PNC FINANCIAL SERVICES GROUP INC
Form 10-Q
August 09, 2006
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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, 2006

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, 2006, there were 294,455,070 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 2006 Second Quarter Form 10-Q

CONSOLIDATED FINANCIAL HIGHLIGHTS

THE PNC FINANCIAL SERVICES GROUP, INC.

Dollars in millions, except per share data Unaudited	Three months ended June 30 **2006**	 2005	Six months ended June 30 **2006**	 2005
FINANCIAL PERFORMANCE				
Revenue				
Net interest income, taxable-equivalent basis (a)	**$562**	$541	**$1,125**	$1,053
Noninterest income	**1,230**	929	**2,415**	1,903
Total revenue	**$1,792**	$1,470	**$3,540**	$2,956
Net income	**$381**	$282	**$735**	$636
Per common share				
Diluted earnings	**$1.28**	$.98	**$2.47**	$2.22
Cash dividends declared	**$.55**	$.50	**$1.05**	$1.00
SELECTED RATIOS				
Net interest margin	**2.90%**	3.00%	**2.93%**	3.01%
Noninterest income to total revenue	**69**	63	**68**	65
Efficiency	**64**	71	**66**	69
Return on				
Average common shareholders equity	**17.49%**	14.34%	**17.08%**	16.68%
Average assets	**1.64**	1.29	**1.60**	1.50

See page 33 for a glossary of certain terms used in this Report.

Certain prior period amounts included in these Consolidated Financial Highlights have been reclassified to conform with the current period presentation.

(a) The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than a taxable investment. 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 on other taxable investments. This adjustment is not permitted under generally accepted accounting principles (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 **2006**	 2005	Six months ended June 30 **2006**	 2005
Net interest income, GAAP basis	**$556**	$534	**$1,112**	$1,040
Taxable-equivalent adjustment	**6**	7	**13**	13
Net interest income, taxable-equivalent basis	**$562**	$541	**$1,125**	$1,053

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Unaudited	**June 30 2006**	December 31 2005	June 30 2005
BALANCE SHEET DATA (dollars in millions, except per share data)			
Assets	**$94,914**	$91,954	$90,794
Loans, net of unearned income	**50,548**	49,101	49,317
Allowance for loan and lease losses	**611**	596	628
Securities	**21,724**	20,710	20,437
Loans held for sale	**2,165**	2,449	2,275
Deposits	**63,493**	60,275	58,673
Borrowed funds	**15,651**	16,897	18,206
Shareholders equity	**8,827**	8,563	8,243
Common shareholders equity	**8,820**	8,555	8,235
Book value per common share	**29.92**	29.21	28.35
Common shares outstanding (millions)	**295**	293	290
Loans to deposits	**80%**	81%	84%
ASSETS UNDER MANAGEMENT (billions)	**$506**	$494	$456
FUND ASSETS SERVICED (billions)			
Accounting/administration net assets	**$743**	$835	$766
Custody assets	**389**	476	462
CAPITAL RATIOS			
Tier 1 risk-based (a)	**8.8%**	8.3%	8.3%
Total risk-based (a)	**12.4**	12.1	11.9
Leverage (a)	**7.7**	7.2	7.2
Tangible common equity	**5.2**	5.0	5.0
Common shareholders equity to assets	**9.3**	9.3	9.1
ASSET QUALITY RATIOS			
Nonperforming assets to loans, loans held for sale and foreclosed assets	**.44%**	.42%	.32%
Nonperforming loans to loans	**.41**	.39	.27
Net charge-offs (recoveries) to average loans (for the three months ended) (b)	**.24**	.33	(.32)
Allowance for loan and lease losses to loans	**1.21**	1.21	1.27
Allowance for loan and lease losses to nonperforming loans	**294**	314	476

(a) 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.

(b) This ratio for the three months ended June 30, 2005 (net recoveries of $38 million annualized and divided by average loans of $47.1 billion) reflects the impact of a $53 million loan recovery during that quarter. Excluding the impact of this recovery, the ratio of net charge-offs to average loans for the second quarter of 2005 would have been .13%.

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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 2005 Annual Report on Form 10-K (2005 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 Factors and Risk Management sections in this Financial Review and Items 1A and 7 of our 2005 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 13 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, operating businesses engaged in retail banking, corporate and institutional banking, asset management and global fund processing services. We operate directly and through numerous subsidiaries, providing many of our products and services nationally and others in our primary geographic markets in Pennsylvania; New Jersey; the greater Washington, DC area, including Virginia and Maryland; Ohio; Kentucky and Delaware. We also provide certain asset management and global fund processing services internationally.

Key Strategic Goals

Our strategy to enhance shareholder value centers on achieving revenue growth in our various businesses underpinned by prudent management of risk, capital and expenses. In each of our business segments, the primary drivers of growth are the acquisition, expansion and retention of customer relationships. We strive to achieve such growth in our customer base by providing convenient banking options, leading technological systems and a broad range of asset management products and services. We also intend to grow through appropriate and targeted acquisitions and, in certain businesses, by expanding into new geographical markets.

In recent years, we have managed our interest rate risk to achieve a moderate risk profile with limited exposure to earnings volatility resulting from interest rate fluctuations. Our actions have created a balance sheet characterized by strong asset quality and significant flexibility to take advantage, where appropriate, of changing interest rates and to adjust to changing market conditions.

On February 15, 2006, we announced that BlackRock and Merrill Lynch had entered into a definitive agreement pursuant to which Merrill Lynch will contribute its investment management business to BlackRock in exchange for newly issued BlackRock common and preferred stock. Upon the closing of this transaction, which we expect to occur around September 30, 2006, BlackRock s assets under management would increase to approximately $1 trillion and Merrill Lynch would own 65 million equity shares, or approximately 49%, of the combined company. At the closing of the transaction, we expect to continue to own approximately 44 million shares of BlackRock common stock, representing an ownership interest of approximately 34%. In addition, upon closing, the carrying value of our investment in BlackRock would

increase, based on the price of BlackRock stock at the time of announcement of this transaction and other factors, resulting in our recognizing an after-tax gain we currently estimate to be approximately $1.6 billion. This gain would significantly enhance our capital position and our tangible common equity ratio.

This transaction must be approved by BlackRock shareholders and is subject to obtaining appropriate regulatory and other approvals. We currently control more than 80% of the voting interest in BlackRock and will vote our interest in support of the transaction.

Additional information on this transaction is included in Note 2 Acquisitions in the Notes To Consolidated Financial Statements in this Report. To the extent that statements we make in this Report about our expectations for future results include results from BlackRock, those expectations do not give any effect to the impact to PNC from the change to the equity method of accounting for PNC s interest in BlackRock that would take place when BlackRock and Merrill Lynch close this transaction.

The One PNC Initiative

As further described in our 2005 Form 10-K, the One PNC initiative began in January 2005 and is an ongoing, company-wide initiative with goals of moving closer to the customer, improving our overall efficiency and targeting resources to more value-added activities. PNC expects to realize $400 million of total annual pretax earnings benefit by mid-2007 from this initiative.

PNC plans to achieve approximately $300 million of cost savings through a combination of workforce reduction and other efficiencies. Of the approximately 3,000 positions to be eliminated, approximately 2,400 had been eliminated as of June 30, 2006. We estimate that these changes will result in employee severance and other implementation costs of approximately $74 million, including $54 million recognized during the second half of 2005 and $9 million recognized during the first six months of 2006. We expect that the remaining charges of approximately $11 million will be incurred later in 2006 and early 2007. In addition, PNC intends to achieve at least $100 million in net revenue growth through the implementation of various pricing and business growth enhancements driven by the One PNC initiative. Initiatives are progressing according to plan.

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We realized a net pretax financial benefit from the One PNC program of approximately $120 million in the first six months of 2006, including $60 million in the second quarter. We expect to capture approximately $265 million in cumulative value by the end of 2006 as originally planned.

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,
- The level of interest rates, and the shape of the interest rate yield curve,
- The performance of the capital markets, and
- Customer demand for other products and services.

In addition to changes in general economic conditions, including the direction, timing and magnitude of movement in interest rates and the performance of the capital markets, our success in the remainder of 2006 will depend, among other things, upon:

- Further success in the acquisition, growth and retention of customers,
- Successful execution of the One PNC initiative,
- Revenue growth,
- A sustained focus on expense management and improved efficiency,
- Maintaining strong overall asset quality, and
- Prudent risk and capital management.

SUMMARY FINANCIAL RESULTS

	Three months ended		Six months ended	
In millions, except per share data	**June 30 2006**	June 30 2005	**June 30 2006**	June 30 2005
Net income	**$381**	$282	**$735**	$636
Diluted earnings per share	**$1.28**	$.98	**$2.47**	$2.22
Return on				
Average common shareholders equity	**17.49%**	14.34%	**17.08%**	16.68%
Average assets	**1.64%**	1.29%	**1.60%**	1.50%

Results for the first six months of 2005 reflected the impact of the reversal of deferred tax liabilities that benefited earnings by $45 million, or $.16 per diluted share, in the first quarter of 2005 related to our transfer of ownership in BlackRock from PNC Bank, National Association (PNC Bank, N.A.) to PNC Bancorp, Inc. that occurred in January 2005.

Our second quarter 2006 performance included the following accomplishments:

- Net income for the second quarter increased 35% compared with the second quarter of 2005, substantially due to a 32% increase in total noninterest income.
- Solid growth in revenue and well-managed expenses propelled strong improvement in operating leverage compared with the prior year second quarter.
- Average loans for the second quarter of 2006 increased $2.8 billion, or 6%, compared with the second quarter of 2005, primarily as a result of increased residential mortgage, commercial and commercial real estate loans, in part due to our expansion into the greater Washington, DC area. In addition, average loans for the second quarter of 2005 included $2.0 billion related to the Market Street Funding commercial paper conduit that was deconsolidated in October 2005.
- Average deposits for the second quarter increased $6.0 billion, or 11%, compared with the same quarter in the prior year, primarily as the result of an increase in Eurodollar deposits, retail certificates of deposit, money market deposits, and demand and other noninterest-bearing deposits, in part due to our expansion into the greater Washington, DC area.

- Asset quality remained very strong, with the ratio of nonperforming assets to loans, loans held for sale and foreclosed assets at .44%. The ratio of net charge-offs to average loans was .24% for the quarter.
- We increased the common stock dividend 10%, to 55 cents per share, and repurchased approximately 1.8 million of our common shares during the second quarter of 2006.

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Balance Sheet Highlights

Total assets were $94.9 billion at June 30, 2006. Total average assets were $92.8 billion for the first six months of 2006 compared with $85.5 billion for the first six months of 2005. This increase was primarily attributable to a $6.8 billion increase in interest-earning assets. An increase of $3.9 billion in average loans was the primary factor for the increase in average interest-earning assets. In addition, average total securities increased $3.3 billion in the first half of 2006 compared with the prior year period.

Average total loans were $49.5 billion for the first six months of 2006 and $45.6 billion in the first six months of 2005. This increase was driven by continued improvements in market loan demand and targeted sales efforts across our banking businesses, as well as our expansion into the greater Washington, DC area that began in May 2005. The increase in average total loans reflected growth in residential mortgages of approximately $2.0 billion, commercial loans of approximately $1.4 billion, and commercial real estate loans of approximately $.8 billion. In addition, average loans for the first half of 2005 included $2.1 billion related to Market Street Funding (Market Street) which was deconsolidated in October 2005. Loans represented 64% of average interest-earning assets for the first six months of 2006 and 65% for the first six months of 2005.

Average securities totaled $21.2 billion for the first six months of 2006 and $17.9 billion for the first six months of 2005. Of this increase, $3.0 billion was attributable to increases in mortgage-backed, asset-backed, and other debt securities. The higher average securities balances reflected our desire to continue investing through the interest rate cycle and the Riggs acquisition. Securities comprised 28% of average interest-earning assets for the first half of 2006 and 26% for the first half of 2005.

Average total deposits were $61.8 billion for the first six months of 2006, an increase of $6.8 billion over the first six months of 2005. The increase in average total deposits was primarily driven by the impact of higher certificates of deposit, money market account and noninterest-bearing deposit balances, and by higher Eurodollar deposits. Similar to its impact on average loans and securities described above, our expansion into the greater Washington, DC area also contributed to the increase in average total deposits. Average total deposits represented 67% of average total assets for the first half of 2006 and 64% for the first half of 2005. Average transaction deposits were $41.0 billion for the first six months of 2006 compared with $37.8 billion for the first six months of 2005.

Average borrowed funds were $15.4 billion for the first six months of 2006 and $15.7 billion for the first six months of 2005. This decrease was primarily due to a significant decline in commercial paper due to the deconsolidation of Market Street in October 2005, partially offset by net increases in bank notes and senior debt, subordinated debt and federal funds purchased.

Shareholders equity totaled $8.8 billion at June 30, 2006, compared with $8.6 billion at December 31, 2005. 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	**2006**	2005	**2006**	2005
Total segment earnings	**$390**	$383	**$783**	$712

Total business segment earnings for the second quarter and first half of 2005 included the benefit of a $53 million loan recovery included in the Corporate & Institutional Banking business segment. A summary of results for both the first half and second quarter of 2006 comparisons with the prior year periods follows. Further analysis of business segment results for the six-month periods is found on pages 15 through 23.

We provide a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a GAAP basis in Note 13 Segment Reporting in the Notes To Consolidated Financial Statements in this Report and in the Results of Businesses - Summary table on page 15.

Retail Banking

Retail Banking s earnings were $375 million for the first six months of 2006 compared with $311 million for the same period in 2005. Compared with the prior year, revenues increased 12% and noninterest expenses increased 5%, resulting in a 21% earnings improvement. The increase in earnings was driven by higher taxable-equivalent net interest income fueled by continued customer and balance sheet growth along with improved fee income from customers and a sustained focus on expense management.

Earnings from Retail Banking totaled $185 million in the second quarter of 2006 compared with $162 million in the second quarter of 2005. Revenue increased 10% compared with the second quarter of 2005, while noninterest expense increased only 4%, driving a 14% increase in earnings.

Corporate & Institutional Banking

Earnings from Corporate & Institutional Banking for the first six months of 2006 totaled $221 million compared with $254 million for the first six months of 2005. This decline was primarily attributable to a $53 million loan recovery recognized in the second quarter of 2005 compared with a $29 million provision for credit losses in the first half of 2006. In addition to the $81 million swing in the provision for credit losses, total revenue increased $91 million and noninterest expenses grew by $59 million for the first six months of 2006 compared with the comparable 2005 period.

Corporate & Institutional Banking earned $116 million in the second quarter of 2006 compared with $144 million in the second quarter of 2005. The earnings decrease compared with the prior year quarter was largely the result of an increase in the provision for credit losses, primarily due to a $53 million loan recovery referred to above that benefited the prior year quarter. Revenue increased $61 million in the second quarter of 2005, driven by an increase in noninterest income, while noninterest expense increased $37 million.

BlackRock

Earnings totaled $134 million for BlackRock for the first half of 2006 compared with $100 million for the prior year first half. Higher earnings in 2006 reflected higher investment

advisory and administration fees due to an increase in assets under management and increased performance fees which more than offset higher expenses primarily associated with business growth.

BlackRock earned $63 million in the second quarter of 2006, an increase of $10 million, or 19%, compared with the second quarter of 2005. The increase compared with the prior year quarter was largely the result of growth in investment advisory and administrative fees. BlackRock s assets under management increased to $464 billion at June 30, 2006 compared with $414 billion at June 30, 2005.

PNC owns approximately 69% of BlackRock and we consolidate BlackRock into our financial statements. Accordingly, approximately 31% of BlackRock s earnings are recognized as minority interest expense in the Consolidated Income Statement. BlackRock financial information included in the Financial Review section of this Report is presented on a stand-alone basis. The market value of our BlackRock shares was approximately $6.2 billion at June 30, 2006 while the book value at that date was approximately $767 million.

PFPC

PFPC s earnings of $53 million in the first six months of 2006 increased $6 million, or 13%, compared with the first six months of 2005. Higher earnings in the first half of 2006 reflected servicing revenue contributions from several growth areas of the business and the successful implementation of expense control initiatives which improved the company s operating margin.

PFPC earned $26 million in the second quarter of 2006 compared with $24 million in the second quarter of 2005. The earnings increase from the second quarter of 2005 was a result of continued emphasis on cost reductions and process efficiencies as competitive factors impacted revenue growth.

Other

Other for the first half of 2006 was a net loss of $7 million, while Other for the first half of 2005 was a net loss of $46 million. The first six months of 2005 included the impact of Riggs acquisition integration costs totaling $19 million after-tax. In addition, the first half of 2006 benefited in the comparison with higher equity management gains and lower net securities losses. Net securities losses for the first six months of 2005 reflected actions taken during the second quarter of that year regarding our securities portfolio that resulted in realized net securities and other losses of approximately $20 million after-tax. These factors were partially offset by the first quarter 2005 benefit recognized from a $45 million deferred tax liability reversal related to the internal transfer of our investment in BlackRock as described above under Summary Financial Results.

We recorded earnings of $10 million in Other for the second quarter of 2006 primarily as a result of $54 million of pretax equity management gains. Other for the second quarter of 2005 was a net loss of $85 million. The increase in earnings compared with the second quarter of 2005 reflected higher equity management gains and lower net securities losses in the 2006 period, along with the impact of the nonrecurring Riggs costs referred to above in second quarter 2005 results.

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CONSOLIDATED INCOME STATEMENT REVIEW

NET INTEREST INCOME AND NET INTEREST MARGIN

	Three months ended		Six months ended	
	June 30	June 30	**June 30**	June 30
Dollars in millions	**2006**	2005	**2006**	2005
Taxable-equivalent net interest income	**$562**	$541	**$1,125**	$1,053
Net interest margin	**2.90%**	3.00%	**2.93%**	3.01%

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. See Statistical Information-Average Consolidated Balance Sheet And Net Interest Analysis included on pages 63 and 64 of this Report for additional information.

The increase in taxable-equivalent net interest income for the first six months of 2006 compared with the first six months of 2005 reflected the impact of a $6.8 billion increase in average interest-earning assets in 2006, driven by organic growth and our expansion into the greater Washington, DC area. The $5.2 billion increase in average interest-earning assets for the second quarter of 2006 compared with the second quarter of 2005 drove the increase in taxable-equivalent net interest income in the second quarter of 2006.

The following factors contributed to the decline in net interest margin for the first half of 2006 compared with the first half of 2005:

- An increase in the average rate paid on deposits of 103 basis points for the first six months of 2006 compared with the 2005 period. The average rate paid on money market accounts, the largest single component of interest-bearing deposits, increased 117 basis points.
- An increase in the average rate paid on borrowed funds of 156 basis points for the first half of 2006 compared with the first half of 2005.
- By comparison, the yield on interest-earning assets increased only 84 basis points. Loans, the single largest component, increased 87 basis points.
- These factors were partially offset by the favorable impact on net interest margin in 2006 of an increase of 20 basis points related to noninterest-bearing sources of funding.

The decline in net interest margin for the second quarter of 2006 compared with the second quarter of 2005 reflected the following:

- An increase in the average rate paid on deposits of 106 basis points for the second quarter of 2006 compared with the second quarter of 2005. The average rate paid on money market accounts, the largest single component of interest-bearing deposits, increased 115 basis points.
- An increase in the average rate paid on borrowed funds of 158 basis points for the second quarter of 2006 compared with the prior year period.
- By comparison, the yield on interest-earning assets increased only 81 basis points. Loans, the single largest component, increased 90 basis points.
- These factors were partially offset by the favorable impact on net interest margin in 2006 of an increase of 21 basis points related to noninterest-bearing sources of funding.

We believe that net interest margins for our industry will continue to be challenged if the yield curve remains flat or inverted, as competition for loans and deposits remains intense and as customers continue to migrate from lower cost to higher cost deposits. Consequently, we believe that our taxable-equivalent net interest income will be relatively flat to up through the remainder of 2006 and that our net interest margin may continue to be under pressure in the latter half of 2006. This outlook includes the impact of financing costs associated with share repurchases.

PROVISION FOR CREDIT LOSSES

The provision for credit losses increased $85 million, to $66 million, in the first half of 2006 compared with the first half of 2005. For the second quarter of 2006, the provision for credit losses increased $71 million, to $44 million, compared with the prior year second quarter. The increases in both comparisons reflected the following:

- A $53 million loan recovery in the second quarter of 2005 resulting from a litigation settlement,
- The impact of overall loan growth, as total average loans grew $3.9 billion in the first half of 2006 and $2.8 billion in the second quarter of 2006 compared with the respective prior year periods, and
- The effect of a single large overdraft situation during the second quarter of 2006.

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 at least the near term. 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 was $2.415 billion for the first six months of 2006, an increase of $512 million, or 27%, compared with the first six months of 2005. Noninterest income for the second quarter of 2006 totaled $1.230 billion and totaled $929 million in the prior year second quarter, an increase of $301 million, or 32%. Higher asset management fees was the largest factor in both comparisons. In addition, noninterest income in both 2006 periods reflected increases in most other major categories.

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Additional Analysis

Asset management fees totaled $890 million in the first half of 2006, an increase of $242 million compared with the first half of 2005. Asset management fees increased $95 million, to $429 million, for the second quarter of 2006 compared with the second quarter of 2005. The increase reflected the impact of higher performance fees, BlackRock s first quarter 2005 acquisition of SSRM and other growth in assets managed. Assets under management at June 30, 2006 totaled $506 billion compared with $456 billion at June 30, 2005.

Fund servicing fees of $431 million for the first six months of 2006 represented an $8 million decline from the prior year period. For the second quarter of 2006, fund servicing fees totaled $210 million, a decline of $9 million from the second quarter of 2005. The decrease in fund servicing fees in both comparisons is primarily due to lower fund accounting and transfer agent fees during 2006 due to loss of clients and price concessions.

PFPC provided fund accounting/administration services for $743 billion of net fund investment assets and provided custody services for $389 billion of fund investment assets at June 30, 2006, compared with $766 billion and $462 billion, respectively, at June 30, 2005. The decreases in domestic accounting/administration net fund assets and custody fund assets at June 30, 2006 resulted primarily from the deconversion of a major client during the first quarter of 2006 which was partially offset by new business, asset inflows from existing customers and equity market appreciation.

Service charges on deposits grew $27 million, to $153 million, in the first half of 2006 compared with the prior year first half. Service charges on deposits increased $13 million in the second quarter of 2006 compared with the prior year second quarter. These increases can be attributed to customer growth, expansion of the branch network, including the expansion into the greater Washington, DC area that began in May 2005, and various pricing actions resulting from the One PNC initiative.

Brokerage fees totaled $122 million in the first six months of 2006 and $112 million in the first six months of 2005. Brokerage fees increased $6 million, to $63 million, for the second quarter of 2006 compared with the second quarter of 2005. These increases reflected higher annuity income, along with higher brokerage commissions and mutual fund-related revenues in 2006.

Consumer services fees grew $46 million, to $183 million, for the first half of 2006 compared with the prior year first half. Consumer services fees increased $21 million, to $94 million, in the second quarter of 2006 compared with the second quarter of 2005. Higher fees reflected the impact of consolidating our merchant services activities in the fourth quarter of 2005 as a result of our increased ownership interest in the merchant services business. The increases in fees were also due to higher debit card revenues resulting from higher transaction volumes, our expansion into the greater Washington, DC area and pricing actions related to the One PNC initiative. These factors were partially offset by lower ATM surcharge revenue in the 2006

periods compared with the respective prior year periods as a result of changing customer behavior and a strategic decision to reduce the out-of-footprint ATM network.

Corporate services revenue totaling $292 million in the first six months of 2006 represented a $71 million, or 32%, increase over the comparable prior year period. Corporate services revenue increased $44 million, or 39%, in the second quarter of 2006 compared with the second quarter of 2005. Both 2006 periods benefited from the impact of our October 2005 Harris Williams acquisition that resulted in higher revenues.

Equity management (private equity) net gains on portfolio investments totaled $61 million for the first half of 2006 compared with $44 million for the first half of 2005. For the second quarter of 2006, net gains on portfolio investments totaled $54 million compared with $12 million in the prior year quarter. Based on the nature of private equity activities, net gains or losses may be volatile from period to period.

Net securities losses amounted to $12 million for the first six months of 2006 compared with net securities losses of $35 million in the first six months of 2005. Net securities losses totaled $8 million in the second quarter of 2006 and $26 million in the second quarter of 2005. Amounts for both 2005 periods reflect actions taken during the second quarter of that year regarding our securities portfolio that resulted in realized net securities and other losses of approximately $31 million.

Noninterest revenue from trading activities, which is primarily customer-related, was $112 million for the first half of 2006 compared with $61 million for the first half of 2005. For the second quarter of 2006, noninterest revenue from trading activities was $55 million, compared with $11 million in the prior year second 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 $183 million for the first six months of 2006 represented a $33 million increase compared with the prior year first half. Other noninterest income increased $27 million, to $96 million, in the second quarter of 2006 compared with the second quarter of 2005. Other noninterest income typically fluctuates from period to period depending on the nature and magnitude of transactions completed.

Other noninterest income for the first half of 2006 included gains totaling $26 million, including $13 million recognized in the second quarter, related to our contributions of BlackRock stock to the PNC Foundation. These transactions also impacted noninterest expense in each of those periods.

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 leasing 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, totaled $208 million for first six months of 2006 and $200 million for first six months of 2005. For the second quarter of 2006,

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revenue totaled $106 million compared with $103 million for the second quarter of 2005. The higher revenue in both comparisons 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 products and services was $140 million for the first half of 2006, compared with $71 million in the first half of 2005. Consolidated revenue from capital markets products and services, including mergers and acquisitions advisory activities, for the second quarter of 2006 totaled $76 million compared with $29 million for the second quarter of 2005. The acquisition of Harris Williams together with improved customer and proprietary trading activities drove the increase in capital markets revenue in both comparisons.

Midland Loan Services offers servicing, real estate advisory and technology solutions for the commercial real estate finance industry. Midland s revenue, which includes fees and net interest income from servicing portfolio deposit balances, totaled $84 million for first six months of 2006 and $64 million for first six months of 2005. Second quarter 2006 revenue totaled $42 million compared with $32 million for the second quarter of 2005. Revenue growth in both comparisons was primarily driven by growth in the commercial mortgage servicing portfolio and related services.

Revenue from equipment leasing products was $38 million for the first half of 2006 and $36 million for the first half of 2005. Second quarter 2006 revenue from equipment leasing products totaled $20 million compared with $18 million for the second quarter of 2005. The impact of the interest cost of funding the potential tax exposure on the cross-border leasing portfolio had, and is expected to continue to have, a negative impact on leasing revenue in 2006. See Cross-Border Leases and Related Tax and Accounting Matters within the Consolidated Balance Sheet Review section of this Financial Review for further information.

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 solutions 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 was $35 million in the first six months of 2006 and $31 million in first six months of 2005. Revenue for the second quarter of 2006 totaled $18 million compared with $17 million for the second quarter of 2005. The increases resulted from higher annuity fee revenue.

PNC, through subsidiary companies Alpine Indemnity Limited and PNC Insurance Corp., participates as a reinsurer for its general liability, automobile liability and workers

compensation programs and as a direct writer for its property and terrorism 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, 2006.

NONINTEREST EXPENSE

Year-to-date June 30, 2006 and 2005

Total noninterest expense was $2.320 billion for the first six months of 2006 and $2.040 billion for the first six months of 2005. The efficiency ratio was 66% for the first six months of 2006 compared with 69% for the first six months of 2005.

Noninterest expense for the first half of 2006 included the following:

- An increase of $185 million in BlackRock operating expenses, reflecting growth in that business and integration costs related to the pending Merrill Lynch transaction,
- Expenses totaling $43 million related to Harris Williams, which we acquired in October 2005, and

- An increase of $30 million related to the consolidation of our merchant services activities in the fourth quarter of 2005.

Apart from the impact of these items, noninterest expense for the first six months of 2006 increased $22 million over the prior year period primarily due to the impact of our expansion into the greater Washington, DC area and contributions of BlackRock stock to the PNC Foundation, partially offset by the benefit of the One PNC initiative.

Second quarter 2006 and 2005

Total noninterest expense was $1.149 billion for the second quarter of 2006 and $1.040 billion for the second quarter of 2005. The efficiency ratio was 64% for the second quarter of 2006 and 71% for the second quarter of 2005.

Noninterest expense for the second quarter of 2006 reflected a $74 million increase in operating expenses at BlackRock, $24 million of expenses related to Harris Williams, and an increase of $14 million related to the fourth quarter 2005 consolidation of our merchant services activities. Apart from the impact of these items, noninterest expense for the second quarter of 2006 decreased $3 million compared with the prior year second quarter.

We expect that the percentage increase in total noninterest expense for full year 2006 compared with 2005, excluding BlackRock, will be in the low single-digit range, with the increase primarily attributable to the acquisition of Harris Williams and the consolidation of merchant services in the fourth quarter of 2005. However, noninterest expense will continue to be impacted by ongoing investments in our businesses.

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Period-end employees totaled 26,032 at June 30, 2006 (comprised of 23,791 full-time and 2,241 part-time) compared with 25,348 at December 31, 2005 (comprised of 23,593 full-time and 1,755 part-time) and 25,874 at June 30, 2005 (comprised of 24,397 full-time and 1,477 part-time). The increase in part-time employees reflects Retail Banking initiatives to utilize more customer-facing employees during peak business hours versus full-time employees for the entire day.

Effective tax rate

Our effective tax rate for the first six months of 2006 was 33.1% compared with 29.4% for the first six months of 2005. The lower effective rate for first half of 2005 was attributable to the impact of the reversal of deferred tax liabilities in connection with the transfer of our ownership in BlackRock to our intermediate bank holding company. This transaction reduced our first quarter 2005 tax provision by $45 million.

Consolidated Balance Sheet Review

Summarized Balance Sheet Data

In millions	**June 30 2006**	December 31 2005
Assets		
Loans, net of unearned income	**$50,548**	$49,101
Securities available for sale and held to maturity	**21,724**	20,710
Loans held for sale	**2,165**	2,449
Other	**20,477**	19,694
Total assets	**$94,914**	$91,954
Liabilities		
Funding sources	**$79,144**	$77,172
Other	**6,311**	5,629
Total liabilities	**85,455**	82,801
Minority and noncontrolling interests in consolidated entities	**632**	590
Total shareholders equity	**8,827**	8,563
Total liabilities, minority and noncontrolling interests, and shareholders equity	**$94,914**	$91,954

Our Consolidated Balance Sheet is presented in Part I, Item 1 on page 38 of this Report.

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 63 and 64) are more indicative of underlying business trends.

An analysis of changes in certain balance sheet categories follows.

Loans, Net of Unearned Income

Loans increased $1.4 billion, to $50.5 billion, at June 30, 2006 compared with the balance at December 31, 2005, with the majority of the increase due to higher total commercial loans. Targeted sales efforts across our banking businesses drove the increase in total loans.

Details Of Loans

In millions	**June 30 2006**	December 31 2005
Commercial		
Retail/wholesale	**$5,393**	$4,854

Manufacturing	**4,164**	4,045
Other service providers	**2,179**	1,986
Real estate related	**2,903**	2,577
Financial services	**1,479**	1,438
Health care	**641**	616
Other	**3,805**	3,809
Total commercial	**20,564**	19,325
Commercial real estate		
Real estate projects	**2,438**	2,244
Mortgage	**768**	918
Total commercial real estate	**3,206**	3,162
Equipment lease financing	**3,583**	3,628
Total commercial lending	**27,353**	26,115
Consumer		
Home equity	**13,853**	13,790
Automobile	**1,008**	938
Other	**1,388**	1,445
Total consumer	**16,249**	16,173
Residential mortgage	**7,416**	7,307
Other	**358**	341
Unearned income	**(828)**	(835)
Total, net of unearned income	**$50,548**	$49,101

As the table above indicates, our total loan portfolio continued to be diversified among types of loan products and numerous industries and businesses. The loans that we hold are also diversified across the geographic areas where we do business.

Commercial Lending Exposure (a)

	June 30 **2006**	December 31 2005
Investment grade or equivalent	**48%**	46%
Non-investment grade		
$50 million or greater	**2**	2
All other non-investment grade	**50**	52
Total	**100%**	100%

(a) Includes total commercial lending in the Retail Banking and Corporate & Institutional Banking business segments.

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Commercial loans 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 $502 million, or 82%, of the total allowance for loan and lease losses at June 30, 2006 to the commercial loan category. This allocation also considers other relevant factors such as:

- Actual versus estimated losses,
- Regional and national economic conditions,
- Business segment and portfolio concentrations,
- Industry competition and consolidation,
- 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 2006**	December 31 2005
Commercial	**$28,175**	$27,774
Consumer	**9,975**	9,471
Commercial real estate	**2,419**	2,337
Other	**335**	596
Total	**$40,904**	$40,178

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 $7.1 billion at June 30, 2006 and $6.7 billion at December 31, 2005.

Unfunded liquidity commitments totaled $4.6 billion at June 30, 2006 and December 31, 2005 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 $4.3 billion at June 30, 2006 and $4.2 billion at December 31, 2005. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

Cross-Border Leases and Related Tax and Accounting Matters

The equipment lease portfolio totaled $3.6 billion at June 30, 2006. Aggregate residual value at risk on the lease portfolio at June 30, 2006 was $1.1 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, 2006. 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 examination of our 1998-2000 consolidated federal income tax returns, the IRS provided us with an examination report which proposes increases in our tax liability, principally arising from adjustments to several of our cross-border lease transactions.

The IRS has begun an audit of our 2001-2003 consolidated federal income tax returns. We expect them to again make adjustments to the cross-border lease transactions referred to above as well as to new cross-border lease transactions entered into during those years. We believe our reserves for these exposures were adequate at June 30, 2006.

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 is effective January 1, 2007 and will require a recalculation of the timing of income recognition and the reevaluation of lease classification for actual or projected changes in the timing of tax benefits for leveraged leases. Any cumulative adjustment will be recognized through retained earnings upon adoption of FSP 13-2. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in this Report for additional information. We estimate that the cumulative adjustment that we will record effective January 1, 2007 from the recalculations required by FSP 13-2 will be in the range of approximately $140 million to $160 million, after-tax. Any immediate or future reductions in earnings from our adoption of FSP 13-2 would be recovered in subsequent years.

In addition to these transactions, three lease-to-service contract transactions that we were party to were structured as partnerships for tax purposes. These partnerships are under audit by the IRS. However, 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 Cross-Border Leases and Related Tax and Accounting Matters in the Consolidated Balance Sheet Review section of Item 7 of our 2005 Form 10-K.

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SECURITIES

Details Of Securities (a)

In millions	Amortized Cost	Fair Value
June 30, 2006		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
Mortgage-backed	**$14,939**	**$14,492**
US Treasury and government agencies	**3,297**	**3,169**
Commercial mortgage-backed	**2,274**	**2,180**
Asset-backed	**1,442**	**1,425**
State and municipal	**150**	**147**
Other debt	**90**	**88**
Corporate stocks and other	**223**	**223**
Total securities available for sale	**$22,415**	**$21,724**
December 31, 2005		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
Mortgage-backed	$13,794	$13,544
US Treasury and government agencies	3,816	3,744
Commercial mortgage-backed	1,955	1,919
Asset-backed	1,073	1,063
State and municipal	159	158
Other debt	87	86
Corporate stocks and other	196	196
Total securities available for sale	$21,080	$20,710

(a) Securities held to maturity at June 30, 2006 and December 31, 2005 were less than $.5 million.

Securities represented 23% of total assets at June 30, 2006 and December 31, 2005.

At June 30, 2006, securities available for sale included a net unrealized loss of $691 million, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2005 was a net unrealized loss of $370 million. The impact on bond prices of increases in interest rates and tightening asset spreads during the first six months of 2006 was reflected in the net unrealized loss position at June 30, 2006.

The fair value of securities available for sale decreases when interest rates increase and vice versa. Further increases in interest rates after June 30, 2006, if sustained, will adversely impact the fair value of securities available for sale compared with the balance at June 30, 2006. Net unrealized gains and losses in the securities available for sale portfolio are included in shareholders equity as accumulated other comprehensive income or loss, net of tax.

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.

The expected weighted-average life of securities available for sale was 4 years and 5 months at June 30, 2006 and 4 years and 1 month at December 31, 2005.

We estimate that at June 30, 2006 the effective duration of securities available for sale is 3.2 years for an immediate 50 basis points parallel increase in interest rates and 3.0 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2005 were 2.7 years and 2.4 years, respectively.

LOANS HELD FOR SALE

Education loans held for sale totaled $1.5 billion at June 30, 2006 and $1.9 billion at December 31, 2005 and represented the majority of our loans held for sale at each date. 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.

FUNDING AND CAPITAL SOURCES

Details Of Funding Sources

In millions	**June 30 2006**	December 31 2005
Deposits		
Money market	**$26,801**	$24,462
Demand	**16,104**	17,157
Retail certificates of deposit	**13,775**	13,010
Savings	**2,114**	2,295
Other time	**1,452**	1,313
Time deposits in foreign offices	**3,247**	2,038
Total deposits	**63,493**	60,275
Borrowed funds		
Federal funds purchased	**3,320**	4,128
Repurchase agreements	**2,136**	1,691
Bank notes and senior debt	**3,503**	3,875
Subordinated debt	**4,329**	4,469
Other	**2,363**	2,734
Total borrowed funds	**15,651**	16,897
Total	**$79,144**	$77,172

The decline in total borrowed funds compared with the balance at December 31, 2005 reflects a decrease in federal funds purchased and maturities of $850 million of bank notes during the first half of 2006 partially offset by an issuance of $500 million of bank notes in June 2006 and an increase in repurchase agreements.

Capital

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

The increase of $264 million in total shareholders equity at June 30, 2006 compared with December 31, 2005 reflected the impact of earnings and a reduction in shares held in treasury, partially offset by a higher accumulated other comprehensive loss.

Common shares outstanding at June 30, 2006 were 294.7 million compared with 292.9 million at December 31, 2005. The increase in shares outstanding during the first half of 2006

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reflected share issuances related to various employee stock-based compensation plans and the exercise of employee stock options.

We purchased 1.8 million common shares under our common stock repurchase program during the first six months of 2006, with all purchases occurring in the second quarter. 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, 2006, remaining availability for purchases under this program was 17.8 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, and the potential impact on our credit rating. We expect to continue to be active in share repurchases under favorable market conditions.

Risk-Based Capital

Dollars in millions	**June 30 2006**	December 31 2005
Capital components		
Shareholders equity		
Common	**$8,820**	$8,555
Preferred	**7**	8
Trust preferred capital securities	**1,418**	1,417
Minority interest	**345**	291
Goodwill and other intangibles	**(4,113)**	(4,122)
Net unrealized securities losses, after-tax	**449**	240
Net unrealized losses on cash flow hedge derivatives, after-tax	**59**	26
Equity investments in nonfinancial companies	**(44)**	(40)
Other, net	**(8)**	(11)
Tier 1 risk-based capital	**6,933**	6,364
Subordinated debt	**2,125**	2,216
Eligible allowance for credit losses	**714**	697
Total risk-based capital	**$9,772**	$9,277
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	**$78,731**	$76,673
Adjusted average total assets	**89,908**	88,329
Capital ratios		
Tier 1 risk-based	**8.8%**	8.3%
Total risk-based	**12.4**	12.1
Leverage	**7.7**	7.2
Tangible common equity	**5.2**	5.0

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, 2006, each of our banking subsidiaries was considered well-capitalized based on regulatory capital ratio requirements. We believe our bank subsidiaries will continue to meet these requirements during the remainder of 2006.

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Off-Balance Sheet Arrangements And Variable Interest Entities

We engage in a variety of activities in the normal course of business 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. Further information on these types of activities is included in Note 14 Commitments And Guarantees included in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

Further information on the variable interest entities (VIEs) in the following tables is included in our 2005 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.

We hold significant variable interests in VIEs that have not been consolidated because we are not considered the primary beneficiary. Information on these VIEs follows:

Non-Consolidated VIEs - Significant Variable Interests

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss
June 30, 2006			
Collateralized debt obligations (a)	**$6,362**	**$5,888**	**$49(b)**
Private investment funds (a)	**5,740**	**1,180**	**13(b)**
Market Street	**3,458**	**3,458**	**5,095(c)**
Partnership interests in low income housing projects	**35**	**29**	**7**
Total	**$15,595**	**$10,555**	**$5,164**
December 31, 2005			
Collateralized debt obligations (a)	$6,290	$5,491	$51(b)
Private investment funds (a)	5,186	1,051	13(b)
Market Street	3,519	3,519	5,089(c)
Partnership interests in low income housing projects	35	29	2
Total	$15,030	$10,090	$5,155

(a) Held by BlackRock.
(b) Includes both PNC s risk of loss and BlackRock s risk of loss, limited to PNC s ownership interest in BlackRock.
(c) Includes off-balance sheet liquidity commitments to Market Street of $4.6 billion and other credit enhancements of $462 million at June 30, 2006. The comparable amounts at December 31, 2005 were $4.6 billion and $444 million, respectively.

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
June 30, 2006		
Partnership interests in low income housing projects	**$619**	**$619**
Other	**33**	**30**
Total	**$652**	**$649**
December 31, 2005		
Partnership interests in low income housing projects	$680	$680
Other	12	10
Total	$692	$690

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

FASB Interpretation No. 46 (Revised 2003), Consolidation of Variable Interest Entities, we have deferred applying the provisions of the interpretation for these entities pending further action by the FASB. Information on these entities follows:

Investment Company Accounting Deferred Application

In millions	Aggregate Assets	Aggregate Equity	PNC Risk of Loss
Private Equity Funds			
June 30, 2006	**$124**	**$124**	**$113**
December 31, 2005	$109	$109	$35

PNC s risk of loss in the tables above includes equity investments and unfunded commitments.

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Business Segments Review

We operate four major businesses engaged in providing banking, asset management and global fund processing services. Business segment results, including inter-segment revenues, and a description of each business are included in Note 13 Segment Reporting included in the Notes To Consolidated Financial Statements under Part I, Item 1 of this Report.

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 operated on a stand-alone basis. As permitted under GAAP, we have aggregated the business results for certain operating segments for financial reporting purposes.

Our capital measurement methodology is based on the concept of economic capital for our banking businesses. However, we have increased the capital assigned to Retail Banking to 6% of funds to reflect the capital required for well-capitalized banks and to approximate market comparables for this business. The capital for BlackRock and PFPC currently reflects legal entity shareholders equity, which exceeds required economic capital.

We have allocated the allowance 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 primarily reflected in minority interest in income of BlackRock and in the Other category in the Results of Businesses Summary table that follows. Other includes residual activities that do not meet the criteria for disclosure as a separate reportable business, such as asset and liability management activities, related net securities gains or losses, certain trading activities, equity management activities, differences between business segment performance reporting and financial statement reporting (GAAP), most corporate overhead and intercompany eliminations.

The period-end employee statistics disclosed for each business segment in the tables that follow reflect staff directly employed by the respective business segment and may exclude operations, technology and staff services employees not directly managed by the respective business segment.

Results Of Businesses - Summary

(Unaudited)

					Return on			
	Earnings		Revenue (b)		Average Capital (c)		Average Assets (d)	
Six months ended June 30 dollars in millions	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Retail Banking	**$375**	$311	**$1,535**	$1,373	**26%**	23%	**$29,326**	$26,423
Corporate & Institutional Banking	**221**	254	**722**	631	**22**	30	**25,896**	24,601
BlackRock	**134**	100	**775**	534	**29**	25	**1,924**	1,563
PFPC	**53**	47	**426**	426	**29**	35	**2,416**	2,083
Total business segments	**783**	712	**3,458**	2,964	**25**	26	**59,562**	54,670
Minority interest in income of BlackRock	**(41)**	(30)						
Other	**(7)**	(46)	**82**	(8)			**33,230**	30,802
Total consolidated (a)	**$735**	$636	**$3,540**	$2,956	**17%**	17%	**$92,792**	$85,472

(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)	**2006**	2005
Total consolidated revenue, book (GAAP) basis	**$3,527**	$2,943
Taxable-equivalent adjustment	**13**	13
Total consolidated revenue, taxable-equivalent basis	**$3,540**	$2,956

(b) Amounts for BlackRock represent the sum of total operating revenue and nonoperating income. Amounts for PFPC represent the sum of servicing revenue and net nonoperating income (expense) less debt financing costs.

(c) Percentages for BlackRock and PFPC reflect return on average equity.

(d) Period-end balances for BlackRock and PFPC.

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Retail Banking *(Unaudited)*

Six months ended June 30

Taxable-equivalent basis

Dollars in millions	2006	2005
INCOME STATEMENT		
Net interest income	**$832**	$769
Noninterest income		
Asset management	**174**	164
Service charges on deposits	**148**	122
Brokerage	**117**	109
Consumer services	**174**	128
Other	**90**	81
Total noninterest income	**703**	604
Total revenue	**1,535**	1,373
Provision for credit losses	**37**	29
Noninterest expense	**891**	848
Pretax earnings	**607**	496
Minority interest	**9**	
Income taxes	**223**	185
Earnings	**$375**	$311
AVERAGE BALANCE SHEET		
Loans		
Consumer		
Home equity	**$13,797**	$13,037
Indirect	**1,003**	904
Other consumer	**1,225**	1,156
Total consumer	**16,025**	15,097
Commercial	**5,574**	4,927
Floor plan	**967**	1,031
Residential mortgage	**1,612**	1,053
Other	**243**	275
Total loans	**24,421**	22,383
Goodwill	**1,477**	1,197
Loans held for sale	**1,706**	1,400
Other assets	**1,722**	1,443
Total assets	**$29,326**	$26,423
Deposits		
Noninterest-bearing demand	**$7,842**	$7,366
Interest-bearing demand	**7,987**	7,820
Money market	**14,671**	13,039
Total transaction deposits	**30,500**	28,225
Savings	**2,146**	2,738
Certificates of deposit	**13,339**	10,642
Total deposits	**45,985**	41,605
Other liabilities	**549**	402
Capital	**2,961**	2,761
Total funds	**$49,495**	$44,768
PERFORMANCE RATIOS		
Return on average capital	**26%**	23%
Noninterest income to total revenue	**46**	44
Efficiency	**58**	62

At June 30 Dollars in millions except as noted	2006	2005
OTHER INFORMATION (a)		
Credit-related statistics:		
Total nonperforming assets (b)	**$104**	$84
Net charge-offs	**$33**	$30
Annualized net charge-off ratio	**.27%**	.27%
Home equity portfolio credit statistics:		
% of first lien positions	**45%**	48%
Weighted average loan-to-value ratios	**69%**	70%
Weighted average FICO scores	**728**	720
Loans 90 days past due	**.21%**	.18%
Checking-related statistics:		
Retail Banking checking relationships	**1,956,000**	1,882,000
Consumer DDA households using online banking	**897,000**	793,000
% of consumer DDA households using online banking	**51%**	47%
Consumer DDA households using online bill payment	**305,000**	167,000
% of consumer DDA households using online bill payment	**17%**	10%
Small business deposits:		
Noninterest-bearing	**$4,338**	$4,177
Interest-bearing	**$1,423**	$1,517
Money market	**$2,661**	$2,702
Certificates of deposit	**$564**	$353
Brokerage statistics:		
Margin loans	**$194**	$218
Financial consultants (c)	**775**	789
Full service brokerage offices	**100**	98
Brokerage account assets (billions)	**$43**	$41
Other statistics:		
Gains on sales of education loans (d)	**$11**	$4
Full-time employees	**9,674**	10,079
Part-time employees	**1,526**	832
ATMs	**3,553**	3,788
Branches (e)	**846**	827
ASSETS UNDER ADMINISTRATION (billions) (f)		
Assets under management:		
Personal	**$40**	$41
Institutional	**10**	9
Total	**$50**	$50
Asset Type		
Equity	**$31**	$31
Fixed income	**12**	13
Liquidity/Other	**7**	6
Total	**$50**	$50
Nondiscretionary assets under administration:		
Personal	**$25**	$26
Institutional	**60**	59
Total	**$85**	$85
Asset Type		
Equity	**$31**	$31
Fixed income	**26**	26
Liquidity/Other	**28**	28
Total	**$85**	$85

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

(b) Includes nonperforming loans of $95 million at June 30, 2006 and $74 million at June 30, 2005.

(c) Financial consultants provide services in full service brokerage offices and PNC traditional branches.

(d) Included in Noninterest income-Other .

(e) Excludes certain satellite branches that provide limited products and service hours.

(f) Excludes brokerage account assets.

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Retail Banking s earnings were $375 million for the first six months of 2006 compared with $311 million for the same period in 2005. Compared with the prior year, revenues increased 12% and noninterest expenses increased 5%, resulting in a 21% earnings improvement. The increase in earnings was driven by improved fee income from customers, higher taxable-equivalent net interest income fueled by continued customer and balance sheet growth, and a sustained focus on expense management.

Highlights of Retail Banking s performance during the first six months of 2006 include:

- Consumer and small business checking relationships increased by 74,000, or 4%, compared with June 30, 2005.
- Consumer-related new checking relationships increased 4%, average consumer demand deposits increased 6% and home equity loans increased 6% compared with the prior year amounts.
- Since June 30, 2005, consumer-related checking households using on-line banking increased 13% and checking households using on-line bill payment increased 83%.
- The small business area continued its positive momentum. Average small business loans increased 14% over the first six months of 2005 on the strength of increased demand from both existing customers and new relationships. Small business checking relationships increased 5%.
- Customer assets in brokerage accounts totaled $43 billion at June 30, 2006 compared with $41 billion at June 30, 2005. Brokerage fees increased $8 million or 7% over the first six months of 2005 as a result of increased distribution of investment products.
- Retail Banking s efficiency ratio improved to 58% compared with 62% a year earlier.
- The branch network increased a net 19 branches to a total of 846 branches at June 30, 2006 compared with June 30, 2005. This increase was comprised of 26 new branches with 7 branch consolidations. Our strategy is to continue to optimize our network by opening new branches in high growth areas and consolidating branches in areas of declining market opportunity and/or growth.
- Asset quality remains very strong.

Total revenue for the first six months of 2006 was $1.535 billion compared with $1.373 billion for the same period last year. Taxable-equivalent net interest income of $832 million increased $63 million, or 8%, compared with 2005 due to an 11% increase in average deposits and a 9% increase in average loan balances. The net interest income growth has been somewhat mitigated by declining spreads on the loan portfolio.

Noninterest income increased $99 million, or 16%, compared with the first six months of 2005 primarily driven by increased consumer services fees and service charges on deposits. This growth can be attributed primarily to the following:

- Customer growth,
- Expansion of the branch network, including a new market,
- Consolidation of our merchant services activities,
- Increased brokerage account assets and activities,
- Increased asset management fees,
- Increased third party loan servicing activities, and
- Various pricing actions resulting from the One PNC initiative.

The provision for credit losses increased $8 million in the first six months of 2006 compared with 2005. Overall asset quality remained strong despite the increase in nonperforming loans, net charge-offs, and provision, which was primarily driven by a single large overdraft situation.

Noninterest expense in the first six months of 2006 totaled $891 million, an increase of $43 million, or 5%, compared with the first six months of 2005. Operating costs increased $42 million compared with the prior year period as a result of our expansion into the greater Washington, DC area. Other expense increases were primarily attributable to continued growth of the company s branch network, the consolidation of the company s merchant services activities and an increase in volume related expenses tied to revenue, offset by lower staff-related expense as a result of One PNC initiatives.

Full-time employees at June 30, 2006 totaled 9,674, a decline of 405 from June 30, 2005. Part-time employees have increased by 694 since June 30, 2005. The decline in full-time employees and increase in part-time employees is a direct result of various cost-saving initiatives. These initiatives include utilizing more part-time customer-facing employees during peak business hours versus full-time employees for the entire day.

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We have adopted a relationship-based lending strategy to target 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 $647 million, or 13%, 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 by $760 million, or 6%, compared with the first six months of 2005. Consumer loan demand is starting to slow as a result of the rising rate environment.
- Average indirect loans grew $99 million, or 11%, compared with the first six months of 2005. The indirect auto business benefited from increased sales and marketing efforts.
- Average residential mortgage loans increased $559 million, or 53%, primarily due to the addition of loans from the greater Washington, DC area acquisition. Payoffs in our existing portfolio, which will continue throughout 2006, reduced the impact of the additional loans acquired.

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 $4.4 billion, or 11%, compared with the first six months of 2005. The deposit growth was driven by increases in the number of checking relationships and the recapture of consumer certificate of deposit balances as interest rates have risen.

During this rising rate environment, we expect the rate of growth in demand deposit balances to be less than the rate of growth for customer checking relationships. Additionally, we 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 last three to four quarters and has impacted the level of average demand deposits in that period.

- Certificates of deposits increased $2.7 billion and money market deposits increased $1.6 billion. These increases were attributable to the rising interest rate environment attracting customers back into these products.
- Average demand deposit growth of $.6 billion, or 4%, was driven by a $.8 billion increase from the expansion into the greater Washington, DC area and a decline of $.2 billion in the core business due to customers shifting funds into higher yielding deposits, business sweep products, and investment products.
- Small business and consumer-related checking relationships retention remains strong and stable. Consumer-related checking relationship retention has benefited from improved penetration rates of debit cards, online banking and online bill payment.

Assets under management of $50 billion at June 30, 2006 remained unchanged compared with the balance at June 30, 2005. The effect of comparatively higher equity markets was offset by client net asset outflows. Client net asset outflows are the result of ordinary course distributions from trust and investment management accounts and account closures exceeding investment additions from new and existing clients.

Nondiscretionary assets under administration of $85 billion at June 30, 2006 also remained unchanged compared with the balance at June 30, 2005. The effect of comparatively higher equity markets was offset by the loss of a sizeable master custody agreement in the first quarter of 2006.

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CORPORATE & INSTITUTIONAL BANKING

(Unaudited)

Six months ended June 30

Taxable-equivalent basis

Dollars in millions except as noted	**2006**	2005
INCOME STATEMENT		
Net interest income	**$348**	$361
Noninterest income		
Corporate service fees	**246**	181
Other	**128**	89
Noninterest income	**374**	270
Total revenue	**722**	631
Provision for (recoveries of) credit losses	**29**	(52)
Noninterest expense	**368**	309
Pretax earnings	**325**	374
Income taxes	**104**	120
Earnings	**$221**	$254
AVERAGE BALANCE SHEET		
Loans		
Corporate (a)	**$9,834**	$10,680
Commercial real estate	**2,702**	1,974
Commercial real estate related	**2,469**	1,952
Asset-based lending	**4,353**	4,177
Total loans (a)	**19,358**	18,783
Loans held for sale	**871**	646
Other assets	**5,667**	5,172
Total assets	**$25,896**	$24,601
Deposits	**$9,519**	$8,925
Commercial paper (b)		2,148
Other liabilities	**3,581**	3,355
Capital	**1,986**	1,681
Total funds	**$15,086**	$16,109

Earnings from Corporate & Institutional Banking for the first six months of 2006 totaled $221 million compared with $254 million for the first six months of 2005. This decline was primarily attributable to a $53 million loan recovery recognized in the second quarter of 2005 compared with a $29 million provision for credit losses in the first half of 2006. In addition to the $81 million swing in the provision for credit losses, total revenue increased $91 million and noninterest expenses grew by $59 million for the first six months of 2006 compared with the comparable 2005 period.

Six months ended June 30

Taxable-equivalent basis

Dollars in millions except as noted	**2006**	2005
PERFORMANCE RATIOS		
Return on average capital	**22%**	30%
Noninterest income to total revenue	**52**	43
Efficiency	**51**	49
COMMERCIAL MORTGAGE SERVICING PORTFOLIO (in billions)		
Beginning of period	**$136**	$98

Acquisitions/additions	**32**	35
Repayments/transfers	**(17)**	(14)
End of period	**$151**	$119
Other Information		
Consolidated revenue from: (c)		
Treasury Management	**$208**	$200
Capital Markets	**$140**	$71
Midland Loan Services	**$84**	$64
Equipment Leasing	**$38**	$36
Total loans (a) (d)	**$20,057**	$20,726
Nonperforming assets (d) (e)	**$125**	$77
Net charge-offs (recoveries)	**$16**	$(56)
Full-time employees (d)	**1,899**	1,791
Net gains on commercial mortgage loan sales	**$25**	$27
Net carrying amount of commercial mortgage servicing rights (d)	**$385**	$276

(a) Includes lease financing and Market Street. Effective October 17, 2005, Market Street was deconsolidated from our Consolidated Balance Sheet.
(b) Amount for 2005 includes Market Street.
(c) Represents consolidated PNC amounts.
(d) At June 30.
(e) Includes nonperforming loans of $112 million at June 30, 2006 and $57 million at June 30, 2005.

Highlights of the first six months of 2006 for Corporate & Institutional Banking included:

- Average loan balances increased $575 million, or 3%, over 2005. The prior year average included $2.1 billion in loans from the Market Street Funding commercial paper conduit that was deconsolidated in October 2005. Excluding the impact of deconsolidating the conduit, average loan balances increased 16%. The growth in loans was driven by continuing customer demand, increasing utilization and our expansion into the greater Washington, DC area in May 2005. Based upon the impact of increasing competitive pressures and shrinking loan spreads on PNC s risk/reward criteria, we expect slower growth in loans during the remainder of 2006.
- Average deposits increased $594 million, or 7%, over the prior year first half driven by growth in our commercial mortgage servicing portfolio and related deposits and the sale of treasury management products. As more clients improve the management of their overall liquidity given the higher rate environment, we anticipate slower growth in deposits for the remainder of 2006.
- Total revenue increased 14% compared with 2005 as strong growth in fee income offset a modest decline in taxable-equivalent net interest income. This growth was driven by increases in capital markets activities, including mergers and acquisitions advisory activities, Midland Loan Services and treasury management products and services.

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- Commercial mortgage servicing revenue, which includes fees and net interest income, totaled $84 million for the first six months of 2006. The 31% revenue growth was primarily driven by growth in the commercial mortgage servicing portfolio, which increased to $151 billion, or 27%, and in other commercial real estate related services.
- Noninterest expense increased 19% compared with the first half of 2005. The increases in noninterest expenses and full-time employees were primarily due to acquisition activity and customer growth.

Taxable-equivalent net interest income declined $13 million, to $348 million, for the first six months of 2006 compared with the first six months of 2005. This decline was attributable to narrowing loan spreads partially offset by an increase in average loans outstanding.

Noninterest income totaled $374 million in the first half of 2006, an increase of $104 million, or 39%, compared with the prior year first half. The increase in corporate service fees reflected fee income attributable to the Harris Williams acquisition completed in October 2005 and growth in commercial mortgage servicing and treasury management revenues, partially offset by lower loan syndications income. Improved trading results partially offset by a decline in net gains on commercial mortgage loan sales drove the increase in other noninterest income.

The provision for credit losses was $29 million for the first six month months of 2006 compared with a credit of $52 million for the first six months of 2005. The prior year provision credit reflected the impact of the $53 million loan recovery referred to above. The higher provision for credit losses in the first half of 2006 reflected loan growth compared with the prior year first half and $16 million of net charge-offs during this period. Due to increases in nonperforming loans, nonperforming assets at June 30, 2006 increased $48 million compared with June 30, 2005, and were flat compared with the level at December 31, 2005. Based on the assets we currently hold and current business trends and activities, we believe that overall asset quality will remain strong at least for the near term. However, we anticipate that credit loss provisioning will continue with the growth of the loan portfolio and nonperforming loans will increase in future quarters.

See the additional revenue discussion regarding treasury management and capital markets-related products and services, commercial loan servicing, and equipment leasing products on page 8.

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BlackRock (Unaudited)

Six months ended June 30

Taxable-equivalent basis

Dollars in millions except as noted	**2006**	2005
Income Statement		
Investment advisory and administrative fees	**$663**	$443
Other income	**93**	78
Total operating revenue	**756**	521
Operating expense	**539**	354
Fund administration and servicing costs	**21**	19
Total expense	**560**	373
Operating income	**196**	148
Nonoperating income	**19**	13
Pretax earnings	**215**	161
Minority interest	**1**	1
Income taxes	**80**	60
Earnings	**$134**	$100
Period-End Balance Sheet		
Goodwill and other intangible assets	**$490**	$500
Other assets	**1,434**	1,063
Total assets	**$1,924**	$1,563
Liabilities and minority interest	**$883**	$709
Stockholders equity	**1,041**	854
Total liabilities and stockholders equity	**$1,924**	$1,563
Performance Data		
Return on average equity	**29%**	25%
Operating margin (a)	**26**	28
Diluted earnings per share	**$2.02**	$1.49
Assets Under Management (in billions) (b)		
Separate accounts		
Fixed income	**$283**	$258
Cash management	**10**	8
Cash management securities lending	**11**	7
Equity	**23**	19
Alternative investment products	**27**	23
Total separate accounts	**354**	315
Mutual funds (c)		
Fixed income	**25**	26
Cash management	**67**	60
Equity	**18**	13
Total mutual funds	**110**	99
Total assets under management	**$464**	$414
Other Information		
Full-time employees (b)	**2,317**	2,141

(a) While BlackRock reports its financial results on a GAAP basis, management believes that in evaluating its results, it is also useful to review additional non-GAAP measures, including operating margin, as adjusted, which is calculated as operating income excluding, net of tax, the State Street Research and Management (SSRM) fee-sharing payment, the LTIP expense, SSRM acquisition costs, Merrill Lynch Investment Managers (MLIM) transaction costs, and appreciation on Rabbi trust assets related to BlackRock s deferred compensation plans divided by total revenue less, net of tax, reimbursable property management compensation and fund administration and servicing costs. We do not advocate that investors consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. The following is a reconciliation of this presentation to operating margin calculated on a GAAP basis (operating income divided by total revenue) in millions.

Six months ended June 30	**2006**	2005
Operating income, GAAP basis	**$196**	$148
Add back: SSRM fee-sharing payment	**34**	
Add back: LTIP expense	**29**	30
Less: portion of LTIP to be funded by BlackRock	**(5)**	(6)
Add back: SSRM acquisition costs		9
Add back: MLIM transaction costs	**19**	
Add back: appreciation on assets related to deferred compensation plans	**6**	2
Operating income, as adjusted	**$279**	$183
Total revenue, GAAP basis	**$756**	$521
Less: reimbursable property management compensation	**11**	10
Less: fund administration and servicing costs	**21**	19
Revenue used for operating margin calculation, as reported	**$724**	$492
Operating margin, GAAP basis	**26%**	28%
Operating margin, as adjusted	**39%**	37%

We believe that operating margin, as adjusted, is an effective indicator of management s ability to, and useful to management in deciding how to, effectively employ BlackRock s resources. As such, we believe operating margin, as adjusted, provides useful disclosure to investors. The 2006 SSRM fee-sharing payment was excluded because it represents a non-recurring payment (based on a performance fee) pursuant to the SSRM acquisition agreement. The portion of the LTIP expense associated with awards to be met by the distribution to the LTIP participants of shares of BlackRock stock currently held by PNC has been excluded from operating income, as adjusted, because, exclusive of the potential impact related to LTIP participants put options, these charges will not impact BlackRock s book value. SSRM acquisition costs consist of certain compensation costs and professional fees incurred in 2005. Compensation expense reflected in this amount represents direct incentives related to alternative product performance fees generated in 2004 by SSRM employees, assumed in conjunction with the acquisition and settled by BlackRock with no future service requirement. Compensation expense associated with appreciation on Rabbi trust assets related to BlackRock s deferred compensation plans has been excluded because investment returns on these assets reported in nonoperating income, net of the related impact on compensation expense, result in a nominal impact on net income. MLIM transaction costs consist of compensation costs and certain professional fees incurred in 2006 related to the pending MLIM transaction. We have excluded fund administration and servicing costs from the operating margin, as adjusted, calculation because BlackRock receives offsetting revenue and expense for these services. Reimbursable property management compensation represents compensation and benefits paid to certain BlackRock Realty Advisors, Inc. (Realty) personnel. These employees are retained on Realty s payroll when properties are acquired for Realty s clients. The related compensation and benefits are fully reimbursed by Realty s clients and have been excluded from revenue used for operating margin measurement, as adjusted, because they bear no economic cost to BlackRock.

(b) At June 30.

(c) Includes BlackRock Funds, BlackRock Liquidity Funds, BlackRock Closed-End Funds, PNC Investment Contract Fund and BlackRock Global Series plc.

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BlackRock reported earnings of $134 million for the first six months of 2006 compared with $100 million for the first six months of 2005. Higher earnings in 2006 reflected higher investment advisory and administration fees due to an increase in assets under management and increased performance fees. These factors more than offset the increase in expense due to increased compensation and benefits, general and administration expense, and a one-time expense of $34 million incurred in the first quarter of 2006 related to the January 2005 acquisition of SSRM. Earnings for the first half of 2005 included nonrecurring pretax expenses of $9 million associated with the SSRM acquisition.

Total operating revenue increased $235 million, or 45%, in the first six months of 2006 compared with the prior year period. The impact of higher assets under management and increased investment advisory and administration fees in 2006 was reflected in the significantly higher revenue. The increase in investment advisory and administration fees was the result of increases in fees earned across all asset classes as well as increased performance fees principally related to a large institutional real estate equity client account and an energy equity hedge fund acquired in the 2005 SSRM transaction.

Total expense for the first half of 2006 increased $187 million, or 50%, compared with the first half of 2005, primarily due to an increase in compensation and benefits. This increase reflected higher incentive compensation associated with higher performance fees and increased operating income growth, and higher salaries and benefits primarily attributable to higher staffing levels associated with business growth. Higher general and administration expense and the SSRM one-time expense of $34 million recognized in 2006 were also evident in the increase over the first half of 2005.

Assets under management at June 30, 2006 increased $50 billion, or 12%, compared with June 30, 2005. The increase was primarily attributable to net new business. The increase in assets under management reflected net subscriptions of $42 billion and market appreciation of $8 billion in the 12-month period.

The Executive Summary section of this Financial Review has further information related to BlackRock s first quarter 2006 announcement of the pending transaction pursuant to which Merrill Lynch would contribute its investment management business to BlackRock in exchange for newly issued BlackRock common and preferred stock. Additional information on this transaction is also included in Note 2 Acquisitions in the Notes To Consolidated Financial Statements included in this Report.

BlackRock is listed on the New York Stock Exchange under the symbol BLK. Additional information about BlackRock is available in its SEC filings, which can be found at www.sec.gov and on BlackRock s website, www.blackrock.com.

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PFPC *(Unaudited)*

Six months ended June 30

Dollars in millions except as noted	2006	2005
Income Statement		
Servicing revenue	**$445**	$441
Other revenue		10
Total operating revenue	**445**	451
Operating expense	**333**	342
Amortization of other intangibles, net	**7**	7
Total expense	**340**	349
Operating income	**105**	102
Debt financing	**21**	18
Nonoperating income (expense) (a)	**2**	(7)
Pretax earnings	**86**	77
Income taxes	**33**	30
Earnings	**$53**	$47
Period-End Balance Sheet		
Goodwill and other intangible assets	**$1,018**	$1,009
Other assets	**1,398**	1,074
Total assets	**$2,416**	$2,083
Debt financing	**$852**	$987
Other liabilities	**1,137**	778
Shareholder s equity	**427**	318
Total funds	**$2,416**	$2,083
Performance Ratios		
Return on average equity	**29%**	35%
Operating margin (b)	**24**	23
Servicing Statistics (at June 30)		
Accounting/administration net fund assets (in billions) (c)		
Domestic	**$671**	$699
Offshore	**72**	67
Total	**$743**	$766
Asset type (in billions)		
Money market	**$247**	$333
Equity	**317**	262
Fixed income	**110**	111
Other	**69**	60
Total	**$743**	$766
Custody fund assets (in billions)	**$389**	$462
Shareholder accounts (in millions)		
Transfer agency	**18**	20
Subaccounting	**47**	38
Total	**65**	58
Other information		
Full-time employees (at June 30)	**4,314**	4,599

(a) Net of nonoperating expense.
(b) Operating income divided by total operating revenue.
(c) Includes alternative investment net assets serviced.

PFPC s earnings of $53 million in the first six months of 2006 increased $6 million, or 13%, compared with the first six months of 2005. Higher earnings in the first half of 2006 reflected servicing revenue contributions from several growth areas of the business and the successful implementation of expense control initiatives which improved the company s operating margin.

Highlights of PFPC s performance in the first six months of 2006 included:

- Offshore revenues increased 40% compared with the first half of 2005 fueled by new business in the alternative arena.
- Managed account service revenue increased 31% due to a 72% increase in assets serviced.
- Subaccounting revenues were up 12% as shareholder accounts grew by 24%.

Servicing revenue for the first six months of 2006 increased $4 million over the prior year first half, to $445 million. Excluding the $5 million comparative decline in revenue related to out-of-pocket and pass-through items that had no impact on earnings, servicing revenue increased $9 million compared with the first six months of 2005. Revenue increases related to offshore activities, custody, securities lending, subaccounting, and managed account services drove the higher servicing revenue in 2006, partially offset by a decline in fund accounting and transfer agency revenue due to loss of clients and price concessions.

In January 2005 PFPC accepted approximately $10 million to resolve a client contract dispute, which is reflected as other revenue in the table on this page.

Operating expense declined $9 million, to $333 million, in the first six months of 2006 compared with the first six months of 2005. Out-of-pocket and pass-through items declined by $5 million. The remainder of the decline is attributable to expense control and efficiencies implemented during the past year which resulted in a lower head count and the associated lower compensation costs.

Effective January 2005, PFPC restructured its remaining intercompany term debt obligations given the comparatively favorable interest rate environment at that time. PFPC recorded intercompany debt prepayment penalties, which are reflected as nonoperating expense in the preceding table, totaling $8 million on a pretax basis in the first quarter of 2005 to effect the restructuring. The current rising rate environment has caused debt expense to increase on a year to year comparison despite a reduction in outstandings.

The decreases in domestic accounting/administration net fund assets and custody fund assets at June 30, 2006 compared with June 30, 2005 resulted primarily from the deconversion of a major client during the first quarter of 2006, which was partially offset by new business, asset inflows from existing customers and equity market appreciation. Subaccounting shareholder accounts serviced by PFPC increased over the year-earlier period due to net new business and growth in existing client accounts. Total assets serviced by PFPC amounted to $1.9 trillion at both June 30, 2006 and June 30, 2005.

PFPC s performance is partially dependent on the underlying performance of its fund clients and, in particular, their ability to attract and retain customers. As a result, to the extent that PFPC clients businesses are adversely affected by ongoing governmental investigations into the practices of the mutual and hedge fund industries, PFPC s results also could be adversely impacted. In addition, this regulatory and business environment is likely to continue to result in operating margin pressure for our various services.

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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 2005 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 inaccurate or be 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 2005 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
- Legal contingencies

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.

2002 BLACKROCK LONG-TERM

RETENTION AND INCENTIVE PLAN

We describe BlackRock s long-term retention and incentive plan (LTIP) in Note 18 Stock-Based Compensation Plans in the Notes To Consolidated Financial Statements included in Part II, Item 8 of our 2005 Form 10-K. We reported pretax expense of $26 million in the first six months of 2006 and $32 million in the first six months of 2005 related to LTIP awards.

STATUS OF DEFINED BENEFIT PENSION PLAN

We have a noncontributory, qualified defined benefit pension plan (plan or pension plan) covering eligible employees. Retirement 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 Statement of Financial Accounting Standards No. (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, rate of compensation increase and the expected return on plan assets. Neither the discount rate nor the compensation increase assumptions significantly affect pension expense.

The expected long-term return on assets assumption does significantly affect pension expense. We decreased the expected long-term return on plan assets assumption from the 8.5% used for 2005 to 8.25% for determining net periodic cost for 2006. This change will increase estimated pension expense in 2006 by approximately $4 million. Also, under current accounting rules, the differences between expected long-term returns and actual returns are accumulated and amortized to pension expense over future periods. Each one percentage point difference between our actual return and the expected return causes our expense in the following year to change by up to $3 million.

The table below reflects the estimated effects on current year pension expense of certain changes in assumptions, using 2006 estimated expense as a baseline.

Change in Assumption	Estimated Increase to 2006 Pension Expense (in millions)
.5% decrease in discount rate	$2
.5% decrease in expected long-term return on assets	8
.5% increase in compensation rate	1

We currently estimate a pretax pension benefit of $12 million in 2006 compared with a pretax benefit of $8 million in 2005. Actual pension benefit recognized for the first six months of 2006 totaled $6 million.

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In accordance with SFAS 87 and SFAS 132 (Revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits, we may have to eliminate any prepaid pension asset and recognize a minimum pension liability if the accumulated benefit obligation exceeds the fair value of plan assets at year-end. We would recognize the corresponding charge as a component of other comprehensive income and it would reduce total shareholders equity, but it would not affect net income. At December 31, 2005, the fair value of plan assets was $1.627 billion, which exceeded the accumulated benefit obligation of $1.232 billion. The status at year-end 2006 will depend primarily upon 2006 investment returns and the level of contributions, if any, we make to the plan during 2006.

Plan asset investment performance has the most impact on contribution requirements. However, contribution requirements are not particularly sensitive to actuarial assumptions. Investment performance will drive the amount of permitted contributions in future years. Also, current law 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 currently 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.

In March 2006, the FASB issued an Exposure Draft on a Proposed Statement of Financial Accounting Standards, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R) proposing changes that would affect the accounting and reporting for our qualified pension plan, our nonqualified retirement plans, and our postretirement welfare benefit plans. The FASB expects to issue a final standard during the third quarter of 2006 with the changes applied prospectively at December 31, 2006. For additional information on the Exposure Draft, see the Recent Accounting Pronouncements section of Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in this Report.

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 2005 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 2005 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 2005 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.

Nonperforming, Past Due And Potential Problem Assets

See Note 4 Asset Quality in the Notes To Consolidated Financial Statements of this Report and included here by reference for details of the types of nonperforming assets that we held at June 30, 2006 and December 31, 2005. 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, 2006 increased $15 million, to $231 million, compared with December 31, 2005 driven by an $18 million increase in nonperforming loans.

Foreclosed lease assets of $12 million at June 30, 2006 and $13 million at December 31, 2005 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 $121 million at June 30, 2006 and $115 million at December 31, 2005. While we believe that overall asset quality will remain strong for the near term, we anticipate an increase in nonperforming loans going forward. The current level of asset quality is not sustainable.

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Nonperforming Assets By Business

In millions	**June 30 2006**	December 31 2005
Retail Banking	**$104**	$90
Corporate & Institutional Banking	**125**	124
Other	**2**	2
Total nonperforming assets	**$231**	$216

Change In Nonperforming Assets

In millions	**2006**	2005
January 1	**$216**	$175
Transferred from accrual	**127**	79
Returned to performing	**(10)**	(9)
Principal activity including payoffs	**(46)**	(46)
Asset sales	**(11)**	(7)
Charge-offs and valuation adjustments	**(45)**	(28)
June 30	**$231**	$164

Accruing Loans And Loans Held For Sale Past Due 90 Days Or More

	Amount		Percent of Total Outstandings	
Dollars in millions	**June 30 2006**	Dec. 31 2005	**June 30 2006**	Dec. 31 2005
Commercial	**$5**	$12	**.02%**	.06%
Commercial real estate	**2**	2	**.06**	.06
Consumer	**19**	22	**.12**	.14
Residential mortgage	**7**	10	**.09**	.14
Other	**2**		**.56**	
Total loans	**35**	46	**.07**	.09
Loans held for sale	**27**	47	**1.25**	1.92
Total loans and loans held for sale	**$62**	$93	**.12%**	.18%

Loans and loans held for sale 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 $30 million and zero, respectively, at June 30, 2006 compared with $67 million and zero, respectively, at December 31, 2005. Approximately 63% of these loans are in the Corporate & Institutional Banking portfolio.

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 this Report regarding changes in the allowance for loan and lease losses and 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, 2006		December 31, 2005	
		Loans to Total		Loans to Total
Dollars in millions	**Allowance**	**Loans**	Allowance	Loans
Commercial	**$502**	**40.5%**	$489	39.2%
Commercial real estate	**29**	**6.3**	32	6.4
Consumer	**25**	**32.3**	24	33.1
Residential mortgage	**7**	**14.7**	7	14.9
Lease financing	**45**	**5.5**	41	5.7
Other	**3**	**.7**	3	.7
Total	**$611**	**100.0%**	$596	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 2006 and the evaluation of the allowances for loan and lease losses and unfunded loan commitments and letters of credit as of June 30, 2006 reflected loan growth, changes in loan portfolio composition, the impact of refinements to our reserve methodology, 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.

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 at least the near term. This outlook, combined with expected loan growth, may result in an increase in the allowance for loan and lease losses in future periods.

The allowance as a percent of nonperforming loans was 294% and as a percent of total loans was 1.21% at June 30, 2006. The comparable percentages at December 31, 2005 were 314% and 1.21%.

Charge-Offs And Recoveries

Six months ended June 30 Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans
2006				
Commercial	**$46**	**$10**	**$36**	**.36%**
Consumer	**24**	**8**	**16**	**.20**
Lease financing		**4**	**(4)**	**(.29)**
Total	**$70**	**$22**	**$48**	**.20**
2005				
Commercial (a)	$28	$68	$(40)	(.43)%
Consumer	21	7	14	.18
Residential mortgage	1		1	.04
Lease financing		1	(1)	(.07)
Total	$50	$76	$(26)	(.12)

(a) Includes a $53 million loan recovery.

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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 based on the relative specific and pool allocation amounts. The amount of reserve allocated for qualitative factors represented 8% of the total allowance and .1% of total loans at June 30, 2006.

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 the 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. We realized a net loss of $4.5 million during the first six months of 2006 and minimal net gains during the same period of 2005 in connection with credit default swaps.

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. Because of 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 the economic values of these assets and liabilities as well.

PNC s Asset and Liability Management group centrally manages interest rate risk subject to interest rate risk limits and certain 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 2006 and 2005 follow:

Interest Sensitivity Analysis

	Second Quarter 2006	Second Quarter 2005
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	**(1.3)%**	1.5%
100 basis point decrease	**1.2%**	(2.0)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	**(3.6)%**	3.1%
100 basis point decrease	**2.8%**	(6.9)%
Duration of Equity Model		
Base case duration of equity (in years):	**1.0**	(2.0)

Key Period-End Interest Rates

One-month LIBOR	**5.33%**	3.34%
Three-year swap	**5.62%**	4.03%

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 estimated 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 forward rates, which result in an essentially flat rate scenario, and (iii) a Two-Ten Inversion (200 basis points differential between two-year and ten-year rates) scenario. We are inherently sensitive to a flatter or inverted yield curve.

Net Interest Income Sensitivity To Alternate Rate Scenarios (for second quarter 2006)

	PNC Economist	Market Forward	Two-Ten Inversion
First year sensitivity	.9%	(.3)%	(4.5)%
Second year sensitivity	5.7%	.2%	(4.3)%

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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 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 table above. These simulations assume that as assets and liabilities mature, they are replaced or repriced at market rates.

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.

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 increase in market interest rates and in part due to our balance sheet management strategy. We believe that we have the deposit funding base and balance sheet flexibility to take advantage, where appropriate, of changing interest rates and to adjust to changing 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.

The following table shows VaR usage for the second quarter of 2006 by product type:

VaR Usage by Product Type

In millions	Min	Max	Avg
Fixed Income	$2.9	$5.0	$3.8
Equity	.6	2.5	1.1
Foreign Exchange	.1	.5	.2
Total	3.8	6.8	5.1

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 2006, 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 2006 and 2005 was as follows:

Six months ended June 30 in millions	2006	2005
Net interest income	**($3)**	$6
Noninterest income	**112**	61
Total trading revenue	**$109**	$67
Securities underwriting and trading (a)	**$6**	$10
Foreign exchange	**31**	17
Financial derivatives	**72**	40
Total trading revenue	**$109**	$67

Three months ended June 30 in millions	2006	2005
Net interest income	**($3)**	$4
Noninterest income	**55**	11
Total trading revenue	**$52**	$15
Securities underwriting and trading (a)	**$2**	$5
Foreign exchange	**17**	9
Financial derivatives	**33**	1
Total trading revenue	**$52**	$15

(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	2006	2005
Assets		
Securities (a)	**$1,636**	$1,907
Resale agreements (b)	**350**	828
Financial derivatives (c)	**1,080**	772
Loans at fair value (c)	**86**	
Total assets	**$3,152**	$3,507
Liabilities		
Securities sold short (d)	**$716**	$1,104
Repurchase agreements and other borrowings (e)	**763**	1,131
Financial derivatives (f)	**1,052**	789
Borrowings at fair value (f)	**24**	
Total liabilities	**$2,555**	$3,024

Three months ended June 30 - in millions	2006	2005
Assets		
Securities (a)	**$1,477**	$1,932
Resale agreements (b)	**378**	411
Financial derivatives (c)	**1,251**	864
Loans at fair value (c)	**170**	
Total assets	**$3,276**	$3,207
Liabilities		
Securities sold short (d)	**$769**	$750
Repurchase agreements and other borrowings (e)	**641**	1,078
Financial derivatives (f)	**1,200**	909
Borrowings at fair value (f)	**48**	
Total liabilities	**$2,658**	$2,737

(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 Other borrowed funds.
(e) Included in Repurchase agreements and Other borrowed funds.

(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.

Private Equity

The private equity portfolio is comprised of investments that vary by industry, stage and type of investment.

At June 30, 2006, private equity investments carried at estimated fair value totaled $506 million compared with $449 million at December 31, 2005. As of June 30, 2006, approximately 44% of the amount was invested directly in a variety of companies and approximately 56% was invested in various limited partnerships. Private equity unfunded commitments totaled $140 million at June 30, 2006 compared with $78 million at December 31, 2005. The increase resulted from our $74 million commitment to a new equity fund, PNC Equity Partners II, LP, which had a first closing in June 2006. Our commitment is expected to be funded over a five-year period. This fund is not consolidated as we have less than a 50% ownership interest. See Note 14 Commitments And Guarantees in the Notes To Consolidated Financial Statements regarding our commitment to PNC Mezzanine Partners III, LP.

Other Investments

We also make investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. Such investments include investments in BlackRock s mutual funds, hedge funds, and CDOs. The economic values could be driven by either the fixed-income market or the equity markets, or both.

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 funding 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 long and short-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) and securities available for sale. At June 30, 2006, our liquid assets totaled $24.4 billion, with $10.3 billion pledged as collateral for borrowings, trust, and other commitments.

PNC Bank, N.A. is a member of the Federal Home Loan Bank of Pittsburgh (FHLB-Pittsburgh) and as such has access to advances from FHLB-Pittsburgh secured generally by residential mortgages, other real estate related loans, and mortgage-backed securities. At June 30, 2006, our total unused borrowing capacity from FHLB-Pittsburgh under current collateral requirements was $24.8 billion.

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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, 2006, PNC Bank, N.A. had issued $2.9 billion of debt under this program, including $500 million of 18-month floating rate notes, due January 2, 2008, issued during the second quarter of 2006 with interest payable monthly at the rate of 1-month LIBOR minus 5.5 basis points. These notes are not redeemable or subject to repayment at the option of the holder 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, 2006, $10 million of commercial paper was outstanding under this program.

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. The amount available for dividend payments to the parent company by PNC Bank, N.A. without prior regulatory approval was approximately $532 million at June 30, 2006.

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. As of June 30, 2006, the parent company had approximately $1.6 billion in funds available from its cash and short-term investments.

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. At June 30, 2006, we had unused capacity under effective shelf registration statements of approximately $1.6 billion of debt or equity securities. BlackRock, one of our majority-owned non-bank subsidiaries, also has access to public and private financing. 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, 2006, there were $1.1 billion of parent company contractual obligations with maturities of less than one year, all of which mature in the third quarter of 2006.

Commitments

The following tables set forth contractual obligations and various other commitments representing required and potential cash outflows as of June 30, 2006.

Contractual Obligations

June 30, 2006 - in millions	Total
Remaining contractual maturities of time deposits	**$18,474**
Borrowed funds	**15,651**
Minimum annual rentals on noncancellable leases	**1,144**
Nonqualified pension and postretirement benefits	**299**
Purchase obligations (a)	**316**

Total contractual cash obligations	**$35,884**

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

Other Commitments (a)

June 30, 2006 - in millions	Total Amounts Committed
Loan commitments	**$40,904**
Standby letters of credit	**4,292**
Other commitments (b)	**5,265**
Total commitments	**$50,461**

(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 liquidity facilities commitments, standby bond repurchase agreements, equity funding commitments related to equity management and affordable housing, as well as BlackRock s investment commitments and obligation under an acquired management contract.

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 used by us 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, 2006 and December 31, 2005, 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 amount and fair value of financial derivatives used for risk management and designated as accounting hedges as well as free-standing derivatives at June 30, 2006 and December 31, 2005. 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 - 2006

June 30, 2006 - dollars in millions	Notional/ Contract Amount	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	**$3,177**	**$(42)**	**3 yrs. 3 mos.**	**5.48%**	**4.84%**
Pay fixed	**10**		**1 yr. 5 mos.**	**3.31**	**5.53**
Interest rate floors (b)	**7**		**4 yrs. 9 mos.**	**NM**	**NM**
Forward purchase commitments	**100**		**2 mos.**	**NM**	**NM**
Futures contracts	**77**		**11 mos.**	**NM**	**NM**
Total asset rate conversion	**3,371**	**(42)**			
Liability rate conversion					
Interest rate swaps (a)					
Receive fixed	**5,345**	**(84)**	**5 yrs. 11 mos.**	**5.61**	**5.37**
Total liability rate conversion	**5,345**	**(84)**			
Total interest rate risk management	**8,716**	**(126)**			
Commercial mortgage banking risk management					
Pay fixed interest rate swaps (a)	**104**	**2**	**10 yrs. 2 mos.**	**5.46**	**5.62**
Pay total return swaps designated to loans held for sale (a)	**250**	**1**	**1 mo.**	**NM**	**5.25**
Total commercial mortgage banking risk management	**354**	**3**			
Total accounting hedges (c)	**$9,070**	**$(123)**			
Free-Standing Derivatives					
Customer-related					
Interest rate					
Swaps	**$56,188**	**$51**	**3 yrs. 9 mos.**	**5.24%**	**5.26%**
Caps/floors					
Sold	**1,354**	**(4)**	**6 yrs. 1 mo.**	**NM**	**NM**
Purchased	**686**	**2**	**7 yrs. 6 mos.**	**NM**	**NM**
Futures	**3,575**	**(3)**	**8 mos.**	**NM**	**NM**
Foreign exchange	**4,684**	**1**	**7 mos.**	**NM**	**NM**
Equity	**3,345**	**(31)**	**1 yr. 2 mos.**	**NM**	**NM**
Swaptions	**6,815**	**(15)**	**6 yrs. 8 mos.**	**NM**	**NM**
Other	**20**		**11 yrs.**	**NM**	**NM**
Total customer-related	**76,667**	**1**			
Other risk management and proprietary					
Interest rate					
Swaps	**11,442**	**16**	**8 yrs. 6 mos.**	**5.11%**	**5.30%**
Caps/floors					
Sold	**4,000**	**(18)**	**3 yrs. 3 mos.**	**NM**	**NM**
Purchased	**4,510**	**23**	**3 yrs. 6 mos.**	**NM**	**NM**
Futures	**9,624**	**7**	**11 mos.**	**NM**	**NM**
Foreign exchange	**163**		**7 yrs. 3 mos.**	**NM**	**NM**

Credit derivatives	**2,448**	**(1)**	**7 yrs.**	**NM**	**NM**
Risk participation agreements	**763**		**4 yrs.**	**NM**	**NM**
Commitments related to mortgage-related assets	**1,463**	**(14)**	**3 mos.**	**NM**	**NM**
Options					
Futures	**37,933**	**(6)**	**8 mos.**	**NM**	**NM**
Swaptions	**15,387**	**45**	**10 yrs. 3 mos.**	**NM**	**NM**
Total other risk management and proprietary	**87,733**	**52**			
Total free-standing derivatives	**$164,400**	**$53**			

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 71% were based on 1-month LIBOR, 29% on 3-month LIBOR.

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

(c) Fair value amounts include accrued interest of $72 million.

NM Not meaningful

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Financial Derivatives - 2005

December 31, 2005 - dollars in millions	Notional/ Contract Amount	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	$2,926	$(9)	2 yrs. 10 mos.	4.75%	4.42%
Pay fixed	12		2 yrs. 1 mo.	3.68	4.77
Futures contracts	42		1 yr. 1 mo.	NM	NM
Total asset rate conversion	2,980	(9)			
Liability rate conversion					
Interest rate swaps (a)					
Receive fixed	5,345	84	6 yrs. 5 mos.	4.87	5.37
Total liability rate conversion	5,345	84			
Total interest rate risk management	8,325	75			
Commercial mortgage banking risk management					
Pay fixed interest rate swaps (a)	251	(4)	10 yrs. 9 mos.	5.05	4.88
Pay total return swaps designated to loans held for sale (a)	250	(2)	1 mo.	NM	4.37
Total commercial mortgage banking risk management	501	(6)			
Total accounting hedges (b)	$8,826	$69			
Free-Standing Derivatives					
Customer-related					
Interest rate					
Swaps	$43,868	$34	4 yrs. 2 mos.	4.69%	4.69%
Caps/floors					
Sold	1,710	(4)	1 yr. 11 mos.	NM	NM
Purchased	1,446	3	11 mos.	NM	NM
Futures	2,570		10 mos.	NM	NM
Foreign exchange	4,687	4	5 mos.	NM	NM
Equity	2,744	(79)	1 yr. 6 mos.	NM	NM
Swaptions	2,559	(1)	8 yrs. 11 mos.	NM	NM
Other	230	1	10 yrs. 8 mos.	NM	NM
Total customer-related	59,814	(42)			
Other risk management and proprietary					
Interest rate					
Swaps	2,369	1	4 yrs. 11 mos.	4.56%	4.65%
Basis swaps	756	1	6 yrs. 10 mos.	4.14	4.85
Pay fixed swaps	2,474	(2)	7 yrs. 7 mos.	4.37	4.57
Caps/floors					
Sold	2,000	(10)	2 yrs. 7 mos.	NM	NM
Purchased	2,310	14	2 yrs. 10 mos.	NM	NM
Futures	10,901	2	1 yr. 2 mos.	NM	NM
Credit derivatives	1,353		4 yrs. 7 mos.	NM	NM
Risk participation agreements	461		3 yrs. 11 mos.	NM	NM
Commitments related to mortgage-related assets	1,695	1	2 mos.	NM	NM
Options					
Futures	33,384	3	5 mos.	NM	NM

Swaptions	15,440	30	7 yrs. 7 mos.	NM	NM
Other	24	4	4 mos.	NM	NM
Total other risk management and proprietary	73,167	44			
Total free-standing derivatives	$132,981	$2			

(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, 33% on 3-month LIBOR.

(b) Fair value amounts include accrued interest of $81 million.

NM Not meaningful

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Internal Controls And Disclosure Controls And Procedures

As of June 30, 2006, 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, 2006, and that there has been no change in internal control over financial reporting that occurred during the second quarter of 2006 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.

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 and the loan s 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.

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.,* vulnerable to rising 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 our business segments 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.

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 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 our business segments. 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.

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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 seller to the 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 and noninterest income.

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

Nonperforming loans - Nonperforming loans include loans to commercial, equipment lease financing, consumer, commercial real estate and residential mortgage customers as well as troubled debt restructured loans. Nonperforming loans do not include nonaccrual 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 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.

Tangible common equity ratio - Common shareholders equity less goodwill and other intangible assets (excluding mortgage servicing rights) divided by period-end assets less goodwill and other intangible assets (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 a taxable investment. 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 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, 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.

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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 senior and subordinated debt, 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 these factors in our 2005 Form 10-K, including in the Risk Factors and Risk Management sections. 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 financial performance, as well as changes in customer preferences and behavior, including as a result of changing economic conditions.

- The value of our assets and liabilities as well as our overall financial performance are 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.

- 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 One PNC initiative, as well as other business initiatives and strategies we may pursue, could affect our financial performance over the next several years.

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- Our ability to grow successfully through acquisitions is impacted by a number of risks and uncertainties related both to the acquisition transactions themselves and to the integration of the acquired businesses into PNC after closing. These uncertainties are present in transactions such as the pending acquisition by BlackRock of Merrill Lynch s investment management business.

- 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, 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 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 majority-owned subsidiary BlackRock, Inc. are discussed in more detail in BlackRock s 2005 Annual Report on Form 10-K, including in the Risk Factors section, and in BlackRock s other filings with the SEC, accessible on the SEC s website at www.sec.gov and on or through BlackRock s website at www.blackrock.com.

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CONSOLIDATED INCOME STATEMENT

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except per share data	Three months ended		Six months ended	
		June 30		June 30
Unaudited	2006	2005	2006	2005
Interest Income				
Loans	**$ 797**	$ 646	**$ 1,544**	$ 1,224
Securities available for sale and held to maturity	**255**	198	**498**	370
Other	**74**	57	**150**	111
Total interest income	**1,126**	901	**2,192**	1,705
Interest Expense				
Deposits	**379**	224	**706**	406
Borrowed funds	**191**	143	**374**	259
Total interest expense	**570**	367	**1,080**	665
Net interest income	**556**	534	**1,112**	1,040
Provision for (recoveries of) credit losses	**44**	(27)	**66**	(19)
Net interest income less provision for (recoveries of) credit losses	**512**	561	**1,046**	1,059
Noninterest Income				
Asset management	**429**	334	**890**	648
Fund servicing	**210**	219	**431**	439
Service charges on deposits	**80**	67	**153**	126
Brokerage	**63**	57	**122**	112
Consumer services	**94**	73	**183**	137
Corporate services	**157**	113	**292**	221
Equity management gains	**54**	12	**61**	44
Net securities losses	**(8)**	(26)	**(12)**	(35)
Trading	**55**	11	**112**	61
Other	**96**	69	**183**	150
Total noninterest income	**1,230**	929	**2,415**	1,903
Noninterest Expense				
Compensation	**558**	481	**1,113**	960
Employee benefits	**76**	86	**163**	169
Net occupancy	**83**	72	**162**	145
Equipment	**80**	74	**157**	148
Marketing	**22**	25	**42**	45
Other	**330**	302	**683**	573
Total noninterest expense	**1,149**	1,040	**2,320**	