of 2006 was fueled by strong fee income growth in transfer agency, managed accounts, alternative investments, and offshore operations.

Other

Other earnings for the first six months of 2007 totaled $27 million, while Other for the first six months of 2006 was a net loss of $5 million. The increase in Other in the comparison was primarily due to the impact of the $33 million after-tax net gain recognized during the first quarter of 2007 related to our BlackRock LTIP shares obligation.

For the second quarter of 2007, Other resulted in a net loss of $16 million compared with earnings of $9 million in the second quarter of 2006. Gains from equity management declined $34 million after-tax in the quarterly comparison.

CONSOLIDATED INCOME

STATEMENT REVIEW

NET INTEREST INCOME AND NET INTEREST MARGIN

Dollars in millions	Three months ended **June 30 2007**	June 30 2006	Six months ended **June 30 2007**	June 30 2006
Taxable-equivalent net interest income	**$ 746**	$ 562	**$ 1,375**	$ 1,125
Net interest margin	**3.03%**	2.90%	**3.00%**	2.93%

We provide a reconciliation of net interest income as reported under GAAP to net interest income presented on a taxable-equivalent basis in the Consolidated Financial Highlights section on page 1 of this Report.

Changes in net interest income and margin result from the interaction of the volume and composition of interest-earning assets and related yields, interest-bearing liabilities and related rates paid, and noninterest-bearing sources of funding. See Statistical Information-Average Consolidated Balance Sheet And Net Interest Analysis included on pages 69 and 70 of this Report for additional information.

The 22% increase in taxable-equivalent net interest income for the first six months of 2007 compared with the first six months of 2006 was consistent with the $14.9 billion, or 19%, increase in average interest-earning assets over these periods. Similarly, the 33% increase in taxable-equivalent net interest income for the second quarter of 2007 compared with the prior year quarter reflected the $20.9 billion, or 27%, increase in average interest-earning assets over these quarters. The reasons driving the higher interest-earning assets in these comparisons are further discussed in the Balance Sheet Highlights portion of the Executive Summary section of this Report.

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The net interest margin was 3.00% for the first six months of 2007 and 2.93% for the first six months of 2006. The following factors impacted the comparison:

- The Mercantile acquisition.
- The yield on interest-earning assets increased 54 basis points. The yield on loans, the single largest component, increased 48 basis points.
- The impact of noninterest-bearing sources of funding increased 7 basis points for the first half of 2007 due to higher rates.
- These factors were partially offset by an increase in the rate paid on interest-bearing liabilities of 54 basis points. The rate paid on interest-bearing deposits, the single largest component, increased 56 basis points.

The net interest margin was 3.03% for the second quarter of 2007 and 2.90% for the second quarter of 2006. The following factors impacted the comparison:

- The Mercantile acquisition.
- An adjustment to our cross-border leases that lowered interest income on loans.
- The yield on interest-earning assets increased 51 basis points. The yield on loans, the single largest component, increased 43 basis points.
- The impact of noninterest-bearing sources of funding increased 4 basis points for the second quarter of 2007 due to higher rates.
- These factors were partially offset by an increase in the rate paid on interest-bearing liabilities of 42 basis points. The rate paid on interest-bearing deposits, the single largest component, increased 41 basis points.

For comparing to the broader market, during the first six months of 2007, the average federal funds rate was 5.25% compared with 4.68% for the first six months of 2006. The average federal funds rate was 5.25% during the second quarter of 2007 compared with 4.91% for the second quarter of 2006.

We believe that net interest margins for our industry will continue to be challenged given the current yield curve, as competition for loans and deposits remains intense, as customers continue to migrate from lower rate to higher rate deposits or other products, and as the benefit of adding or repricing investment securities is diminished. However, we expect that our taxable-equivalent net interest income for full year 2007 will grow in the mid-20% range and the net interest margin will improve compared with full year 2006. These expected increases are primarily due to the Mercantile acquisition as well as projected earning asset growth and funding composition and pricing.

Provision For Credit Losses

The provision for credit losses totaled $62 million for the first six months of 2007 compared with $66 million for the first six months of 2006. The provision for credit losses for the second

quarter of 2007 increased $10 million, to $54 million, compared with the second quarter of 2006. The higher provision in the quarterly comparison was primarily due to growth in total credit exposure and was more representative of expected near-term provision levels for PNC.

We do not expect to sustain asset quality at its current level. However, based on the assets we currently hold and current business trends and activities, we believe that overall asset quality will remain strong by historical standards for the near term. To the extent actual outcomes differ from our estimates, changes to the provision for credit losses may be required that may benefit or reduce future earnings. See the Credit Risk Management portion of the Risk Management section of this Financial Review for additional information regarding factors that impact the provision for credit losses.

Noninterest Income

Summary

Noninterest income totaled $1.966 billion for the first six months of 2007 compared with $2.415 billion for the first six months of 2006. Noninterest income was $975 million for the second quarter of 2007 compared with $1.230 billion for the second quarter of 2006.

Total noninterest income for the first half of 2007 and 2006 included the following items:

- The first six months of 2007 included a net gain related to our equity investment in BlackRock of $51 million, representing an $82 million gain recognized during the first quarter in connection with our transfer of BlackRock shares to satisfy a portion of our 2002 LTIP shares obligation, partially offset by a net mark-to-market adjustment totaling $31 million on our remaining BlackRock LTIP shares obligation.

The first half of 2006 included the impact of BlackRock on a consolidated basis in the amount of $767 million. Had our BlackRock investment been on the equity method for the first six months of 2006, BlackRock s noninterest income reported by us would have been $101 million for that period, or lower by $666 million.

Apart from the impact of these items, noninterest income increased $166 million, or 10%, for the first six months of 2007 compared with the first six months of 2006 largely as a result of organic growth and the acquisition of Mercantile.

A comparison of second quarter 2007 and 2006 noninterest income is impacted by the following:

The second quarter of 2006 included the impact of BlackRock on a consolidated basis in the amount of $361 million. Had our BlackRock investment been on the equity method for the second quarter of 2006, BlackRock s noninterest income reported by us would have been $49 million for that quarter, or lower by $312 million.

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Apart from the impact of this item, PNC s total noninterest income would have increased $57 million, or 6%, during the second quarter of 2007 compared with the prior year second quarter despite significantly lower equity management and trading revenue in the 2007 period.

Additional Analysis

Asset management fees totaled $355 million for the first six months of 2007 and $890 million for the first six months of 2006. Asset management fees totaled $190 million in the second quarter of 2007, a decrease of $239 million compared with the second quarter of 2006. Our equity income from BlackRock was included in asset management fees for the first half and second quarter of 2007, while asset management fees in the corresponding prior year periods reflected the impact of BlackRock s revenue on a consolidated basis.

Assets managed at June 30, 2007 totaled $77 billion compared with $506 billion at June 30, 2006. BlackRock s assets under management, which were no longer included in assets managed by us at June 30, 2007 due to our deconsolidation of BlackRock effective September 29, 2006, were included in the June 30, 2006 totals. We refer you to the Retail Banking section of the Business Segments Review section of this Financial Review for further discussion of our assets under management.

Fund servicing fees declined $19 million, to $412 million, in the first half of 2007 compared with the prior year first half. Amounts for 2006 included $44 million of distribution fee revenue at PFPC. Effective January 1, 2007, we refined our accounting and reporting of PFPC s distribution fee revenue and related expense amounts and present these amounts netted on a prospective basis. Prior to 2007, the distribution amounts were shown on a gross basis within fund servicing fees and within other noninterest expense. These amounts offset each other entirely and have no impact on earnings.

Fund servicing fees total $209 million for the second quarter of 2007, a $1 million decrease from the prior year period. Included in these amounts for the second quarter of 2006 was distribution fee revenue of $22 million at PFPC.

PFPC provided fund accounting/administration services for $868 billion of net fund investment assets and provided custody services for $467 billion of fund investment assets at June 30, 2007, compared with $743 billion and $389 billion, respectively, at June 30, 2006. These increases were the result of new business obtained, organic growth from current customers and market appreciation.

Service charges on deposits of $169 million for the first half of 2007 represented a $16 million increase compared with the prior year first half. Service charges on deposits grew $12 million, to $92 million, in the second quarter of 2007 compared with the second quarter of 2006. The increases in both comparisons can be attributed primarily to the 2007 impact of Mercantile and to customer growth.

Brokerage fees increased $16 million, to $138 million, for the first six months of 2007 compared with the first six months of 2006. For the second quarter of 2007, brokerage fees totaled $72 million compared with $63 million in the second quarter of 2006. In both comparisons, the increases were primarily due to higher mutual fund-related revenues, including a favorable impact from products related to the fee-based fund advisory business and higher annuity income.

Consumer services fees grew $15 million, to $198 million, for the first half of 2007 compared with the first half of 2006. Of that increase, $13 million occurred in the second quarter of 2007, as consumer service fees totaled $107 million in that period. This increase reflected the impact of Mercantile, higher debit card revenues resulting from higher transaction volumes, and revenue from the credit card business that began in the latter part of 2006. These factors were partially offset by lower ATM surcharge revenue in 2007 compared with the prior year period as a result of changing customer behavior and a strategic decision to reduce the out-of-footprint ATM network.

Corporate services revenue increased $43 million, to $335 million, in the first half of 2007 compared with the first half of 2006. Corporate services revenue totaled $176 million in the second quarter of 2007 compared with $157 million in the second quarter of 2006. Higher revenue from various sources, including treasury management, commercial mortgage servicing, and third party consumer loan servicing activities contributed to the increases in both comparisons.

Equity management (private equity) net gains on portfolio investments totaled $34 million for the first six months of 2007 compared with $61 million for the first six months of 2006. For the second quarter of 2007, such gains totaled $2 million compared with $54 million in the prior year second quarter. Based on the nature of private equity activities, net gains or losses may be volatile from period to period; however, we expect net gains of approximately $60 million for full year 2007.

Noninterest revenue from trading activities totaled $81 million in the first half of 2007 and $112 million in the first half of 2006. Noninterest revenue from trading activities was $29 million for the second quarter of 2007 compared with $55 million for the second quarter of 2006. Lower trading revenue in 2007, largely related to proprietary trading and hedging activities, was the primary factor in the decline in both comparisons. We expect noninterest revenue from trading activities of approximately $45 million, on average, per quarter. We provide additional information on our trading activities under Market Risk Management   Trading Risk in the Risk Management section of this Financial Review.

Other noninterest income of $195 million for the first six months of 2007 represented a $12 million increase compared with the first six months of 2006. Other noninterest income totaled $98

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million for the second quarter of 2007, an increase of $2 million from the second quarter of 2006. Other noninterest income typically fluctuates from period to period depending on the nature and magnitude of transactions completed.

Due to the BlackRock/MLIM transaction, which resulted in a $2.1 billion pretax gain in the third quarter of 2006, we expect that total noninterest income will decline significantly for full year 2007 compared with full year 2006. Changes in noninterest income compared with the prior year also will be impacted by the deconsolidation of BlackRock and balance sheet repositioning actions in 2006, and our BlackRock LTIP shares obligation. Our remaining noninterest income sources are expected to increase, in the aggregate, by a low teens percentage for full year 2007 compared with 2006 as a result of organic growth and acquisitions.

Apart from the comparative impact on noninterest income of the 2006 items described above, we expect that total revenue will increase by a high teens percentage for full year 2007 compared with 2006.

Product Revenue

In addition to credit products to commercial customers, Corporate & Institutional Banking offers treasury management and capital markets-related products and services, commercial loan servicing and equipment financing products that are marketed by several businesses across PNC.

Treasury management revenue, which includes fees as well as net interest income from customer deposit balances, increased 9% to $224 million for the first half of 2007 compared with $205 million for the first half of 2006. Treasury management revenue increased 10% to $114 million for the second quarter of 2007 compared with $104 million for the second quarter of 2006. The higher revenue reflected continued expansion and client utilization of commercial payment card services, strong revenue growth in various electronic payment and information services, and a steady increase in business-to-business processing volumes.

Revenue from capital markets-related products and services was $143 million for the first half of 2007 compared with $140 million in the first half of 2006, primarily driven by increased revenues from mergers and acquisitions advisory and related services. Capital markets-related products and services revenues totaled $76 million for the second quarter of both 2007 and 2006.

Midland Loan Services offers servicing, real estate advisory and technology solutions for the commercial real estate finance industry. Midland s revenue, which includes servicing fees and net interest income from servicing portfolio deposit balances, totaled $110 million for first half of 2007 and $84 million for first half of 2006, an increase of 31%. Revenue from Midland totaled $56 million for the second quarter of 2007 compared with $42 million for the second

quarter of 2006, an increase of 33%. The revenue growth in both comparisons was primarily driven by growth in the commercial mortgage servicing portfolio and related services.

As a component of our advisory services to clients, we provide a select set of insurance products to fulfill specific customer financial needs. Primary insurance offerings include:

- Annuities,
- Life,
- Credit life,
- Health,
- Disability, and
- Commercial lines coverage.

Client segments served by these insurance products include those in Retail Banking and Corporate & Institutional Banking. Insurance products are sold by licensed PNC insurance agents and through licensed third-party arrangements. Revenue from these products increased 17% to $41 million for the first six months of 2007 compared with $35 million for the first six months of 2006. Insurance products revenue increased 28% to $23 million in the second quarter of 2007 compared with $18 million in the second quarter of 2006.

PNC, through subsidiary companies Alpine Indemnity Limited and PNC Insurance Corp., participates as a direct writer for its general liability, automobile liability, workers compensation, property and terrorism insurance programs.

In the normal course of business, Alpine Indemnity Limited and PNC Insurance Corp. maintain insurance reserves for reported claims and for claims incurred but not reported based on actuarial assessments. We believe these reserves were adequate at June 30, 2007.

Noninterest Expense

Total noninterest expense was $1.984 billion for the first six months of 2007 and $2.307 billion for the first six months of 2006. Total noninterest expense was $1.040 billion for the second quarter of 2007 and $1.145 billion for the second quarter of 2006.

Noninterest expense for the 2007 and 2006 periods covered by this analysis included the following:

- The first half of 2007 included integration costs of $26 million, of which $15 million were recognized in the second quarter, related to our acquisition of Mercantile.
- First half 2006 noninterest expense included $542 million of expenses, including $251 million in the second quarter, related to BlackRock, which was still consolidated during that time.
- Noninterest expense for the first six months 2006 also included $19 million of BlackRock/MLIM transaction integration costs, including $13 million in the second quarter of that year.

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Apart from the impact of these items, noninterest expense increased $212 million, or 12%, compared with the first half of 2006. Similarly, noninterest expense increased $144 million, or 16%, in the second quarter of 2007 compared with the prior year quarter. These increases were largely a result of the acquisition of Mercantile, increased compensation expenses and investments in growth initiatives.

We expect total noninterest expense to decline for full year 2007 compared with full year 2006 due to the impact of the deconsolidation of BlackRock. Apart from this impact and integration costs, we expect noninterest expense to grow by a low teens percentage for full year 2007 compared with 2006 primarily as a result of acquisitions.

We expect to continue to incur integration costs related to Mercantile. Such costs are currently estimated to be $45 million after-tax for the second half of 2007 and will be recognized within the noninterest expense and income tax categories. We also expect to recognize a one-time after-tax charge of $27 million related to the pending Yardville acquisition in the fourth quarter of 2007. These costs will be incurred within the provision for credit losses, noninterest expense, and income tax categories.

Period-End Employees

	June 30, 2007	December 31, 2006	June 30, 2006
Full-time	**25,026**	21,455	23,791
Part-time	**3,028**	2,328	2,241
Total	**28,054**	23,783	26,032

Employees as of June 30, 2007 included approximately 3,300 full-time and approximately 500 part-time Mercantile employees. BlackRock employees were included in these amounts at June 30, 2006.

Effective Tax Rate

Our effective tax rate for the first six months of 2007 was 31.1% compared with 32.8% for the first six months of 2006. The lower effective rate for first half of 2007 was primarily due to the deconsolidation of BlackRock effective September 29, 2006. We expect our effective tax rate to be approximately 31% to 32% for the remainder of 2007 before considering the previously mentioned integration costs related to higher state deferred tax liabilities from the Mercantile and Yardville acquisitions.

Consolidated Balance Sheet Review

Summarized Balance Sheet Data

In millions	**June 30 2007**	December 31 2006
Assets		
Loans, net of unearned income	**$64,714**	$50,105
Securities available for sale	**25,903**	23,191
Loans held for sale	**2,562**	2,366
Equity investments	**5,584**	5,330
Goodwill and other intangible assets	**8,658**	4,043
Other	**18,230**	16,785
Total assets	**$125,651**	$101,820
Liabilities		
Funding sources	**$101,737**	$81,329

Other	**8,040**	8,818
Total liabilities	**109,777**	90,147
Minority and noncontrolling interests in consolidated entities	**1,370**	885
Total shareholders equity	**14,504**	10,788
Total liabilities, minority and noncontrolling interests, and shareholders equity	**$125,651**	$101,820

Our Consolidated Balance Sheet is presented in Part I, Item 1 on page 40 of this Report.

Our Consolidated Balance Sheet at June 30, 2007 reflects the addition of approximately $21 billion of assets resulting from our Mercantile acquisition.

Various seasonal and other factors impact our period-end balances whereas average balances (discussed under the Balance Sheet Highlights section of this Financial Review above and included in the Statistical Information section of this Report on pages 69 and 70) are more indicative of underlying business trends.

An analysis of changes in certain balance sheet categories follows.

Loans, Net of Unearned Income

Loans increased $14.6 billion, to $64.7 billion, at June 30, 2007 compared with the balance at December 31, 2006. Our acquisition of Mercantile added $12.4 billion of loans including $6.0 billion of commercial real estate, $3.7 billion of commercial, $1.1 billion of residential mortgage and $1.6 billion of consumer loans.

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Details Of Loans

In millions	June 30 2007	December 31 2006
Commercial		
Retail/wholesale	**$5,908**	$5,301
Manufacturing	**4,371**	4,189
Other service providers	**2,963**	2,186
Real estate related	**4,443**	2,825
Financial services	**1,500**	1,324
Health care	**1,023**	707
Other	**4,538**	4,052
Total commercial	**$24,746**	$20,584
Commercial real estate		
Real estate projects	**8,962**	2,716
Mortgage	**567**	816
Total commercial real estate	**9,529**	3,532
Equipment lease financing	**3,587**	3,556
Total commercial lending	**37,862**	27,672
Consumer		
Home equity	**14,268**	13,749
Automobile	**1,962**	1,135
Other	**1,804**	1,631
Total consumer	**18,034**	16,515
Residential mortgage	**9,440**	6,337
Other	**382**	376
Unearned income	**(1,004)**	(795)
Total, net of unearned income	**$64,714**	$50,105

Our total loan portfolio continued to be diversified among numerous industries and types of businesses. The loans that we hold are also concentrated in, and diversified across, our principal geographic markets.

Commercial lending outstandings in the table above are the largest category and are the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan and lease losses. We have allocated approximately $497 million, or 71%, of the total allowance for loan and lease losses at June 30, 2007 to these loans. This allocation also considers other relevant factors such as:

- Actual versus estimated losses,
- Regional and national economic conditions,
- Business segment and portfolio concentrations,
- Industry conditions,
- The impact of government regulations, and
- Risk of potential estimation or judgmental errors, including the accuracy of risk ratings.

Net Unfunded Credit Commitments

In millions	June 30 2007	December 31 2006
Commercial	**$ 35,527**	$ 31,009
Consumer	**11,102**	10,495
Commercial real estate	**3,688**	2,752
Other	**361**	579
Total	**$ 50,678**	$ 44,835

Unfunded commitments are concentrated in our primary geographic markets. Net unfunded commitments at June 30, 2007 include $4.9 billion related to our acquisition of Mercantile. Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. Commercial commitments are reported net of participations, assignments and syndications, primarily to financial institutions, totaling $9.1 billion at June 30, 2007 and $8.3 billion at December 31, 2006.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $6.9 billion at June 30, 2007 and $6.0 billion at December 31, 2006 and are included in the preceding table primarily within the Commercial and Consumer categories.

In addition to credit commitments, our net outstanding standby letters of credit totaled $4.9 billion at June 30, 2007 and $4.4 billion at December 31, 2006. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

Leases and Related Tax and Accounting Matters

The equipment lease portfolio totaled $3.6 billion at June 30, 2007. Aggregate residual value at risk on the lease portfolio at June 30, 2007 was $1.2 billion. We have taken steps to mitigate $.6 billion of this residual risk, including residual value insurance coverage with third parties, third party guarantees, and other actions. The portfolio included approximately $1.7 billion of cross-border leases at June 30, 2007. Cross-border leases are leveraged leases of equipment located in foreign countries, primarily in western Europe and Australia. We have not entered into cross-border lease transactions since 2003.

Upon completing examinations of our 1998-2000 and 2001-2003 consolidated federal income tax returns, the IRS provided us with examination reports which propose increases in our tax liability, principally arising from adjustments to the timing of tax deductions from our cross-border lease transactions.

While the situation with respect to these proposed adjustments remains unresolved, we believe our reserves for these exposures were appropriate at June 30, 2007.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction* (FSP 13-2). FSP 13-2 became effective January 1, 2007 and requires a recalculation of the timing of income recognition for actual or projected changes in the timing of tax benefits for leveraged leases. Any cumulative adjustment was to be recognized through retained earnings upon adoption of FSP 13-2. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in

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Part I, Item 1 of this Report and in Item 8 of our 2006 Form 10-K for additional information. Effective January 1, 2007, we recalculated our leases and recorded a cumulative adjustment to beginning retained earnings of $149 million, after-tax, as required by FSP 13-2. This adjustment was based on our best estimate as to the timing and amount of ultimate settlement of this exposure. Any immediate or future reductions in earnings from our adoption of FSP 13-2 would be recovered in subsequent years.

In the second quarter of 2007, we reduced after-tax earnings by $13 million based on the status of our discussions with the IRS Appeals Division in resolving this matter. Further adjustments may be required in future periods as our estimates of the timing and settlement of the dispute change.

The adjustment to shareholders equity at January 1, 2007 included amounts related to three lease-to-service contract transactions that we were party to that were structured as partnerships for tax purposes. The partnership tax returns, depending on the particular partnership, have either been examined or are under examination by the IRS. We do not believe that our exposure from these transactions is material to our consolidated results of operations or financial position.

Additional information on cross-border lease transactions is included under Leases and Related Tax and Accounting Matters in the Consolidated Balance Sheet Review section of Item 7 of our 2006 Form 10-K.

Securities

Details Of Securities (a)

In millions	Amortized Cost	Fair Value
June 30, 2007		
Securities Available for Sale		
Debt securities		
Residential mortgage-backed	**$ 18,962**	**$ 18,728**
Commercial mortgage-backed	**4,239**	**4,149**
Asset-backed	**2,165**	**2,144**
US Treasury and government agencies	**285**	**278**
State and municipal	**241**	**239**
Other debt	**29**	**29**
Corporate stocks and other	**337**	**336**
Total securities available for sale	**$ 26,258**	**$ 25,903**
December 31, 2006		
Securities Available for Sale		
Debt securities		
Residential mortgage-backed	$ 17,325	$ 17,208
Commercial mortgage-backed	3,231	3,219
Asset-backed	1,615	1,609
US Treasury and government agencies	611	608
State and municipal	140	139
Other debt	90	87
Corporate stocks and other	321	321
Total securities available for sale	$ 23,333	$ 23,191

(a) Securities held to maturity at June 30, 2007 and December 31, 2006 were less than $.5 million.

Securities represented 21% of total assets at June 30, 2007 and 23% of total assets at December 31, 2006. Our acquisition of Mercantile added approximately $3 billion of securities, of which approximately $1 billion we classified as trading and sold and the remainder we classified as securities available for sale.

We evaluate our portfolio of securities available for sale in light of changing market conditions and other factors and, where appropriate, take steps intended to improve our overall positioning.

At June 30, 2007, securities available for sale included a net unrealized loss of $355 million, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2006 was a net unrealized loss of $142 million. Net unrealized gains and losses in the securities available for sale portfolio are included in shareholders equity as accumulated other comprehensive income (loss), net of tax.

The fair value of securities available for sale generally decreases when market interest rates increase and vice versa. Consequently, changes in interest rates after June 30, 2007, may adversely impact the fair value of securities available for sale compared with June 30, 2007.

The expected weighted-average life of securities available for sale (excluding corporate stocks and other) was 4 years and 2 months at June 30, 2007 and 3 years and 8 months at December 31, 2006.

We estimate that at June 30, 2007 the effective duration of securities available for sale is 2.9 years for an immediate 50 basis points parallel increase in interest rates and 2.8 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2006 were 2.6 years and 2.2 years, respectively.

Loans Held For Sale

Education loans held for sale totaled $1.4 billion at June 30, 2007 and $1.3 billion at December 31, 2006. We classify substantially all of our education loans as loans held for sale. Generally, we sell education loans when the loans are placed into repayment status. Gains on sales of education loans are reflected in the other noninterest income line item in our Consolidated Income Statement and in the results for the Retail Banking business segment.

Loans held for sale also included commercial mortgage loans intended for securitization totaling $758 million at June 30, 2007 and $698 million at December 31, 2006. The amount outstanding fluctuates based on the timing of securitization transactions.

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FUNDING AND CAPITAL SOURCES

Details Of Funding Sources

In millions	June 30 2007	December 31 2006
Deposits		
Money market	**$ 30,773**	$ 28,580
Demand	**20,505**	16,833
Retail certificates of deposit	**17,106**	14,725
Savings	**2,946**	1,864
Other time	**2,036**	1,326
Time deposits in foreign offices	**3,855**	2,973
Total deposits	**77,221**	66,301
Borrowed funds		
Federal funds purchased	**7,212**	2,711
Repurchase agreements	**2,805**	2,051
Bank notes and senior debt	**7,537**	3,633
Subordinated debt	**4,226**	3,962
Other	**2,736**	2,671
Total borrowed funds	**24,516**	15,028
Total	**$ 101,737**	$ 81,329

Total funding sources increased $20.4 billion at June 30, 2007 compared with the balance at December 31, 2006, as total deposits increased $10.9 billion and total borrowed funds increased $9.5 billion. Our acquisition of Mercantile added $12.5 billion of deposits and $2.1 billion of borrowed funds. Partially offsetting the Mercantile impact on deposits compared with December 31, 2006 was a decline in retail certificates of deposit, which reflected a disciplined approach to pricing that product.

During the first quarter of 2007 we issued borrowings to fund the $2.1 billion cash portion of the Mercantile acquisition. The remaining increase in borrowed funds was the result of growth in loans and securities, a decline in retail certificates of deposit, and the need to fund other net changes in our balance sheet.

Capital

We manage our capital position by making adjustments to our balance sheet size and composition, issuing debt, equity or hybrid instruments, executing treasury stock transactions, maintaining dividend policies and retaining earnings.

Total shareholders equity increased $3.7 billion, to $14.5 billion, at June 30, 2007 compared with December 31, 2006. This increase reflected a $2.6 billion reduction in treasury stock and a $1.0 billion increase in capital surplus, largely due to the issuance of shares for the Mercantile acquisition.

Common shares outstanding at June 30, 2007 were 342 million compared with 293 million at December 31, 2006. The increase in shares outstanding during the first half of 2007 reflected the issuance of approximately 53 million shares in connection with the March 2007 Mercantile acquisition.

We purchased 5.4 million common shares under our common stock repurchase program during the first six months of 2007 at a total cost of $395 million. This total included 4.0 million shares repurchased during the second quarter of 2007. Our

current program, which permits us to purchase up to 20 million shares on the open market or in privately negotiated transactions, will remain in effect until fully utilized or until modified, superseded or terminated. As of June 30, 2007, remaining availability for purchases under this program was 9.1 million shares.

The extent and timing of additional share repurchases under this program will depend on a number of factors including, among others, market and general economic conditions, economic and regulatory capital considerations, alternative uses of capital, regulatory limitations resulting from merger activity, and the potential impact on our credit rating. We expect to continue to be active in share repurchases and to have the capital flexibility to complete a total of $800 million of share repurchases for full year 2007.

Risk-Based Capital

Dollars in millions	**June 30 2007**	December 31 2006
Capital components		
Shareholders equity		
Common	**$ 14,497**	$ 10,781
Preferred	**7**	7
Trust preferred capital securities	**511**	965
Minority interest	**984**	494
Goodwill and other intangibles	**(8,153)**	(3,566)
Eligible deferred income taxes on intangible assets	**123**	26
Pension, other postretirement benefit plan adjustments	**150**	148
Net unrealized securities losses, after-tax	**222**	91
Net unrealized (gains) losses on cash flow hedge derivatives, after-tax	**77**	13
Equity investments in nonfinancial companies	**(37)**	(30)
Other, net		(5)
Tier 1 risk-based capital	**8,381**	8,924
Subordinated debt	**2,773**	1,954
Eligible allowance for credit losses	**828**	681
Total risk-based capital	**$ 11,982**	$ 11,559
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	**$ 101,501**	$ 85,539
Adjusted average total assets	**115,098**	95,590
Capital ratios		
Tier 1 risk-based	**8.3%**	10.4%
Total risk-based	**11.8**	13.5
Leverage	**7.3**	9.3
Tangible capital		
Shareholders equity	**$ 14,497**	$ 10,781
Goodwill and other intangibles	**(8,153)**	(3,566)
Eligible deferred taxes	**123**	26
Tangible capital	**$ 6,467**	$ 7,241
Total assets excluding goodwill and other intangible assets, net of eligible deferred income taxes	**$ 117,621**	$ 98,280
Tangible common equity	**5.5%**	7.4%

The declines in capital ratios from December 31, 2006 were due to an increase in risk-weighted assets and goodwill, primarily related to the Mercantile acquisition.

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The access to, and cost of, funding new business initiatives including acquisitions, the ability to engage in expanded business activities, the ability to pay dividends, the level of deposit insurance costs, and the level and nature of regulatory oversight depend, in part, on a financial institution s capital strength. At June 30, 2007, each of our banking subsidiaries was considered well-capitalized based on regulatory capital ratio requirements, as indicated in the Capital Ratios section of Consolidated Financial Highlights on page 2 of this Report. We believe our current bank subsidiaries will continue to meet these requirements during the remainder of 2007.

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

We engage in a variety of activities that involve unconsolidated entities or that are otherwise not reflected in our Consolidated Balance Sheet that are generally referred to as off-balance sheet arrangements. The following sections of this Report provide further information on these types of activities:

- Commitments, including contractual obligations and other commitments, included within the Risk Management section of this Financial Review, and
- Note 15 Commitments And Guarantees in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report.

The following provides a summary of variable interest entities (VIEs), including those in which we hold a significant variable interest but have not consolidated and those that we have consolidated into our financial statements as of June 30, 2007 and December 31, 2006. Additional information on our partnership interests in low income housing projects is included in our 2006 Form 10-K under this same heading in Part I, Item 7 and in Note 3 Variable Interest Entities in the Notes To Consolidated Financial Statements included in Part II, Item 8 of that report.

Non-Consolidated VIEs - Significant Variable Interests

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss
June 30, 2007			
Market Street	**$4,134**	**$4,134**	**$7,058**(a)
Collateralized debt obligations	**529**	**442**	**8**
Partnership interests in low income housing projects	**42**	**30**	**66**
Total	**$4,705**	**$4,606**	**$7,132**
December 31, 2006			
Market Street	$4,020	$4,020	$6,117(a)
Collateralized debt obligations	815	570	22
Partnership interests in low income housing projects	33	30	8
Total	$4,868	$4,620	$6,147

(a) PNC s risk of loss consists of off-balance sheet liquidity commitments to Market Street of $6.5 billion and other credit enhancements of $.6 billion at June 30, 2007. The comparable amounts at December 31, 2006 were $5.6 billion and $.6 billion, respectively.

Market Street

Market Street Funding LLC (Market Street), is a multi-seller asset-backed commercial paper conduit that is owned by an independent third party. Market Street s activities are limited to the purchasing of assets or making of loans secured by interests primarily in pools of receivables from US corporations that desire access to the commercial paper market. Market Street funds the purchases or loans by issuing commercial paper which has been rated A1/P1 by Standard & Poor s and Moody s, respectively, and is supported by pool-specific credit enhancement, liquidity facilities and program-level credit enhancement.

PNC Bank, National Association (PNC Bank, N.A.) provides certain administrative services, a portion of the program-level credit enhancement, and the majority of liquidity facilities to Market Street in exchange for fees negotiated based on market rates. All of Market Street s assets at June 30, 2007 and December 31, 2006 collateralized the commercial paper obligations. PNC views its credit exposure for the Market Street transactions as limited. Facilities requiring PNC to fund for defaulted assets totaled $447 million at June 30, 2007. For 93% of the liquidity facilities at June 30, 2007, PNC is not required to fund if the assets are in default. PNC may be liable for funding under liquidity facilities for events such as borrower bankruptcies, collateral deficiencies or covenant violations. Additionally, PNC s obligations under the liquidity facilities are secondary to the risk of first loss provided by the borrower or another third party in the form of deal-specific credit enhancement for example, by the over-collateralization of the assets. Deal-specific credit enhancement that supports the commercial paper issued by Market Street is generally structured to cover a multiple of the expected historical losses for the pool of assets and is sized to generally meet rating agency standards for comparably structured transactions. Credit enhancement is provided in part by PNC Bank, N.A. in the form of a cash collateral account that is funded by a loan facility that expires March 23, 2012. See Note 15 Commitments And Guarantees included in Part I, Item 1 of this Report for additional information. Neither creditors nor investors in Market Street have any recourse to our general credit. PNC recognized program administrator fees and commitment fees related to PNC s portion of the liquidity facilities of $3.0 million and $1.0 million, respectively, for the quarter ended June 30, 2007. Comparable amounts were $5.9 million and $1.9 million for the six months ended June 30, 2007.

As more fully described in our 2006 Form 10-K, Market Street was restructured as a limited liability company in October 2005 and entered into a subordinated Note Purchase Agreement (Note) with an unrelated third party.

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The Note provides first loss coverage whereby the investor absorbs losses up to the amount of the Note, which was $6.9 million as of June 30, 2007. Proceeds from the issuance of the Note are held by Market Street in a first loss reserve account that will be used to reimburse any losses incurred by Market Street, PNC Bank, N.A. or other providers under the liquidity facilities and the credit enhancement arrangements.

As a result of the Note issuance, we reevaluated the design of Market Street, its capital structure and relationships among the variable interest holders under the provisions of FASB Interpretation No. 46, (Revised 2003) Consolidation of Variable Interest Entities (FIN 46R). Based on this analysis, we determined that we were no longer the primary beneficiary as defined by FIN 46R and deconsolidated Market Street from our Consolidated Balance Sheet effective October 17, 2005. There have been no events or changes in the contractual terms of the Note since that date that would change this conclusion.

The aggregate assets and liabilities of VIEs that we have consolidated in our financial statements are as follows:

Consolidated VIEs PNC Is Primary Beneficiary

In millions	Aggregate Assets	Aggregate Liabilities
Partnership interests in low income housing projects		
June 30, 2007	**$ 761**	**$ 761**
December 31, 2006	$ 834	$ 834

Investment Company Accounting Deferred Application

We also have subsidiaries that invest in and act as the investment manager for private equity funds organized as limited partnerships as part of our equity management activities. The funds invest in private equity investments to generate capital appreciation and profits. As permitted by FIN 46R, we have deferred applying the provisions of the interpretation for these entities pending adoption of FASB Staff Position No. (FSP) FIN 46(R)7, Application of FASB Interpretation No. 46(R) to Investment Companies. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Part I, Item 1 of the Report. These entities are not consolidated into our financial statements as of June 30, 2007 or December 31, 2006. Information on these entities follows:

In millions	Aggregate Assets	Aggregate Equity	PNC Risk of Loss
Private Equity Funds			
June 30, 2007	**$ 122**	**$ 122**	**$ 105**
December 31, 2006	$ 102	$ 102	$ 104

PNC s risk of loss in the table above includes both the value of our equity investments and any unfunded commitments to the respective entities. These equity investments are included in our private equity portfolio discussed under Market Risk Management Equity and Other Investment Risk in this Financial Review.

Perpetual Trust Securities

We issue certain hybrid capital vehicles that qualify as capital for regulatory and rating agency purposes.

In December 2006, one of our indirect subsidiaries, PNC REIT Corp., sold $500 million of 6.517% Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities (the Trust Securities) of PNC Preferred Funding Trust I (Trust I) in a private placement. PNC REIT Corp. had previously acquired the Trust Securities from the trust in exchange for an equivalent amount of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Securities (the LLC Preferred Securities), of PNC Preferred Funding LLC (the LLC), held by PNC REIT Corp. The LLC s initial material assets consist of indirect interests in mortgages and mortgage-related assets previously owned by PNC REIT Corp. Our 2006 Form 10-K includes additional information regarding the Perpetual Trust Securities, including descriptions of replacement capital and dividend restriction covenants.

In March 2007, PNC Preferred Funding LLC sold $500 million of 6.113% Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities of PNC Preferred Funding Trust II (Trust II) in a private placement. In connection with the private placement, Trust II acquired $500 million of LLC Preferred Securities.

PNC REIT Corp. owns 100% of the LLC s common voting securities. As a result, the LLC is an indirect subsidiary of PNC and is consolidated on our Consolidated Balance Sheet. Trust I and Trust II s investment in the LLC Preferred Securities is characterized as a minority interest on our Consolidated Balance Sheet since we are not the primary beneficiary of Trust I and Trust II. This minority interest totaled approximately $980 million at June 30, 2007.

Each Trust II Security is automatically exchangeable into a share of Series I Non-Cumulative Perpetual Preferred Stock of PNC (the Series I Preferred Stock) under certain conditions relating to the capitalization or the financial condition of PNC Bank, N.A. and upon the direction of the Office of the Comptroller of the Currency.

Simultaneously with the closing of the Trust II Securities sale, we entered into a replacement capital covenant (the Covenant) for the benefit of holders of a specified series of our long-term indebtedness (the Covered Debt). As of June 30, 2007, Covered Debt consists of our $200 million Floating Rate Junior Subordinated Notes issued on June 9, 1998. We agreed in the Covenant that until March 29, 2017, neither we nor our subsidiaries would purchase or redeem the Trust Securities, the LLC Preferred Securities or the Series I Preferred Stock (collectively, the Covenant Securities) unless: (i) we have received the prior approval of the Federal Reserve Board, if such approval is then required by the Federal Reserve Board and (ii) during the 180-day period prior to the date of purchase, PNC, PNC Bank, N.A. or PNC Bank, N.A. s subsidiaries, as applicable, have received proceeds from the sale of Qualifying Securities in the amounts specified in the Covenant (which amounts will vary based on the type of securities sold). Qualifying Securities means debt and equity securities having terms and provisions specified in the Covenant and that, generally described, are intended to contribute to our capital base in a manner that is similar to the contribution to our capital base made by the Covenant Securities. We filed a copy of the Covenant with the SEC as Exhibit 99.1 to PNC s current report on Form 8-K filed on March 30, 2007.

We have also entered into an Exchange Agreement with Trust II in which we have agreed that if full dividends are not paid in a dividend period on the Trust II Securities and the LLC Preferred Securities held by Trust II, PNC will not declare or pay dividends with respect to, or redeem, purchase or acquire, any of its equity capital securities during the next succeeding dividend period, other than: (i) purchases, redemptions or other acquisitions of shares of capital stock of PNC in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers, directors or consultants, (ii) purchases of shares of common stock of PNC pursuant to a contractually binding requirement to buy stock existing prior to the commencement of the extension period, including under a contractually binding stock repurchase plan, (iii) any dividend in connection with the implementation of a shareholders rights plan, or the redemption or repurchase of any rights under any such plan, (iv) as a result of an exchange or conversion of any class or series of PNC s capital stock for any other class or series of PNC s capital stock, (v) the purchase of fractional interests in shares of PNC capital stock pursuant to the conversion or exchange provisions of such stock or the security being converted or exchanged or (vi) any stock dividends paid by PNC where the dividend stock is the same stock as that on which the dividend is being paid. We filed a copy of the Exchange Agreement with the SEC as Exhibit 4.16 to PNC s Form 8-K filed on March 30, 2007.

James Monroe Trust Preferred Securities

As a result of the Mercantile acquisition, we became liable with respect to $12 million in principal amount of junior subordinated debentures issued by one of the Mercantile banks. Under the terms of these debentures, if there is an event of default under the debentures or PNC exercises its right to defer payments on the related trust preferred securities issued by two statutory trusts or there is a default under PNC s guarantee of such payment obligations, PNC would be subject during the period of such default or deferral to restrictions on dividends and other provisions protecting the status of the debenture holders similar to those potentially imposed under the Exchange Agreement with Trust II, as described above.

BUSINESS SEGMENTS REVIEW

We have four major businesses engaged in providing banking, asset management and global fund processing products and services. Business segment results, including inter-segment revenues, and a description of each business are included in Note 14 Segment Reporting included in the Notes To Consolidated Financial Statements under Part I, Item 1 of this Report. Certain revenue and expense amounts included in this Financial Review differ from the amounts shown in Note 14 due to the presentation in this Financial Review of business revenue on a taxable-equivalent basis, the inclusion of BlackRock/MLIM transaction integration costs in the Other category in this Financial Review, and classification differences related to PFPC. Also, the presentation of BlackRock results for the 2006 period have been modified in this Financial Review as described on page 22 to conform with our current period presentation.

Results of individual businesses are presented based on our management accounting practices and our management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of individual businesses are not necessarily comparable with similar information for any other company. We refine our methodologies from time to time as our management accounting practices are enhanced and our businesses and management structure change. Financial results are presented, to the extent practicable, as if each business, with the exception of our BlackRock segment, operated on a stand-alone basis. As permitted under GAAP, we have aggregated the business results for certain operating segments for financial reporting purposes.

Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing methodology that incorporates product maturities, duration and other factors. Capital is intended to cover unexpected losses and is assigned to the banking and processing businesses using our risk-based economic capital model. We have assigned capital equal to 6% of funds to Retail Banking to reflect the capital required for well-capitalized banks and to

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approximate market comparables for this business. The capital assigned for PFPC reflects its legal entity shareholders equity.

BlackRock business segment results for the six months ended June 30, 2006 reflected our majority ownership in BlackRock during that period. Subsequent to the September 29, 2006 BlackRock/MLIM transaction closing, which had the effect of reducing our ownership interest to approximately 34%, our investment in BlackRock has been accounted for under the equity method but continues to be a separate reportable business segment of PNC. We describe our presentation method for the BlackRock segment for this Financial Review on page 23.

We have allocated the allowances for loan and lease losses and unfunded loan commitments and letters of credit based on our assessment of risk inherent in the loan portfolios. Our allocation of the costs incurred by operations and other support areas not directly aligned with the businesses is primarily based on the use of services.

Total business segment financial results differ from total consolidated results. The impact of these differences is reflected in the Other category. Other for purposes of this Financial Review includes residual activities that do not meet the criteria for disclosure as a separate reportable business, such as gains or losses related to BlackRock transactions including LTIP share distributions and obligations, Mercantile acquisition and BlackRock/MLIM transaction integration costs, asset and liability management activities, net securities gains or losses, certain trading activities and equity management activities, differences between business segment performance reporting and financial statement reporting (GAAP), intercompany eliminations, and most corporate overhead.

Employee data as reported by each business segment in the tables that follow reflects staff directly employed by the respective business and excludes corporate and shared services employees.

Results Of Businesses - Summary

(Unaudited)

	Earnings		Revenue (a)		Average Assets (b)	
Six months ended June 30 - dollars in millions	**2007**	2006	**2007**	2006	**2007**	2006
Retail Banking	**$ 428**	$ 375	**$ 1,817**	$ 1,535	**$ 39,662**	$ 29,326
Corporate & Institutional Banking	**254**	217	**751**	713	**27,471**	24,181
BlackRock (c) (d)	**110**	95	**143**	775	**4,048**	1,924
PFPC (e)	**63**	53	**408**	382	**2,400**	2,416
Total business segments	**855**	740	**3,119**	3,405	**73,581**	57,847
Other (c) (f)	**27**	(5)	**222**	135	**41,834**	34,945
Total consolidated	**$ 882**	$ 735	**$ 3,341**	$ 3,540	**$ 115,415**	$ 92,792

(a) Business segment revenue is presented on a taxable-equivalent basis. A reconciliation of total consolidated revenue on a book (GAAP) basis to total consolidated revenue on a taxable-equivalent basis follows:

Six months ended June 30 (in millions)	**2007**	2006
Total consolidated revenue, book (GAAP) basis	**$ 3,327**	$ 3,527
Taxable-equivalent adjustment	**14**	13
Total consolidated revenue, taxable-equivalent basis	**$ 3,341**	$ 3,540

(b) Period-end balances for BlackRock and PFPC. BlackRock was an equity investment at June 30, 2007 and was consolidated at June 30, 2006.

(c) For our segment reporting presentation in this Financial Review, our after-tax share of BlackRock/MLIM transaction integration costs totaling $2 million and $8 million for the six months ended June 30, 2007 and June 30, 2006 have been reclassified from BlackRock to Other. Other for the first six months of 2007 also includes $26 million of pretax Mercantile acquisition integration costs.

(d) For the first six months of 2007, revenue represents our equity income from BlackRock. For the first six months of 2006, revenue represents the sum of total operating revenue and nonoperating income.

(e) PFPC revenue represents the sum of servicing revenue and nonoperating income (expense) less debt financing costs. Prior period servicing revenue amounts have been reclassified to conform with the current period presentation.

(f) Other average assets are comprised primarily of securities available for sale and residential mortgage loans associated with asset and liability management activities.

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Retail Banking

(Unaudited)

Six months ended June 30

Taxable-equivalent basis

Dollars in millions	2007	2006
Income Statement		
Net interest income	**$987**	$832
Noninterest income		
Asset management	**224**	174
Service charges on deposits	**164**	148
Brokerage	**131**	117
Consumer services	**190**	174
Other	**121**	90
Total noninterest income	**830**	703
Total revenue	**1,817**	1,535
Provision for credit losses	**60**	37
Noninterest expense	**1,075**	900
Pretax earnings	**682**	598
Income taxes	**254**	223
Earnings	**$428**	$375
Average Balance Sheet		
Loans		
Consumer		
Home equity	**$14,060**	$13,797
Indirect	**1,759**	1,003
Other consumer	**1,544**	1,225
Total consumer	**17,363**	16,025
Commercial	**11,150**	5,574
Floor plan	**995**	967
Residential mortgage	**1,715**	1,612
Other	**233**	243
Total loans	**31,456**	24,421
Goodwill and other intangible assets	**4,369**	1,584
Loans held for sale	**1,558**	1,706
Other assets	**2,279**	1,615
Total assets	**$39,662**	$29,326
Deposits		
Noninterest-bearing demand	**$9,974**	$7,842
Interest-bearing demand	**8,728**	7,987
Money market	**16,385**	14,671
Total transaction deposits	**35,087**	30,500
Savings	**2,614**	2,146
Certificates of deposit	**16,684**	13,339
Total deposits	**54,385**	45,985
Other liabilities	**702**	549
Capital	**3,509**	2,961
Total funds	**$58,596**	$49,495
Performance Ratios		
Return on average capital	**25%**	26%
Noninterest income to total revenue	**46**	46
Efficiency	**59**	59

OTHER INFORMATION, INCLUDING MERCANTILE (a) (b)		
Credit-related statistics:		
Nonperforming assets (f)	**$140**	$104
Net charge-offs	**$52**	$33
Net charge-off ratio	**.33%**	.27%
Other statistics:		
Full-time employees	**11,804**	9,674
Part-time employees	**2,360**	1,526
ATMs	**3,917**	3,553
Branches (c)	**1,084**	846

At June 30

Dollars in millions, except where noted	**2007**	2006
OTHER INFORMATION, INCLUDING MERCANTILE (b)		
ASSETS UNDER ADMINISTRATION (in billions) (d)		
Assets under management		
Personal	**$55**	$40
Institutional	**22**	10
Total	**$77**	$50
Asset Type		
Equity	**$43**	$31
Fixed income	**20**	12
Liquidity/other	**14**	7
Total	**$77**	$50
Nondiscretionary assets under administration		
Personal	**$30**	$25
Institutional	**81**	60
Total	**$111**	$85
Asset Type		
Equity	**$47**	$31
Fixed income	**28**	26
Liquidity/other	**36**	28
Total	**$111**	$85
OTHER INFORMATION, NOT INCLUDING MERCANTILE (a) (e)		
Home equity portfolio credit statistics:		
% of first lien positions	**42%**	45%
Weighted average loan-to-value ratios	**70%**	69%
Weighted average FICO scores	**727**	728
Loans 90 days past due	**.26%**	.21%
Checking-related statistics:		
Retail Banking checking relationships	**1,967,000**	1,956,000
Consumer DDA households using online banking	**975,000**	897,000
% of consumer DDA households using online banking	**55%**	51%
Consumer DDA households using online bill payment	**505,000**	305,000
% of consumer DDA households using online bill payment	**29%**	17%
Small business loans and managed deposits:		
Small business loans	**$5,292**	$4,768
Managed deposits:		
On-balance sheet		
Noninterest-bearing demand	**$4,230**	$4,338
Interest-bearing demand	**1,585**	1,423
Money market	**2,596**	2,661
Certificates of deposit	**696**	564
Off-balance sheet (g)		
Small business sweep checking	**1,884**	1,493
Total managed deposits	**10,991**	10,479
Brokerage statistics:		
Margin loans	**$162**	$194
Financial consultants (h)	**767**	775
Full service brokerage offices	**99**	100

Brokerage account assets (billions)	**$47**	$43
Other statistics:		
Gains on sales of education loans (i)	**$8**	$11

(a) Presented as of June 30 except for net charge-offs, net charge-off ratio, gains on sales of education loans, and small business loans and managed deposits, which are for the six months ended.

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(b) Amounts include the impact of Mercantile, which we acquired effective March 2, 2007.
(c) Excludes certain satellite branches that provide limited products and service hours.
(d) Excludes brokerage account assets.
(e) Amounts do not include the impact of Mercantile, which we acquired effective March 2, 2007.
(f) Includes nonperforming loans of $130 million at June 30, 2007 and $95 million at June 30, 2006.
(g) Represents small business balances. These balances are swept into liquidity products managed by other PNC business segments, the majority of which are off-balance sheet.
(h) Financial consultants provide services in full service brokerage offices and PNC traditional branches.
(i) Included in Noninterest income-Other.

Retail Banking s earnings were $428 million for the first six months of 2007 compared with $375 million for the same period in 2006. The 14% increase over the prior year was driven by the Mercantile acquisition, strong market-related fees, and continued customer and balance sheet growth, partially offset by an increase in the provision for credit losses and in noninterest expense.

Highlights of Retail Banking s performance during the first six months of 2007 include the following:

- The acquisition of Mercantile in the first quarter added approximately $10.3 billion of loans and $12.0 billion in deposits to Retail Banking. The acquisition also:
  - Added 235 branches and 256 ATMs in the first quarter,
  - Significantly increased our presence in Maryland,
  - Added to our presence in Delaware, Virginia and the Washington, DC area,
  - Significantly increased the size of our small business banking franchise, and
  - Expanded our wealth management business with the addition of $22 billion in assets under management.
- PNC announced the pending acquisition of Yardville, which is expected to result in a leading deposit share in several wealthy counties in central New Jersey.
- PNC announced the pending acquisition of Sterling, which is expected to result in a leading deposit share in the Central Pennsylvania footprint and to enhance our presence in surrounding markets.
- Customer service and customer retention continues to be our focus. During the first quarter of 2007, we partnered with the Gallup organization to evaluate customer and employee satisfaction at the branch level.
- Consumer and small business checking relationships increased 13,000 since December 31, 2006, not including the impact of Mercantile. The low-value account closures resulting from One PNC pricing initiatives appear to have run their course. The new checking account product line has increased the average balance of new accounts by approximately 15%.
- Our investment in online banking capabilities continues to pay off. Since June 30, 2006, consumer checking households using online banking increased 9% and consumer checking households using online bill payment increased 66%.
- In September 2006, we launched our PNC-branded credit card product. As of June 30, 2007, more than 106,000 cards have been issued and we have $221 million in receivable balances. The results to date have exceeded our expectations.
- In addition to Mercantile, we opened 26 new branches and consolidated 23 branches since June 30, 2006, for a total of 1,084 branches at June 30, 2007. We continue to optimize our network by opening new branches in high growth areas, relocating branches to areas of higher opportunity, and consolidating branches in areas of declining market opportunity.
- Our wealth management and brokerage businesses have benefited from market conditions and strong business development.
  - Excluding the $22 billion of assets under management related to our acquisition of Mercantile in the first quarter, assets under management increased $5 billion compared with June 30, 2006,
  - Brokerage assets increased $4 billion, or 9%, from June 30, 2006, and
  - Asset management and brokerage fees increased $64 million, or 22%, over the first six months of 2006.
- The small business area continued its positive momentum. Not including the impact of Mercantile, average small business loans increased 11% over the first six months of 2006 on the strength of increased demand from both existing customers and new relationships. Small business checking relationships increased 3% and total managed deposits increased 5% over the first six months of 2006.

Total revenue for the first six months of 2007 was $1.817 billion compared with $1.535 billion for the same period last year. Taxable-equivalent net interest income of $987 million increased $155 million, or 19%, compared with 2006 due to an 18% increase in average deposits and a 29% increase in average loan balances. Net interest income growth has been somewhat mitigated by declining spreads on the loan portfolio. In the current rate environment, we expect the spreads we receive on both loans and deposits to continue to be under pressure.

Noninterest income increased $127 million, or 18%, compared with the first six months of 2006 primarily driven by increased asset management fees, consumer service fees, service charges on deposits and brokerage fees. This growth can be attributed primarily to the following:

- The Mercantile acquisition,
- Comparatively favorable equity markets,
- Increased assets under management,
- Increased brokerage account assets and activities,

Increased third party loan servicing activities,
New PNC-branded credit card product,
Higher gains on asset sales, and
Customer growth.

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The provision for credit losses increased $23 million in the first six months of 2007, to $60 million, compared with the 2006 period. Net charge-offs were $52 million for the first half of 2007, an increase of $19 million compared with the first half of 2006. The increases in provision and net charge-offs were primarily a result of continued growth in our commercial loan portfolio and charge-offs returning to a more normal level. Charge-offs over the last few years have been low compared to historical averages.

Noninterest expense in the first six months of 2007 totaled $1.075 billion, an increase of $175 million, or 19%, compared with the first six months of 2006. Increases were primarily attributable to the Mercantile acquisition, higher volume-related expenses tied to noninterest income, continued growth of the company s branch network, expansion of the private client group, and investments in various initiatives such as the new PNC-branded credit card.

Full-time employees at June 30, 2007 totaled 11,804, an increase of 2,130 from June 30, 2006. Excluding the impact of the Mercantile acquisition, full-time employees declined by 48 and part-time employees have increased by 470 since June 30, 2006. The increase in part-time employees is a result of various customer service enhancement and efficiency initiatives. These initiatives include utilizing more part-time customer-facing employees during peak business hours versus full-time employees.

Growing core checking deposits as a lower-cost funding source and as the cornerstone product to build customer relationships is the primary objective of our deposit strategy. Average total deposits increased $8.4 billion, or 18%, compared with the first half of 2006. The deposit growth was driven by the Mercantile acquisition, the recapture of consumer certificate of deposit balances as interest rates have risen, and increases in the number of checking relationships.

In the current rate environment, we expect the rate of growth in demand deposit balances to be equal to or less than the rate of overall growth for customer checking relationships. Additionally, we continue to expect to see customers shift their funds from lower yielding interest-bearing deposits to higher yielding deposits or investment products, and to pay off loans. The shift has been evident during the past year and has impacted the level of average demand deposits in that period.

- Certificates of deposits increased $3.3 billion and money market deposits increased $1.7 billion. These increases were attributable to the Mercantile acquisition and the current interest rate environment attracting customers to these products.
- Average demand deposit growth of $2.9 billion, or 18%, was almost solely due to the Mercantile acquisition as the core growth was impacted by customers shifting funds into higher yielding deposits, small business sweep checking products, and investment products.
- Small business and consumer-related checking relationships retention remained strong and stable. Consumer-related checking relationship retention has benefited from improved penetration rates of debit cards, online banking and online bill payment.

Currently, we are focused on a relationship-based lending strategy that targets specific customer sectors (homeowners, small businesses and auto dealerships) while seeking to maintain a moderate risk profile in the loan portfolio.

- Average commercial loans grew $5.6 billion, or 100%, compared with the first six months of 2006. The increase is attributable to the Mercantile acquisition and organic loan growth on the strength of increased loan demand from existing small business customers and the acquisition of new relationships through our sales efforts.
- Average home equity loans grew $263 million, or 2%, compared with the first six months of 2006. Consumer loan demand has slowed as a result of the current rate environment. Our home equity loan portfolio is relationship based, with 92% of the portfolio attributable to borrowers in our primary geographic footprint. We monitor this portfolio closely and, to date, have seen no significant deterioration in credit quality.
- Average indirect loans grew $756 million, or 75%, compared with the first half of 2006. The increase is attributable to the Mercantile acquisition and growth in our core portfolio that has benefited from increased sales and marketing efforts.
- Average residential mortgage loans increased $103 million, or 6%, primarily due to the addition of loans from the Mercantile acquisition. Payoffs in our existing portfolio, which will continue throughout 2007, partially offset the impact of the additional loans acquired. Additionally, our transfer of residential mortgages to held for sale and subsequent sale of those loans at the end of September 2006 reduced the size of this loan portfolio when compared to the first six months of 2006.

Assets under management of $77 billion at June 30, 2007 increased $27 billion compared with the balance at June 30, 2006. The Mercantile acquisition added $22 billion in assets under management in the first quarter and the remaining portfolio growth was a result of the effects of comparatively higher equity markets.

Nondiscretionary assets under administration of $111 billion at June 30, 2007 increased $26 billion compared with the balance at June 30, 2006. The growth included $23 billion from the Mercantile acquisition in the first quarter and the remaining growth was due primarily to the effect of comparatively higher equity markets.

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CORPORATE & INSTITUTIONAL BANKING

(Unaudited)

Six months ended June 30 Taxable-equivalent basis Dollars in millions except as noted	**2007**	2006
INCOME STATEMENT		
Net interest income	**$377**	$339
Noninterest income		
Corporate service fees	**266**	246
Other	**108**	128
Noninterest income	**374**	374
Total revenue	**751**	713
Provision for credit losses	**1**	29
Noninterest expense	**385**	366
Pretax earnings	**365**	318
Income taxes	**111**	101
Earnings	**$254**	$217
AVERAGE BALANCE SHEET		
Loans		
Corporate (a)	**$9,092**	$8,552
Commercial real estate	**3,405**	2,702
Commercial real estate related	**3,237**	2,469
Asset-based lending	**4,538**	4,353
Total loans	**20,272**	18,076
Goodwill and other intangible assets	**1,669**	1,321
Loans held for sale	**1,142**	871
Other assets	**4,388**	3,913
Total assets	**$27,471**	$24,181
Deposits		
Noninterest-bearing demand	**$7,017**	$6,524
Money market	**4,592**	2,139
Other	**1,020**	856
Total deposits	**12,629**	9,519
Other liabilities	**2,906**	2,692
Capital	**2,057**	1,842
Total funds	**$17,592**	$14,053

(a) Includes lease financing.

Corporate & Institutional Banking earned $254 million in the first six months of 2007 compared with $217 million in the first six months of 2006. The increase compared with the first half of 2006 was largely the result of higher taxable-equivalent net interest income and a lower provision for credit losses, partly offset by an increase in noninterest expense.

Six months ended June 30 Taxable-equivalent basis Dollars in millions except as noted	**2007**	2006
PERFORMANCE RATIOS		
Return on average capital	**25%**	24%
Noninterest income to total revenue	**50**	52

Efficiency	**51**	51
COMMERCIAL MORTGAGE SERVICING PORTFOLIO (in billions)		
Beginning of period	**$200**	$136
Acquisitions/additions	**44**	32
Repayments/transfers	**(22)**	(17)
End of period	**$222**	$151
OTHER INFORMATION		
Consolidated revenue from: (a)		
Treasury Management	**$224**	$205
Capital Markets	**$143**	$140
Midland Loan Services	**$110**	$84
Total loans (b)	**$21,662**	$18,758
Nonperforming assets (b) (c)	**$100**	$125
Net charge-offs	**$16**	$16
Full-time employees (b)	**2,084**	1,899
Net gains on commercial mortgage loan sales	**$24**	$25
Net carrying amount of commercial mortgage servicing rights (b)	**$493**	$385

(a) Represents consolidated PNC amounts.

(b) At June 30.

(c) Includes nonperforming loans of $87 million at June 30, 2007 and $112 million at June 30, 2006.

Highlights of the first six months of 2007 for Corporate & Institutional Banking included:

Average total loan balances increased $2.2 billion from the prior year first half. In addition to the Mercantile acquisition in the first quarter of 2007, which fueled growth in all loan categories, continuing customer demand was also a factor in the growth in corporate loans.

Competitive pressures for risk-adjusted returns in 2007 have increased due to larger amounts of liquidity in the credit markets, which has resulted in shrinking loan spreads and slowing loan growth.

Asset quality continued to be strong as nonperforming assets declined $25 million, or 20%, at June 30, 2007 compared with June 30, 2006. Included in the June 30, 2007 amount is $34 million of nonperforming assets associated with the Mercantile acquisition. The provision for credit losses declined $28 million in the comparison of the first six months of 2007 and 2006. The improvement in asset quality reflected in PNC and industry experience led to a reduction in historical default factors used to determine required reserves during the first quarter of 2007.

Average deposit balances for the first six months of 2007 increased $3.1 billion, or 33%, compared with the first six months of 2006. The increase in corporate money

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market deposits reflected PNC s action to avail itself of the opportunity to obtain funding from alternative sources. Noninterest-bearing deposit growth was attributable to our commercial mortgage servicing portfolio.

Total revenue increased $38 million, or 5%, for the first six months of 2007 compared with the first six months of 2006. The increase was driven by higher net interest income related to growth of noninterest bearing deposits as well as the increase in loans resulting from the Mercantile acquisition. Corporate service fees increased due to increased sales of treasury management products and services, commercial mortgage servicing, and mergers and acquisitions advisory services. These increases in revenue were partially offset by a decline in other noninterest income. This decline primarily reflected the high level of gains recognized in 2006 from commercial mortgage securitization hedging activity compared with the first six months of 2007. However, our fee income may be impacted by the recent volatility in the financial markets.

Commercial mortgage servicing revenue, which includes fees and net interest income, totaled $110 million for the first half of 2007, compared with $84 million for the first six months of 2006. The 31% revenue growth over the first six months of 2006 was primarily driven by growth in the commercial mortgage servicing portfolio, which increased to $222 billion. The associated increase in deposits has increased the net interest income portion of Midland Loan Services total revenue.

Noninterest expense increased by $19 million, or 5%, compared with the first six months of 2006 consistent with the growth in total revenue. This reflects the continued investment in various growth and fee-based initiatives, customer growth, and increase in the commercial mortgage servicing portfolio. In addition, noninterest expense increases reflect our business of originating transactions whose returns are heavily dependent on tax credits, whereby losses are taken through noninterest expense and the associated benefits result in a lower provision for income taxes.

See the additional revenue discussion regarding treasury management and capital markets-related products and services and commercial loan servicing on page 9.

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BlackRock

(Unaudited)

Our BlackRock business segment earned $110 million for the first six months of 2007 and $95 million for the first six months of 2006. Subsequent to the September 29, 2006 deconsolidation of BlackRock, these business segment earnings are determined by taking our proportionate share of BlackRock s earnings and subtracting our additional income taxes recorded on our share of BlackRock s earnings. Also, for this business segment presentation, we reclassify our after-tax share of BlackRock/MLIM integration costs ($2 million in 2007 and $8 million in 2006) from BlackRock to Other. In addition, these business segment earnings for the first half of 2006 have been reduced by minority interest in income of BlackRock, excluding MLIM transaction integration costs, totaling $45 million.

We have modified the presentation of historical BlackRock business segment results as described above to conform with the current business segment reporting presentation in this Financial Review.

PNC s investment in BlackRock was $4.0 billion at June 30, 2007 and $3.9 billion at December 31, 2006. Based upon BlackRock s closing market price of $156.59 per common share at June 30, 2007, the market value of our investment in BlackRock was approximately $6.8 billion at that date. As such, an additional $2.8 billion of pretax value was not recognized in our investment account at that date.

In June 2007, BlackRock and Quellos Group, LLC (Quellos) announced that they had entered into a definitive agreement under which BlackRock will acquire the fund of funds business of Quellos for up to $1.7 billion. The combined business will comprise one of the largest fund of funds platforms in the world, with over $25 billion in assets under management. Products, including hedge, private equity and real asset fund of funds, as well as specialty and hybrid offerings, are managed on behalf of institutional and individual investors worldwide.

BlackRock s acquisition of Quellos fund of funds business is expected to close on or about October 1, 2007, pending regulatory approvals and satisfaction of other customary closing conditions. Upon closing, Quellos will receive $562 million in cash and $188 million in BlackRock common stock. PNC expects to recognize a pretax gain in the mid-$20 million range during the fourth quarter of 2007 resulting from BlackRock s issuance of shares at closing. In addition, Quellos may receive up to an additional $970 million in cash and BlackRock common stock over 3.5 years contingent on certain measures.

BlackRock/MLIM Transaction

As further described in our 2006 Form 10-K, on September 29, 2006 Merrill Lynch contributed its investment management business (MLIM) to BlackRock in exchange for 65 million shares of newly issued BlackRock common and preferred stock.

For the six months ended June 30, 2006, our Consolidated Income Statement included our former 69% ownership interest in BlackRock. However, our Consolidated Balance Sheet as of June 30, 2007 and December 31, 2006 reflected the September 29, 2006 deconsolidation of BlackRock s balance sheet amounts and recognized our approximate 34% ownership interest in BlackRock as an investment accounted for under the equity method. This accounting has resulted in a reduction in certain revenue and noninterest expense categories on our Consolidated Income Statement as our share of BlackRock s net income is now reported within asset management noninterest income.

BlackRock LTIP Programs

As further described in our 2006 Form 10-K, BlackRock adopted the 2002 LTIP program to help attract and retain qualified professionals. At that time, PNC agreed to transfer up to four million of the shares of BlackRock common stock then held by us to help fund the 2002 LTIP and future programs approved by BlackRock s board of directors, subject to certain conditions and limitations. Prior to 2006, BlackRock granted awards of approximately $230 million under the 2002 LTIP program, of which approximately $210 million were paid on January 30, 2007. The award payments were funded by approximately 17% in cash from BlackRock and approximately one million shares of BlackRock common stock transferred by PNC and distributed to LTIP participants.

We recognized a pretax gain of $82 million in the first quarter of 2007 from the transfer of BlackRock shares to satisfy the majority of our 2002 LTIP obligation. The gain was reflected in noninterest income and reflected the excess of market value over book value of the approximately one million shares transferred in January 2007.

PNC s noninterest income in the first six months of 2007 also included a $31 million pretax charge related to our commitment to fund additional BlackRock LTIP programs. This charge represents the mark-to-market of our remaining BlackRock LTIP obligation as of June 30, 2007.

BlackRock granted awards of approximately $260 million in January 2007 under an additional LTIP program, which were converted into approximately 1.5 million restricted stock units. All of these awards are subject to achieving earnings performance goals prior to the vesting date of September 29, 2011. The maximum value of awards that may be funded by PNC during the award period ending in September 2011 is approximately $271 million, which includes the $260 million of awards granted in January 2007. Shares remaining after that award period ends would be available for future awards.

While we may continue to see volatility in earnings as we mark to market our LTIP shares obligation each quarter-end, we will not recognize additional gains, if applicable, for the difference between the market value and the book value of the committed BlackRock common shares until the shares are distributed to LTIP participants.

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PFPC

(Unaudited)

Six months ended June 30

Dollars in millions except as noted	**2007**	2006
INCOME STATEMENT		
Servicing revenue (a)	**$424**	$401
Operating expense (a)	**311**	296
Operating income	**113**	105
Debt financing	**19**	21
Nonoperating income (b)	**3**	2
Pretax earnings	**97**	86
Income taxes	**34**	33
Earnings	**$63**	$53
PERIOD-END BALANCE SHEET		
Goodwill and other intangible assets	**$1,005**	$1,018
Other assets	**1,395**	1,398
Total assets	**$2,400**	$2,416
Debt financing	**$734**	$852
Other liabilities	**1,109**	1,137
Shareholder s equity	**557**	427
Total funds	**$2,400**	$2,416
PERFORMANCE RATIOS		
Return on average equity	**26%**	29%
Operating margin (c)	**27**	26
SERVICING STATISTICS (at June 30)		
Accounting/administration net fund assets (in billions)		
Domestic	**$765**	$671
Offshore	**103**	72
Total	**$868**	$743
Asset type (in billions)		
Money market	**$286**	$247
Equity	**373**	317
Fixed income	**118**	110
Other (d)	**91**	69
Total	**$868**	$743
Custody fund assets (in billions)	**$467**	$389
Shareholder accounts (in millions)		
Transfer agency	**20**	18
Subaccounting	**50**	47
Total	**70**	65
OTHER INFORMATION		
Full-time employees (at June 30)	**4,522**	4,314

(a) Certain out-of-pocket expense items which are then client billable are included in both servicing revenue and operating expense above, but offset each other entirely and therefore have no net effect on operating income. Distribution revenue and expenses which relate to 12b-1 fees that PFPC receives from certain fund clients for the payment of marketing, sales and service expenses also entirely offset each other, but are netted for presentation purposes above. Prior period amounts have been reclassified to conform with the current period presentation.

(b) Net of nonoperating expense.

(c) Total operating income divided by servicing revenue.

(d) Includes alternative investment net assets serviced.

PFPC earned $63 million for the first six months of 2007 compared with $53 million in the year-earlier period. The earnings increase from the first half of 2006 reflected new business, organic growth and market appreciation, partly offset by client deconversions.

Highlights of PFPC s performance in the first six months of 2007 included:

- Successful conversion of 1.9 million open transfer agency shareholder accounts during the second quarter related to a new client.
- Total fund investment assets serviced exceeded the $100 billion threshold in the second quarter in both managed account services and offshore operations.
- Revenue growth in securities lending, alternative investments, and managed account services was approximately 30% on a year to year comparison.

Servicing revenue for the first half of 2007 increased by $23 million, or 6%, over the first half of 2006, to $424 million. Revenue increases related to managed accounts, transfer agency, alternative investments and securities lending drove the higher servicing revenue.

Operating expense increased $15 million, or 5%, to $311 million, in the first six months of 2007 compared with the first six months of 2006. The majority of this increase is attributable to increased headcount and technology costs to support new business achieved over the past year.

PFPC s effective tax rate improved on a year to year comparison due to a change in providing for earnings on its foreign subsidiaries in the third quarter of 2006. The increase in income taxes reflected higher pretax earnings.

Total assets serviced by PFPC amounted to $2.4 trillion at June 30, 2007 compared with $1.9 trillion at June 30, 2006. This increase resulted from the new business, organic growth in existing business, and strong market appreciation experienced over the past year.

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CRITICAL ACCOUNTING POLICIES AND JUDGMENTS

Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report and in Part II, Item 8 of our 2006 Form 10-K describe the most significant accounting policies that we use. Certain of these policies require us to make estimates and strategic or economic assumptions that may prove to be inaccurate or subject to variations that may significantly affect our reported results and financial position for the period or in future periods.

We must use estimates, assumptions, and judgments when financial assets and liabilities are required to be recorded at, or adjusted to reflect, fair value. Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Fair values and the information used to record valuation adjustments for certain assets and liabilities are based on either quoted market prices or are provided by other independent third-party sources, when available. When such third-party information is not available, we estimate fair value primarily by using cash flow and other financial modeling techniques. Changes in underlying factors, assumptions, or estimates in any of these areas could materially impact our future financial condition and results of operations.

We discuss the following critical accounting policies and judgments under this same heading in Item 7 of our 2006 Form 10-K:

- Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit
- Private Equity Asset Valuation
- Lease Residuals
- Goodwill
- Revenue Recognition
- Income Taxes

Additional discussion and information on the application of these policies is found in other portions of this Financial Review and in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report. In particular, see Note 1 Accounting Policies and Note 11 Income Taxes in the Notes To Consolidated Financial Statements regarding our first quarter 2007 adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* and the discussion under the heading Lease and Related Tax and Accounting Matters on page 11.

STATUS OF QUALIFIED DEFINED BENEFIT PENSION PLAN

We have a noncontributory, qualified defined benefit pension plan (plan or pension plan) covering eligible employees. Benefits are derived from a cash balance formula based on compensation levels, age and length of service. Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants. Plan assets are currently approximately 60% invested in equity investments with most of the remainder invested in fixed income instruments. Plan fiduciaries determine and review the plan s investment policy.

We calculate the expense associated with the pension plan in accordance with SFAS 87, *Employers Accounting for Pensions,* and we use assumptions and methods that are compatible with the requirements of SFAS 87, including a policy of reflecting trust assets at their fair market value. On an annual basis, we review the actuarial assumptions related to the pension plan, including the discount rate, the rate of compensation increase and the expected return on plan assets. Neither the discount rate nor the compensation increase assumptions significantly affects pension expense.

The expected long-term return on assets assumption does significantly affect pension expense. The expected long-term return on plan assets for determining net periodic pension cost for 2007 was 8.25%, unchanged from 2006. Under current accounting rules, the difference between expected long-term returns and actual returns is accumulated and amortized to pension expense over future periods. Each one percentage point difference in actual return compared with our expected return causes expense in subsequent years to change by up to $4 million as the impact is amortized into results of operations.

The table below reflects the estimated effects on pension expense of certain changes in assumptions, using 2007 estimated expense as a baseline.

Change in Assumption

	Estimated Increase to 2007 Pension Expense (In millions)
.5% decrease in discount rate	$ 2
.5% decrease in expected long-term return on assets	$ 10
.5% increase in compensation rate	$ 2

We currently estimate a pretax pension benefit of $30 million in 2007 compared with a pretax benefit of $12 million in 2006. The primary reason for this change is 2006 investment returns in excess of the expected long-term return assumption. Actual pension benefit recognized for the first six months of 2007 was $16 million. The 2007 values and sensitivities shown above also include the qualified defined benefit plan maintained by Mercantile that we plan to integrate into the PNC plan as of December 31, 2007. See Note 8 Certain Employee Benefit And Stock-Based Compensation Plans in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for more information regarding these plans.

In September 2006, the FASB issued SFAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132 (R).* This statement affects the accounting and reporting for our qualified pension plan, our nonqualified retirement plans, our postretirement welfare benefit plans, and our postemployment benefit plans. SFAS 158 requires recognition on the balance sheet of the overfunded or underfunded position of these plans as the difference between the fair value of plan assets and the related benefit obligations. To the extent that a plan s net funded status differs from the amounts currently recognized on the balance sheet, the difference, net of tax, will be recorded as a part of accumulated other comprehensive income (loss) (AOCI) within the shareholders equity section of the balance sheet. This guidance also requires the recognition of any unrecognized actuarial gains and losses and unrecognized prior service costs to AOCI, net of tax. Post-adoption changes in unrecognized actuarial gains and losses as well as unrecognized prior service costs will be recognized in other comprehensive income, net of tax. SFAS 158 was effective for PNC as of December 31, 2006, with no retrospective application permitted for prior year-end reporting periods, and resulted in an adjustment for all unamortized net actuarial losses and prior service costs of $132 million after tax. See Note 1 Accounting Policies of our 2006 Form 10-K for further information regarding our adoption of this pronouncement.

Our pension plan contribution requirements are not particularly sensitive to actuarial assumptions. Investment performance has the most impact on contribution requirements and will drive the amount of permitted contributions in future years. Also, current law, including the provisions of the Pension Protection Act of 2006, sets limits as to both minimum and maximum contributions to the plan. In any event, any large near-term contributions to the plan will be at our discretion, as we expect that the minimum required contributions under the law will be minimal or zero for several years.

We maintain other defined benefit plans that have a less significant effect on financial results, including various nonqualified supplemental retirement plans for certain employees.

RISK MANAGEMENT

We encounter risk as part of the normal course of our business and we design risk management processes to help manage

these risks. The Risk Management section included in Item 7 of our 2006 Form 10-K provides a general overview of the risk measurement, control strategies and monitoring aspects of our corporate-level risk management processes. Additionally, our 2006 Form 10-K provides an analysis of the risk management processes for what we view as our primary areas of risk: credit, operational, market and liquidity, as well as a discussion of our use of financial derivatives as part of our overall asset and liability risk management process. In appropriate places within that section, historical performance is also addressed. The following information in this Risk Management section updates our 2006 Form 10-K disclosures in these areas.

CREDIT RISK MANAGEMENT

Credit risk represents the possibility that a customer, counterparty or issuer may not perform in accordance with contractual terms. Credit risk is inherent in the financial services business and results from extending credit to customers, purchasing securities, and entering into financial derivative transactions. Credit risk is one of the most common risks in banking and is one of our most significant risks.

Norperforming, Past Due And Potential Problem Assets

See Note 4 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report and included here by reference for details of the types of nonperforming assets that we held at June 30, 2007 and December 31, 2006. In addition, certain performing assets have interest payments that are past due or have the potential for future repayment problems.

Total nonperforming assets at June 30, 2007 increased $75 million, to $246 million, compared with December 31, 2006. Of this increase, $67 million related to the Mercantile portfolio.

Foreclosed lease assets of $12 million at both June 30, 2007 and December 31, 2006 primarily represent our repossession of collateral related to a single airline industry credit. This repossessed collateral is currently being leased.

The amount of nonperforming loans that was current as to principal and interest was $79 million at June 30, 2007 and $59 million at December 31, 2006. While we believe that overall asset quality will remain strong for the near term, the current level of asset quality is very strong by historical standards and may not be sustainable for the foreseeable future, particularly in the event of deteriorating economic conditions or higher interest rates. This outlook, combined with expected loan or total credit exposure growth, may result in an increase in the allowance for loan and lease losses in future periods.

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Nonperforming Assets By Business

In millions	**June 30 2007**	Dec. 31 2006
Retail Banking	**$ 140**	$ 106
Corporate & Institutional Banking	**100**	63
Other	**6**	2
Total nonperforming assets	**$ 246**	$ 171

Change In Nonperforming Assets

In millions	**2007**	2006
January 1	**$ 171**	$ 215
Transferred from accrual	**189**	127
Acquisition Mercantile	**35**	
Principal activity including payoffs	**(90)**	(46)
Charge-offs and valuation adjustments	**(51)**	(48)
Returned to performing	**(4)**	(10)
Asset sales	**(4)**	(7)
June 30	**$ 246**	$ 231

Accruing Loans Past Due 90 Days Or More

	Amount		Percent of Total Outstandings	
Dollars in millions	**June 30 2007**	Dec. 31 2006	**June 30 2007**	Dec. 31 2006
Commercial	**$ 7**	$ 9	**.03%**	.04%
Commercial real estate	**10**	5	**.10**	.14
Consumer	**27**	28	**.15**	.17
Residential mortgage	**5**	7	**.05**	.11
Other	**6**	1	**1.57**	.27
Total loans	**$ 55**	$ 50	**.08**	.10

The increase in Other accruing loans past due 90 days or more at June 30, 2007 compared with December 31, 2006 is primarily due to a single credit which returned to current status subsequent to quarter end.

Loans that are not included in nonperforming or past due categories but cause us to be uncertain about the borrower s ability to comply with existing repayment terms over the next six months totaled $60 million at June 30, 2007 compared with $41 million at December 31, 2006.

Allowances For Loan And Lease Losses And Unfunded Loan Commitments And Letters Of Credit

We maintain an allowance for loan and lease losses to absorb losses from the loan portfolio. We determine the allowance based on quarterly assessments of the probable estimated losses inherent in the loan portfolio. While we make allocations to specific loans and pools of loans, the total reserve is available for all loan and lease losses.

We refer you to Note 4 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report regarding changes in the allowance for loan and lease losses and changes in the allowance for unfunded loan commitments and letters of credit for additional information which is included herein by reference.

Allocation Of Allowance For Loan And Lease Losses

	June 30, 2007		December 31, 2006	
Dollars in millions	**Allowance**	**Loans to Total Loans**	Allowance	Loans to Total Loans
Commercial	**$ 497**	**38.1%**	$ 443	40.9%
Commercial real estate	**110**	**14.7**	30	7.0
Consumer	**45**	**28.0**	28	33.1
Residential mortgage	**10**	**14.6**	7	12.7
Lease financing	**38**	**4.0**	48	5.6
Other	**3**	**.6**	4	.7
Total	**$ 703**	**100.0%**	$ 560	100.0%

In addition to the allowance for loan and lease losses, we maintain an allowance for unfunded loan commitments and letters of credit. We report this allowance as a liability on our Consolidated Balance Sheet. We determine this amount using estimates of the probability of the ultimate funding and losses related to those credit exposures. This methodology is similar to the one we use for determining the adequacy of our allowance for loan and lease losses.

The provision for credit losses for the first six months of 2007 and the evaluation of the allowances for loan and lease losses and unfunded loan commitments and letters of credit as of June 30, 2007 reflected loan and total credit exposure growth, changes in loan portfolio composition, refinements to model parameters, and changes in asset quality. The provision includes amounts for probable losses on loans and credit exposure related to unfunded loan commitments and letters of credit.

The allowance as a percent of nonperforming loans was 322% and as a percent of total loans was 1.09% at June 30, 2007. The comparable percentages at December 31, 2006 were 381% and 1.12%.

Charge-Offs And Recoveries

Six months ended June 30 Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans
2007				
Commercial	**$ 58**	**$ 15**	**$ 43**	**.37%**
Consumer	**32**	**7**	**25**	**.29**
Commercial real estate	**1**	**1**		
Total	**$ 91**	**$ 23**	**$ 68**	**.23**
2006				
Commercial	$ 46	$ 10	$ 36	.36%
Consumer	24	8	16	.20
Lease financing		4	(4)	(.29)
Total	$ 70	$ 22	$ 48	.20

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We establish reserves to provide coverage for probable losses not considered in the specific, pool and consumer reserve methodologies, such as, but not limited to, industry concentrations and conditions; credit quality trends; recent loss experience in particular sectors of the portfolio; ability and depth of lending management; changes in risk selection and underwriting standards and the timing of available information. The amount of reserves for these qualitative factors is assigned to loan categories and to business segments primarily based on the relative specific and pool allocation amounts. The amount of reserve allocated for qualitative factors represented 5.7% of the total allowance and .06% of total loans, net of unearned income, at June 30, 2007.

Credit Default Swaps

Credit default swaps provide, for a fee, an assumption by a third party of a portion of the credit risk related to the underlying financial instruments. We use these contracts to mitigate credit risk associated with commercial lending activities as well as proprietary derivative and convertible bond trading. Credit default swaps are included in the Free-Standing Derivatives table in the Financial Derivatives section of this Risk Management discussion. Net gains from credit default swaps, reflected in the Trading line item on our Consolidated Income Statement, totaled $8 million in the first six months of 2007. For the first six months of 2006, net losses totaled $7 million.

Market Risk Management Overview

Market risk is the risk of a loss in earnings or economic value due to adverse movements in market factors such as interest rates, credit spreads, foreign exchange rates, and equity prices.

Market Risk Management Interest Rate Risk

Interest rate risk results primarily from our traditional banking activities of gathering deposits and extending loans. Many factors, including economic and financial conditions, movements in interest rates, and consumer preferences, affect the difference between the interest that we earn on assets and the interest that we pay on liabilities and the level of our noninterest-bearing funding sources. Due to the repricing term mismatches and embedded options inherent in certain of these products, changes in market interest rates not only affect expected near-term earnings, but also the economic values of these assets and liabilities.

PNC s Asset and Liability Management group centrally manages interest rate risk within limits and guidelines set forth in our risk management policies approved by the Asset and Liability Committee and the Risk Committee of the Board.

Sensitivity estimates and market interest rate benchmarks for the second quarter of 2007 and 2006 follow:

Interest Sensitivity Analysis

	Second Quarter 2007	Second Quarter 2006
Net Interest Income Sensitivity Simulation		
Effect on net interest income in first year from gradual interest rate change over following 12 months of:		
100 basis point increase	**(2.5)%**	(1.3)%
100 basis point decrease	**2.5%**	1.2%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	**(5.7)%**	(3.6)%
100 basis point decrease	**4.4%**	2.8%
Duration of Equity Model		
Base case duration of equity (in years):	**3.2**	1.0
Key Period-End Interest Rates		
One-month LIBOR	**5.32%**	5.33%

Three-year swap	**5.39%**	5.62%

In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. The following Net Interest Income Sensitivity To Alternate Rate Scenarios table reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist s most likely rate forecast, (ii) implied market forward rates, and (iii) a Two-Ten Inversion (a 200 basis point inversion between two-year and ten-year rates superimposed on current base rates) scenario. We are inherently sensitive to a flatter or inverted yield curve.

Net Interest Income Sensitivity To Alternate Rate Scenarios (Second Quarter 2007)

	PNC Economist	Market Forward	Two-Ten Inversion
First year sensitivity	.5%	.2%	(8.0)%
Second year sensitivity	5.8%	.9%	(7.6)%

All changes in forecasted net interest income are relative to results in a base rate scenario where current market rates are assumed to remain unchanged over the forecast horizon.

When forecasting net interest income, we make assumptions about interest rates and the shape of the yield curve, the volume and characteristics of new business, and the behavior of existing on- and off-balance sheet positions. These assumptions determine the future level of simulated net interest income in the base interest rate scenario and the other interest rate scenarios presented in the following table. These simulations assume that as assets and liabilities mature, they are replaced or repriced at market rates.

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The graph below presents the yield curves for the base rate scenario and each of the alternative scenarios one year forward.

Our risk position has become increasingly liability sensitive in part due to the continued flat yield curve and in part due to our balance sheet management strategies. We believe that we have the deposit funding base and balance sheet flexibility to adjust, where appropriate, to changing interest rates and market conditions.

Market Risk Management   Trading Risk

Our trading activities primarily include customer-driven trading in fixed income securities, equities, derivatives, and foreign exchange contracts. They also include the underwriting of fixed income and equity securities and proprietary trading.

We use value-at-risk (VaR) as the primary means to measure and monitor market risk in trading activities. The Risk Committee of the Board establishes an enterprise-wide VaR limit on our trading activities.

During the first six months of 2007, our VaR ranged between $6.1 million and $9.3 million, averaging $7.6 million.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process known as backtesting. The backtesting process consists of comparing actual observations of trading-related gains or losses against the VaR levels that were calculated at the close of the prior day. We would expect a maximum of two to three instances a year in which actual losses exceeded the prior day VaR measure. During the first six months of 2007, there were no such instances at the enterprise-wide level.

The following graph shows a comparison of enterprise-wide trading-related gains and losses against prior day VaR for the period.

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Total trading revenue for the first half and second quarter of 2007 and 2006 was as follows:

Six months ended June 30 - in millions	2007	2006
Net interest income	**$ 1**	$ (3)
Noninterest income	**81**	112
Total trading revenue	**$ 82**	$ 109
Securities underwriting and trading (a)	**$ 17**	$ 20
Foreign exchange	**27**	31
Financial derivatives	**38**	58
Total trading revenue	**$ 82**	$ 109

Three months ended June 30 - in millions	2007	2006
Net interest income	**$ 1**	$ (3)
Noninterest income	**29**	55
Total trading revenue	**$ 30**	$ 52
Securities underwriting and trading (a)	**$ 8**	$ 6
Foreign exchange	**13**	17
Financial derivatives	**9**	29
Total trading revenue	**$ 30**	$ 52

(a) Includes changes in fair value for certain loans accounted for at fair value.

Average trading assets and liabilities consisted of the following:

Six months ended June 30 - in millions	2007	2006
Trading assets		
Securities (a)	**$ 1,858**	$ 1,636
Resale agreements (b)	**1,254**	350
Financial derivatives (c)	**1,166**	1,080
Loans at fair value (c)	**177**	86
Total trading assets	**$ 4,455**	$ 3,152
Trading liabilities		
Securities sold short (d)	**$ 1,348**	$ 716
Repurchase agreements and other borrowings (e)	**653**	763
Financial derivatives (f)	**1,178**	1,052
Borrowings at fair value (f)	**39**	24
Total trading liabilities	**$ 3,218**	$ 2,555

Three months ended June 30 - in millions	2007	2006
Trading assets		
Securities (a)	**$ 2,144**	$ 1,477
Resale agreements (b)	**1,247**	378
Financial derivatives (c)	**1,221**	1,251
Loans at fair value (c)	**161**	170
Total trading assets	**$ 4,773**	$ 3,276
Trading liabilities		
Securities sold short (d)	**$ 1,431**	$ 769
Repurchase agreements and	**669**	641

other borrowings (e)		
Financial derivatives (f)	**1,230**	1,200
Borrowings at fair value (f)	**40**	48
Total trading liabilities	**$ 3,370**	$ 2,658

(a) Included in Interest-earning assets-Other on the Average Consolidated Balance Sheet and Net Interest Analysis.
(b) Included in Federal funds sold and resale agreements.
(c) Included in Noninterest-earning assets-Other.
(d) Included in Borrowed funds Other.
(e) Included in Borrowed funds Repurchase agreements and Other.
(f) Included in Accrued expenses and other liabilities.

MARKET RISK MANAGEMENT EQUITY AND OTHER INVESTMENT RISK

Equity investment risk is the risk of potential losses associated with investing in both private and public equity markets.

BlackRock

PNC owns approximately 43 million shares of BlackRock common stock, accounted for under the equity method. Our total investment in BlackRock was $4.0 billion at June 30, 2007 compared with $3.9 billion at December 31, 2006. The market value of our investment in BlackRock was $6.8 billion at June 30, 2007. The primary risk measurement, similar to other equity investments, is economic capital.

Low Income Housing Projects

Included in our equity investments are limited partnerships that sponsor affordable housing projects. At June 30, 2007 these investments, consisting of partnerships accounted for under the equity method as well as equity investments held by consolidated partnerships, totaled $763 million. The comparable amount at December 31, 2006 was $708 million. PNC s equity investment at risk was $188 million at June 30, 2007 compared with $134 million at year-end 2006. We also had commitments to make additional equity investments in affordable housing limited partnerships of $108 million at June 30, 2007 compared with $71 million at December 31, 2006.

Private Equity

The private equity portfolio is comprised of equity and mezzanine investments that vary by industry, stage and type of investment. At June 30, 2007, private equity investments carried at estimated fair value totaled $533 million compared with $463 million at December 31, 2006. As of June 30, 2007, approximately 46% of the amount was invested directly in a variety of companies and approximately 54% was invested in various limited partnerships. Our unfunded commitments related to private equity totaled $267 million at June 30, 2007 compared with $283 million at December 31, 2006. At June 30, 2007, Mercantile private equity activities accounted for $32 million and $27 million of private equity investments and private equity unfunded commitments, respectively.

Other Investments

We also make investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. The economic values could be driven by either the fixed-income market or the equity markets, or both. At June 30, 2007, other investments totaled $375 million compared with $269 million at December 31, 2006. Approximately $73 million of other investments at June 30, 2007 related to Mercantile investment activities. Our unfunded commitments related to other investments totaled $64 million at June 30, 2007 compared with $16 million at December 31, 2006. The amounts of other investments and related unfunded commitments at June 30, 2007 included those related to Steel City Capital Funding LLC (Steel City), as further described below.

On March 1, 2007, we entered into a joint venture with a third party to form Steel City for purposes of purchasing and originating second lien loans and turnaround loans. Our primary reason for pursuing this venture was to leverage our strengths of origination and servicing, provide an additional product to our customers, and allow for us to moderate the risks associated with this asset class. Additionally, we will earn fees for portfolio management services. Steel City is a limited liability company in which various PNC subsidiaries hold approximately a 31% equity ownership. At June 30, 2007, our capital contribution to Steel City was approximately $28 million with a commitment to fund an additional $50 million. The third party investor has contributed capital of $63 million with a commitment to fund an additional $112 million. We evaluated the accounting for this transaction under FIN 46R and other appropriate generally accepted accounting principles and determined that our aggregate investment will be accounted for under the equity method as described under Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report. This transaction did not have a material impact on our consolidated results of operations.

One of our subsidiaries acts as manager of Steel City. In this capacity it performs investment management services and administers day-to-day operations for Steel City and is compensated for those services through a monthly management fee. The manager also will receive certain performance-based fees. In addition, one of our subsidiaries is providing Steel City with a line of credit for purposes of short-term working capital needs at current market rates.

PNC Bank, N.A., sold $107 million of loans at fair value to Steel City at the inception of the entity. All the loans sold to Steel City were classified as performing loans. This transfer was treated as a sale for accounting purposes.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk of potential loss if we were unable to meet our funding requirements at a reasonable cost. We manage liquidity risk to help ensure that we can obtain cost-effective funding to meet current and future obligations under both normal business as usual and stressful circumstances.

Our largest source of liquidity on a consolidated basis is the deposit base that comes from our retail and wholesale banking activities. Other borrowed funds come from a diverse mix of short and long-term funding sources. Liquid assets and unused borrowing capacity from a number of sources are also available to maintain our liquidity position.

Liquid assets consist of short-term investments (federal funds sold, resale agreements and other short-term investments, including trading securities) and securities available for sale. At June 30, 2007, our liquid assets totaled $31.4 billion, with $23.7 billion pledged as collateral for borrowings, trust, and other commitments.

Bank Level Liquidity

PNC Bank, N.A. is a member of the Federal Home Loan Bank (FHLB)-Pittsburgh. Certain Mercantile banks are members of the FHLB-Atlanta. As such, these banks have access to advances from the FHLB secured generally by residential mortgages. PNC Bank, N.A. can also borrow from the Federal Reserve Bank of Cleveland s discount window to meet short-term liquidity requirements. These borrowings are secured by securities and commercial loans. Additionally, Mercantile banks can borrow from the Federal Reserve Bank of Richmond s discount window. At June 30, 2007, we maintained significant unused borrowing capacity from the Federal Reserve Bank of Cleveland s discount window and FHLB-Pittsburgh under current collateral requirements.

We can also obtain funding through alternative forms of borrowing, including federal funds purchased, repurchase agreements, and short-term and long-term debt issuances. In July 2004, PNC Bank, N.A. established a program to offer up to $20 billion in senior and subordinated unsecured debt obligations with maturities of more than nine months. Through June 30, 2007, PNC Bank, N.A. had issued $5.4 billion of debt under this program, including the following second quarter 2007 bank note issuances:

- On April 3, 2007, $500 million were issued that mature on October 3, 2008. Interest will be reset monthly to 1-month LIBOR minus 6 basis points and will be paid monthly.

On May 17, 2007, $1 billion were issued that mature June 17, 2008. Interest will be reset monthly to 1-month LIBOR minus 5 basis points and will be paid monthly.

On June 28, 2007, $1 billion were issued that mature on December 29, 2008. Interest will be reset monthly to 1-month LIBOR minus 4 basis points and will be paid monthly.

None of the second quarter issuances described above are redeemable by us or the holders prior to maturity.

PNC Bank, N.A. established a program in December 2004 to offer up to $3.0 billion of its commercial paper. As of June 30, 2007, $445 million of commercial paper was outstanding under this program.

Parent Company Liquidity

Our parent company s routine funding needs consist primarily of dividends to PNC shareholders, share repurchases, debt service, the funding of non-bank affiliates, and acquisitions.

Parent company liquidity guidelines are designed to help ensure that sufficient liquidity is available to meet these requirements over the succeeding 12-month period. In managing parent company liquidity we consider funding sources, such as expected dividends to be received from PNC Bank, N.A. and potential debt issuance, and discretionary funding uses, the most significant of which is the external dividend to be paid on PNC s stock.

The principal source of parent company cash flow is the dividends it receives from PNC Bank, N.A., which may be impacted by the following:

- Capital needs,
- Laws and regulations,
- Corporate policies,
- Contractual restrictions, and
- Other factors.

Also, there are statutory and regulatory limitations on the ability of national banks to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. Dividends may also be impacted by the bank s capital needs and by contractual restrictions. The amount available for dividend payments to the parent company by PNC Bank, N.A. without prior regulatory approval was approximately $628 million at June 30, 2007.

In addition to dividends from PNC Bank, N.A., other sources of parent company liquidity include cash and short-term investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. As of June 30, 2007, the parent company had approximately $1.5 billion in funds available from its cash and short-term investments. As of June 30, 2007 there were $855 million of parent company contractual obligations with maturities of less than one year.

We can also generate liquidity for the parent company and PNC s non-bank subsidiaries through the issuance of securities in public or private markets.

On June 12, 2007, PNC Funding Corp issued $500 million of Senior Notes that mature on June 12, 2009. Interest will be reset monthly to 1-month LIBOR plus 2 basis points. These notes are not redeemable by us or the holders prior to maturity.

On May 15, 2007, we redeemed Capital Securities totaling $300 million related to PNC Institutional Capital Trust B.

In July 2006, PNC Funding Corp established a program to offer up to $3.0 billion of commercial paper to provide the parent company with additional liquidity. As of June 30, 2007, there were no issuances outstanding under this program.

Commitments

The following tables set forth contractual obligations and various other commitments representing required and potential cash outflows as of June 30, 2007.

Contractual Obligations

June 30, 2007 - in millions	Total
Remaining contractual maturities of time deposits	**$ 22,996**
Borrowed funds	**24,516**
Minimum annual rentals on noncancellable leases	**1,171**
Nonqualified pension and postretirement benefits	**317**
Purchase obligations (a)	**292**
Total contractual cash obligations (b)	**$ 49,292**

(a) Includes purchase obligations for goods and services covered by noncancellable contracts and contracts including cancellation fees.

(b) Excludes amounts related to our adoption of FIN 48 due to the uncertainty in terms of timing and amount of future cash outflows. Note 11 Income Taxes in our Notes To Consolidated Financial Statements includes additional information regarding our adoption of FIN 48 in the first quarter of 2007.

Other Commitments (a)

June 30, 2007 - in millions	Total
Credit commitments	**$ 50,678**
Standby letters of credit	**4,882**
Other commitments (b)	**439**
Total commitments	**$ 55,999**

(a) Other commitments are funding commitments that could potentially require performance in the event of demands by third parties or contingent events. Loan commitments are reported net of participations, assignments and syndications.

(b) Includes private equity funding commitments related to equity management, low income housing projects and other investments.

Financial Derivatives

We use a variety of financial derivatives as part of the overall asset and liability risk management process to help manage interest rate, market and credit risk inherent in our business activities. Substantially all such instruments are used to manage risk related to changes in interest rates. Interest rate and total return swaps, interest rate caps and floors and futures contracts are the primary instruments we use for interest rate risk management.

Financial derivatives involve, to varying degrees, interest rate, market and credit risk. For interest rate swaps and total return swaps, options and futures contracts, only periodic cash payments and, with respect to options, premiums are exchanged. Therefore, cash requirements and exposure to credit risk are significantly less than the notional amount on these instruments. Further information on our financial derivatives, including the credit risk amounts of these derivatives as of June 30, 2007 and December 31, 2006, is presented in Note 1 Accounting Policies and Note 9 Financial Derivatives in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

Not all elements of interest rate, market and credit risk are addressed through the use of financial or other derivatives, and such instruments may be ineffective for their intended purposes due to unanticipated market characteristics, among other reasons.

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The following tables provide the notional or contractual amounts and estimated net fair value of financial derivatives used for risk management and designated as accounting hedges or free-standing derivatives at June 30, 2007 and December 31, 2006. Weighted-average interest rates presented are based on contractual terms, if fixed, or the implied forward yield curve at each respective date, if floating.

Financial Derivatives - 2007

June 30, 2007 - dollars in millions	Notional/ Contract Amount	Estimated Net Fair Value	Weighted Average Maturity	Weighted-Average Interest Rates Paid	Weighted-Average Interest Rates Received
Accounting Hedges					
Interest rate risk management					
Asset rate conversion					
Interest rate swaps (a)					
Receive fixed	**$7,305**	**$(15)**	**4 yrs. 3 mos.**	**5.69%**	**5.55%**
Interest rate floors (b)	**6**		**3 yrs. 9 mos.**	**NM**	**NM**
Forward purchase commitments	**500**	**2**	**1 mo.**	**NM**	**NM**
Total asset rate conversion	**7,811**	**(13)**			
Liability rate conversion					
Interest rate swaps (a)					
Receive fixed	**5,195**	**(93)**	**6 yrs. 8 mos.**	**5.50**	**5.41**
Total liability rate conversion	**5,195**	**(93)**			
Total interest rate risk management	**13,006**	**(106)**			
Commercial mortgage banking risk management					
Pay fixed interest rate swaps (a)	**716**	**21**	**9 yrs. 7 mos.**	**5.22**	**5.57**
Total commercial mortgage banking risk management	**716**	**21**			
Total accounting hedges (c)	**$13,722**	**$(85)**			
Free-Standing Derivatives					
Customer-related					
Interest rate					
Swaps	**$50,719**	**$52**	**5 yrs. 2 mos.**	**5.18%**	**5.19%**
Caps/floors					
Sold	**2,668**	**(4)**	**7 yrs. 1 mo.**	**NM**	**NM**
Purchased	**1,841**	**4**	**4 yrs. 5 mos.**	**NM**	**NM**
Futures	**2,232**	**1**	**9 mos.**	**NM**	**NM**
Foreign exchange	**6,997**	**4**	**5 mos.**	**NM**	**NM**
Equity	**2,071**	**(100)**	**1 yr. 7 mos.**	**NM**	**NM**
Swaptions	**4,061**	**(19)**	**12 yrs. 5 mos.**	**NM**	**NM**
Total customer-related	**70,589**	**(62)**			
Other risk management and proprietary					
Interest rate					
Swaps	**28,135**	**22**	**4 yrs. 11 mos.**	**4.98%**	**5.11%**
Caps/floors					
Sold	**7,250**	**(27)**	**2 yrs. 5 mos.**	**NM**	**NM**
Purchased	**8,760**	**33**	**2 yrs. 4 mos.**	**NM**	**NM**
Futures	**25,534**	**(4)**	**1 yr. 2 mos.**	**NM**	**NM**
Foreign exchange	**2,855**	**6**	**6 yrs. 2 mos.**	**NM**	**NM**
Credit derivatives	**4,922**	**(1)**	**8 yrs.**	**NM**	**NM**
Risk participation agreements	**751**		**5 yrs. 6 mos.**	**NM**	**NM**
Commitments related to mortgage-related assets	**3,394**	**(10)**	**1 mo.**	**NM**	**NM**
Options					
Futures	**29,079**	**2**	**6 mos.**	**NM**	**NM**
Swaptions	**23,265**	**47**	**7 yrs. 7 mos.**	**NM**	**NM**

Total other risk management and proprietary	**133,945**	**68**
Total free-standing derivatives	**$204,534**	**$6**

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 63% were based on 1-month LIBOR, 30% on 3-month LIBOR and 7% on Prime Rate.

(b) Interest rate floors have a weighted-average strike of 3.20%.

(c) Fair value amounts include net accrued interest receivable of $106 million.

NM Not meaningful

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Financial Derivatives - 2006

December 31, 2006 - dollars in millions	Notional/ Contract Amount	Estimated Net Fair Value	Weighted Average Maturity	Weighted-Average Interest Rates Paid	Weighted-Average Interest Rates Received
Accounting Hedges					
Interest rate risk management					
Asset rate conversion					
Interest rate swaps (a)					
Receive fixed	$7,815	$62	3 yrs. 9 mos.	5.30%	5.43%
Interest rate floors (b)	6		4 yrs. 3 mos.	NM	NM
Total asset rate conversion	7,821	62			
Liability rate conversion					
Interest rate swaps (a)					
Receive fixed	4,245	6	6 yrs. 11 mos.	5.15	5.43
Total liability rate conversion	4,245	6			
Total interest rate risk management	12,066	68			
Commercial mortgage banking risk management					
Pay fixed interest rate swaps (a)	745	(7)	9 yrs. 11 mos.	5.25	5.09
Total commercial mortgage banking risk management	745	(7)			
Total accounting hedges (c)	$12,811	$61			
Free-Standing Derivatives					
Customer-related					
Interest rate					
Swaps	$48,816	$9	4 yrs. 11 mos.	5.00%	5.01%
Caps/floors					
Sold	1,967	(3)	7 yrs. 4 mos.	NM	NM
Purchased	897	3	7 yrs. 2 mos.	NM	NM
Futures	2,973	2	9 mos.	NM	NM
Foreign exchange	5,245		6 mos.	NM	NM
Equity	2,393	(63)	1 yr. 6 mos.	NM	NM
Swaptions	8,685	16	6 yrs. 10 mos.	NM	NM
Other	20		10 yrs. 6 mos.	NM	NM
Total customer-related	70,996	(36)			
Other risk management and proprietary					
Interest rate					
Swaps	19,631	4	7 yrs. 8 mos.	4.81%	4.97%
Caps/floors					
Sold	6,500	(50)	2 yrs. 11 mos.	NM	NM
Purchased	7,010	59	3 yrs.	NM	NM
Futures	13,955	(3)	1 yr. 4 mos.	NM	NM
Foreign exchange	1,958		5 yrs. 2 mos.	NM	NM
Credit derivatives	3,626	(11)	7 yrs.	NM	NM
Risk participation agreements	786		5 yrs. 5 mos.	NM	NM
Commitments related to mortgage-related assets	2,723	10	2 mos.	NM	NM
Options					
Futures	63,033	(2)	8 mos.	NM	NM
Swaptions	25,951	54	6 yrs. 10 mos.	NM	NM
Total other risk management and proprietary	145,173	61			
Total free-standing derivatives	$216,169	$25			

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 67% were based on 1-month LIBOR, 27% on 3-month LIBOR and 6% on Prime Rate.

(b) Interest rate floors have a weighted-average strike of 3.21%.

(c) Fair value amounts include net accrued interest receivable of $94 million.
NM Not meaningful

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Internal Controls And Disclosure Controls And Procedures

As of June 30, 2007, we performed an evaluation under the supervision and with the participation of our management, including the Chairman and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and of changes in our internal control over financial reporting.

Based on that evaluation, our management, including the Chairman and Chief Executive Officer and the Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2007, and that there has been no change in internal control over financial reporting that occurred during the second quarter of 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Glossary Of Terms

Accounting/administration net fund assets - Net domestic and foreign fund investment assets for which we provide accounting and administration services. We do not include these assets on our Consolidated Balance Sheet.

Adjusted average total assets - Primarily comprised of total average quarterly (or annual) assets plus (less) unrealized losses (gains) on available-for-sale debt securities, less goodwill and certain other intangible assets (net of eligible deferred taxes).

Annualized - Adjusted to reflect a full year of activity.

Assets under management - Assets over which we have sole or shared investment authority for our customers/clients. We do not include these assets on our Consolidated Balance Sheet.

Basis point - One hundredth of a percentage point.

Charge-off - Process of removing a loan or portion of a loan from our balance sheet because it is considered uncollectible. We also record a charge-off when a loan is transferred to held for sale by reducing the carrying amount by the allowance for loan losses associated with such loan or if the market value is less than its carrying amount.

Common shareholders equity to total assets - Common shareholders equity divided by total assets. Common shareholders equity equals total shareholders equity less the liquidation value of preferred stock.

Credit derivatives - Contractual agreements that provide protection against a credit event of one or more referenced credits. The nature of a credit event is established by the

protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency and failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

Credit spread - The difference in yield between debt issues of similar maturity. The excess of yield attributable to credit spread is often used as a measure of relative creditworthiness, with a reduction in the credit spread reflecting an improvement in the borrower s perceived creditworthiness.

Custody assets - Investment assets held on behalf of clients under safekeeping arrangements. We do not include these assets on our Consolidated Balance Sheet. Investment assets held in custody at other institutions on our behalf are included in the appropriate asset categories on the Consolidated Balance Sheet as if physically held by us.

Derivatives - Financial contracts whose value is derived from publicly traded securities, interest rates, currency exchange rates or market indices. Derivatives cover a wide assortment of financial contracts, including forward contracts, futures, options and swaps.

Duration of equity - An estimate of the rate sensitivity of our economic value of equity. A negative duration of equity is associated with asset sensitivity (*i.e.,* positioned for rising interest rates), while a positive value implies liability sensitivity (*i.e.,* positioned for declining interest rates). For example, if the duration of equity is +1.5 years, the economic value of equity declines by 1.5% for each 100 basis point increase in interest rates.

Earning assets - Assets that generate income, which include: federal funds sold; resale agreements; other short-term investments, including trading securities; loans held for sale; loans, net of unearned income; securities; and certain other assets.

Economic capital - Represents the amount of resources that a business segment should hold to guard against potentially large losses that could cause insolvency. It is based on a measurement of economic risk, as opposed to risk as defined by regulatory bodies. The economic capital measurement process involves converting a risk distribution to the capital that is required to support the risk, consistent with our target credit rating. As such, economic risk serves as a common currency of risk that allows us to compare different risks on a similar basis.

Economic value of equity (EVE) - The present value of the expected cash flows of our existing assets less the present value of the expected cash flows of our existing liabilities, plus the present value of the net cash flows of our existing off-balance sheet positions.

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Effective duration - A measurement, expressed in years, that, when multiplied by a change in interest rates, would approximate the percentage change in value of on- and off- balance sheet positions.

Efficiency - Noninterest expense divided by the sum of net interest income (GAAP basis) and noninterest income.

Foreign exchange contracts - Contracts that provide for the future receipt and delivery of foreign currency at previously agreed-upon terms.

Funds transfer pricing - A management accounting methodology designed to recognize the net interest income effects of sources and uses of funds provided by the assets and liabilities of a business segment. We assign these balances LIBOR-based funding rates at origination that represent the interest cost for us to raise/invest funds with similar maturity and repricing structures.

Futures and forward contracts - Contracts in which the buyer agrees to purchase and the seller agrees to deliver a specific financial instrument at a predetermined price or yield. May be settled either in cash or by delivery of the underlying financial instrument.

GAAP - Accounting principles generally accepted in the United States of America.

Interest rate floors and caps - Interest rate protection instruments that involve payment from the protection seller to the protection buyer of an interest differential, which represents the difference between a short-term rate (e.g., three-month LIBOR) and an agreed-upon rate (the strike rate) applied to a notional principal amount.

Interest rate swap contracts - Contracts that are entered into primarily as an asset/liability management strategy to reduce interest rate risk. Interest rate swap contracts are exchanges of interest rate payments, such as fixed-rate payments for floating-rate payments, based on notional principal amounts.

Intrinsic value - The amount by which the fair value of an underlying stock exceeds the exercise price of an option on that stock.

Leverage ratio - Tier 1 risk-based capital divided by adjusted average total assets.

Net interest margin - Annualized taxable-equivalent net interest income divided by average earning assets.

Nondiscretionary assets under administration - Assets we hold for our customers/clients in a non-discretionary, custodial capacity. We do not include these assets on our Consolidated Balance Sheet.

Noninterest income to total revenue - Noninterest income divided by the sum of net interest income (GAAP basis) and noninterest income.

Nonperforming assets - Nonperforming assets include nonaccrual loans, troubled debt restructured loans, foreclosed assets and other assets. We do not accrue interest income on assets classified as nonperforming.

Nonperforming loans - Nonperforming loans include loans to commercial, commercial real estate, equipment lease financing, consumer, and residential mortgage customers as well as troubled debt restructured loans. Nonperforming loans do not include loans held for sale or foreclosed and other assets. We do not accrue interest income on loans classified as nonperforming.

Notional amount - A number of currency units, shares, or other units specified in a derivatives contract.

Operating leverage - The period to period percentage change in total revenue (GAAP basis) less the percentage change in noninterest expense. A positive percentage indicates that revenue growth exceeded expense growth (*i.e.,* positive operating leverage) while a negative percentage implies expense growth exceeded revenue growth (*i.e.,* negative operating leverage).

Options - Contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to either purchase or sell the associated financial instrument at a set price during a period or at a specified date in the future.

Recovery - Cash proceeds received on a loan that we had previously charged off. We credit the amount received to the allowance for loan and lease losses.

Return on average capital - Annualized net income divided by average capital.

Return on average assets - Annualized net income divided by average assets.

Return on average common equity - Annualized net income divided by average common shareholders equity.

Risk-weighted assets - Primarily computed by the assignment of specific risk-weights (as defined by The Board of Governors of the Federal Reserve System) to assets and off-balance sheet instruments.

Securitization - The process of legally transforming financial assets into securities.

Swaptions - Contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to enter into an interest rate swap agreement during a period or at a specified date in the future.

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Tangible common equity ratio - Period-end common shareholders equity less goodwill and other intangible assets (net of eligible deferred taxes), and excluding mortgage servicing rights, divided by period-end assets less goodwill and other intangible assets (net of eligible deferred taxes), and excluding mortgage servicing rights.

Taxable-equivalent interest - The interest income earned on certain assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of yields and margins for all interest-earning assets, we also provide revenue on a taxable-equivalent basis by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on other taxable investments. This adjustment is not permitted under GAAP on the Consolidated Income Statement.

Tier 1 risk-based capital - Tier 1 risk-based capital equals: total shareholders equity, plus trust preferred capital securities, plus certain minority interests that are held by others; less goodwill and certain other intangible assets (net of eligible deferred taxes), less equity investments in nonfinancial companies and less net unrealized holding losses on available-for-sale equity securities. Net unrealized holding gains on available-for-sale equity securities, net unrealized holding gains (losses) on available-for-sale debt securities and net unrealized holding gains (losses) on cash flow hedge derivatives are excluded from total shareholders equity for tier 1 risk-based capital purposes.

Tier 1 risk-based capital ratio - Tier 1 risk-based capital divided by period-end risk-weighted assets.

Total fund assets serviced - Total domestic and offshore fund investment assets for which we provide related processing services. We do not include these assets on our Consolidated Balance Sheet.

Total return swap - A non-traditional swap where one party agrees to pay the other the total return of a defined underlying asset (e.g., a loan), usually in return for receiving a stream of LIBOR-based cash flows. The total returns of the asset, including interest and any default shortfall, are passed through to the counterparty. The counterparty is therefore assuming the credit and economic risk of the underlying asset.

Total risk-based capital - Tier 1 risk-based capital plus qualifying subordinated debt and trust preferred securities, other minority interest not qualified as tier 1, and the allowance for loan and lease losses, subject to certain limitations.

Total risk-based capital ratio - Total risk-based capital divided by period-end risk-weighted assets.

Transaction deposits - The sum of money market and interest-bearing demand deposits and demand and other noninterest-bearing deposits.

Value-at-risk (VaR) - A statistically-based measure of risk which describes the amount of potential loss which may be incurred due to severe and adverse market movements. The measure is of the maximum loss which should not be exceeded on 99 out of 100 days.

Yield curve - A graph showing the relationship between the yields on financial instruments or market indices of the same credit quality with different maturities. For example, a normal or positive yield curve exists when long-term bonds have higher yields than short-term bonds. A flat yield curve exists when yields are the same for short-term and long-term bonds. A steep yield curve exists when yields on long-term bonds are significantly higher than on short-term bonds. An inverted or negative yield curve exists when short-term bonds have higher yields than long-term bonds.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

We make statements in this Report, and we may from time to time make other statements, regarding our outlook or expectations for earnings, revenues, expenses and/or other matters regarding or affecting PNC that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Forward-looking statements are typically identified by words such as believe, expect, anticipate, intend, outlook, estimate, forecast, project and other similar words and expressions.

Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made. We do not assume any duty and do not undertake to update our forward-looking statements. Actual results or future events could differ, possibly materially, from those that we anticipated in our forward-looking statements, and future results could differ materially from our historical performance.

Our forward-looking statements are subject to the following principal risks and uncertainties. We provide greater detail regarding some of these factors in our 2006 Form 10-K and in our current year Form 10-Qs, including in the Risk Factors and Risk Management sections of those reports. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.

Our business and operating results are affected by business and economic conditions generally or specifically in the principal markets in which we do business. We are affected by changes in our customers and counterparties financial performance, as well as changes in customer preferences and behavior, including as a result of changing business and economic conditions.

The value of our assets and liabilities, as well as our overall financial performance, is also affected by changes in interest rates or in valuations in the debt and equity markets. Actions by the Federal Reserve and other government agencies, including those that impact money supply and market interest rates, can affect our activities and financial results.

Our operating results are affected by our liability to provide shares of BlackRock common stock to help fund BlackRock long-term incentive plan (LTIP) programs, as our LTIP liability is adjusted quarterly (marked-to-market) based on changes in BlackRock s common stock price and the number of remaining committed shares, and we recognize gain or loss on such shares at such times as shares are transferred for payouts under the LTIP programs.

Competition can have an impact on customer acquisition, growth and retention, as well as on our credit spreads and product pricing, which can affect market share, deposits and revenues.

Our ability to implement our business initiatives and strategies could affect our financial performance over the next several years.

Legal and regulatory developments could have an impact on our ability to operate our businesses or our financial condition or results of operations or our competitive position or reputation. Reputational impacts, in turn, could affect matters such as business generation and retention, our ability to attract and retain management, liquidity, and funding. These legal and regulatory developments could include: (a) the unfavorable resolution of legal proceedings or regulatory and other governmental inquiries; (b) increased litigation risk from recent regulatory and other governmental developments; (c) the results of the regulatory examination process, our failure to satisfy the requirements of agreements with governmental agencies, and regulators future use of supervisory and enforcement tools; (d) legislative and regulatory reforms, including changes to laws and regulations involving tax, pension, education lending, and the protection of confidential customer information; and (e) changes in accounting policies and principles.

Our business and operating results are affected by our ability to identify and effectively manage risks inherent in our businesses, including, where appropriate, through the effective use of third-party insurance and capital management techniques.

Our ability to anticipate and respond to technological changes can have an impact on our ability to respond to customer needs and to meet competitive demands.

The adequacy of our intellectual property protection, and the extent of any costs associated with obtaining rights in intellectual property claimed by others, can impact our business and operating results.

Our business and operating results can also be affected by widespread natural disasters, terrorist activities or international hostilities, either as a result of the impact on the economy and financial and capital markets generally or on us or on our customers, suppliers or other counterparties specifically.

Also, risks and uncertainties that could affect the results anticipated in forward-looking statements or from historical performance relating to our equity interest in BlackRock, Inc. are discussed in more detail in BlackRock s 2006 Form 10-K, including in the Risk Factors section, and in BlackRock s other filings with the SEC, accessible on the SEC s website and on or through BlackRock s website at www.blackrock.com.

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

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CONSOLIDATED INCOME STATEMENT

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except per share data	Three months ended June 30		Six months ended June 30	
Unaudited	**2007**	2006	**2007**	2006
Interest Income				
Loans	**$ 1,084**	$ 797	**$ 1,980**	$ 1,544
Securities available for sale	**355**	255	**665**	498
Other	**115**	74	**224**	150
Total interest income	**1,554**	1,126	**2,869**	2,192
Interest Expense				
Deposits	**532**	379	**1,000**	706
Borrowed funds	**284**	191	**508**	374
Total interest expense	**816**	570	**1,508**	1,080
Net interest income	**738**	556	**1,361**	1,112
Provision for credit losses	**54**	44	**62**	66
Net interest income less provision for credit losses	**684**	512	**1,299**	1,046
Noninterest Income				
Asset management	**190**	429	**355**	890
Fund servicing	**209**	210	**412**	431
Service charges on deposits	**92**	80	**169**	153
Brokerage	**72**	63	**138**	122
Consumer services	**107**	94	**198**	183
Corporate services	**176**	157	**335**	292
Equity management gains	**2**	54	**34**	61
Net securities gains (losses)	**1**	(8)	**(2)**	(12)
Trading	**29**	55	**81**	112
Net gains (losses) related to BlackRock	**(1)**		**51**	
Other	**98**	96	**195**	183
Total noninterest income	**975**	1,230	**1,966**	2,415
Noninterest Expense				
Compensation	**470**	558	**888**	1,113
Employee benefits	**74**	76	**146**	163
Net occupancy	**81**	83	**168**	162
Equipment	**79**	80	**150**	157
Marketing	**29**	22	**50**	42
Other	**307**	326	**582**	670
Total noninterest expense	**1,040**	1,145	**1,984**	2,307
Income before minority interests and income taxes	**619**	597	**1,281**	1,154
Minority interest in income of BlackRock		19		41
Income taxes	**196**	197	**399**	378
Net income	**$ 423**	$ 381	**$ 882**	$ 735
Earnings Per Common Share				
Basic	**$ 1.24**	$ 1.30	**$ 2.71**	$ 2.51
Diluted	**$ 1.22**	$ 1.28	**$ 2.67**	$ 2.47
Average Common Shares Outstanding				
Basic	**342**	293	**325**	292
Diluted	**346**	297	**329**	297

See accompanying Notes To Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEET

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except par value

Unaudited	**June 30 2007**	December 31 2006
Assets		
Cash and due from banks	**$ 3,177**	$ 3,523
Federal funds sold and resale agreements	**1,824**	1,763
Other short-term investments, including trading securities	**3,667**	3,130
Loans held for sale	**2,562**	2,366
Securities available for sale	**25,903**	23,191
Loans, net of unearned income of $1,004 and $795	**64,714**	50,105
Allowance for loan and lease losses	**(703)**	(560)
Net loans	**64,011**	49,545
Goodwill	**7,745**	3,402
Other intangible assets	**913**	641
Equity investments	**5,584**	5,330
Other	**10,265**	8,929
Total assets	**$ 125,651**	$ 101,820
Liabilities		
Deposits		
Noninterest-bearing	**$ 18,302**	$ 16,070
Interest-bearing	**58,919**	50,231
Total deposits	**77,221**	66,301
Borrowed funds		
Federal funds purchased	**7,212**	2,711
Repurchase agreements	**2,805**	2,051
Bank notes and senior debt	**7,537**	3,633
Subordinated debt	**4,226**	3,962
Other	**2,736**	2,671
Total borrowed funds	**24,516**	15,028
Allowance for unfunded loan commitments and letters of credit	**125**	120
Accrued expenses	**3,663**	3,970
Other	**4,252**	4,728
Total liabilities	**109,777**	90,147
Minority and noncontrolling interests in consolidated entities	**1,370**	885
Shareholders Equity		
Preferred stock (a)		
Common stock - $5 par value		
Authorized 800 shares, issued 353 shares	**1,764**	1,764
Capital surplus	**2,606**	1,651
Retained earnings	**11,339**	10,985
Accumulated other comprehensive loss	**(439)**	(235)
Common stock held in treasury at cost: 11 and 60 shares	**(766)**	(3,377)
Total shareholders equity	**14,504**	10,788
Total liabilities, minority and noncontrolling interests, and shareholders equity	**$ 125,651**	$ 101,820

(a) Less than $.5 million at each date.

See accompanying Notes To Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

Six months ended June 30 - in millions

Unaudited	**2007**	2006
Operating Activities		
Net income	**$ 882**	$ 735
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	**62**	66
Depreciation, amortization and accretion	**155**	182
Deferred income taxes	**70**	71
Net gains related to BlackRock	**(51)**	
Undistributed earnings of BlackRock	**(76)**	
Excess tax benefits from share-based payment arrangements	**(12)**	(17)
Loans held for sale	**(216)**	340
Other short-term investments, including trading securities	**(32)**	659
Other assets	**163**	(979)
Accrued expenses and other liabilities	**(1,088)**	529
Other	**(67)**	(32)
Net cash (used) provided by operating activities	**(210)**	1,554
Investing Activities		
Repayment of securities	**2,491**	1,692
Sales		
Securities	**3,872**	3,433
Loans	**220**	18
Purchases		
Securities	**(8,058)**	(6,460)
Loans	**(2,615)**	(658)
Net change in		
Loans	**(302**	